

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

August 01, 2013

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission file number 1-12297

**Penske Automotive Group, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**22-3086739**  
(I.R.S. Employer  
Identification No.)

**2555 Telegraph Road,  
Bloomfield Hills, Michigan**  
(Address of principal executive offices)

**48302-0954**  
(Zip Code)

Registrant's telephone number, including area code:  
**(248) 648-2500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 22, 2013, there were 90,201,959 shares of voting common stock outstanding.

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**PENSKE AUTOMOTIVE GROUP, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

	June 30, 2013	December 31, 2012
	(Unaudited) (In thousands, except per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 26,254	\$ 43,447
Accounts receivable, net of allowance for doubtful accounts of \$2,522 and \$2,979	530,647	554,851
Inventories	2,125,771	2,000,206
Other current assets	90,352	90,485
Assets held for sale	33,849	73,398
<b>Total current assets</b>	<b>2,806,873</b>	<b>2,762,387</b>
Property and equipment, net	1,148,495	1,031,188
Goodwill	956,180	978,147
Franchise value	274,986	283,152
Equity method investments	332,503	303,160
Other long-term assets	18,595	20,956
<b>Total assets</b>	<b>\$ 5,537,632</b>	<b>\$ 5,378,990</b>
<b>LIABILITIES AND EQUITY</b>		
Floor plan notes payable	\$ 1,474,440	\$ 1,408,362
Floor plan notes payable non-trade	753,130	725,526
Accounts payable	314,050	263,881
Accrued expenses	226,968	223,972
Current portion of long-term debt	44,896	19,493
Liabilities held for sale	23,547	51,279
<b>Total current liabilities</b>	<b>2,837,031</b>	<b>2,692,513</b>
Long-term debt	875,307	918,024
Deferred tax liabilities	313,756	287,818
Other long-term liabilities	155,273	164,314
<b>Total liabilities</b>	<b>4,181,367</b>	<b>4,062,669</b>
Commitments and contingent liabilities		
<b>Equity</b>		
Penske Automotive Group stockholders' equity:		
Preferred Stock, \$0.0001 par value; 100 shares authorized; none issued and outstanding		
Common Stock, \$0.0001 par value, 240,000 shares authorized; 90,202 shares issued and outstanding at June 30, 2013; 90,295 shares issued and outstanding at December 31, 2012	9	9
Non-voting Common Stock, \$0.0001 par value, 7,125 shares authorized; none issued and outstanding		
Class C Common Stock, \$0.0001 par value, 20,000 shares authorized; none issued and outstanding		
Additional paid-in-capital	689,020	700,013
Retained earnings	704,516	611,026
Accumulated other comprehensive income (loss)	(41,505)	(6,833)
<b>Total Penske Automotive Group stockholders' equity</b>	<b>1,352,040</b>	<b>1,304,215</b>

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Non-controlling interest	4,225	12,106
Total equity	1,356,265	1,316,321
Total liabilities and equity	\$ 5,537,632	\$ 5,378,990

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In thousands, except per share amounts)			
<b>Revenue:</b>				
New vehicle	\$ 1,930,040	\$ 1,711,868	\$ 3,678,822	\$ 3,261,792
Used vehicle	1,082,310	936,978	2,084,338	1,872,273
Finance and insurance, net	95,849	81,279	182,595	159,242
Service and parts	391,554	362,194	776,919	723,314
Other	199,422	222,732	381,100	462,143
<b>Total revenues</b>	<b>3,699,175</b>	<b>3,315,051</b>	<b>7,103,774</b>	<b>6,478,764</b>
<b>Cost of sales:</b>				
New vehicle	1,786,015	1,574,457	3,399,029	2,994,512
Used vehicle	1,000,703	864,454	1,924,164	1,723,791
Service and parts	156,358	150,160	317,196	303,002
Other	187,076	221,009	360,155	457,524
<b>Total cost of sales</b>	<b>3,130,152</b>	<b>2,810,080</b>	<b>6,000,544</b>	<b>5,478,829</b>
<b>Gross profit</b>	<b>569,023</b>	<b>504,971</b>	<b>1,103,230</b>	<b>999,935</b>
Selling, general and administrative expenses	440,331	400,637	854,770	788,619
Depreciation	14,985	13,319	29,516	26,310
Operating income	113,707	91,015	218,944	185,006
Floor plan interest expense	(10,900)	(9,845)	(21,168)	(19,368)
Other interest expense	(12,066)	(11,478)	(23,793)	(23,572)
Equity in earnings of affiliates	8,901	8,168	11,249	12,578
<b>Income from continuing operations before income taxes</b>	<b>99,642</b>	<b>77,860</b>	<b>185,232</b>	<b>154,644</b>
Income taxes	(35,164)	(27,093)	(63,571)	(53,926)
<b>Income from continuing operations</b>	<b>64,478</b>	<b>50,767</b>	<b>121,661</b>	<b>100,718</b>
Income (Loss) from discontinued operations, net of tax	(1,983)	(1,155)	(1,147)	(4,100)
<b>Net income</b>	<b>62,495</b>	<b>49,612</b>	<b>120,514</b>	<b>96,618</b>
Less: Income attributable to non-controlling interests	453	520	808	708
<b>Net income attributable to Penske Automotive Group common stockholders</b>	<b>\$ 62,042</b>	<b>\$ 49,092</b>	<b>\$ 119,706</b>	<b>\$ 95,910</b>
<b>Basic earnings per share attributable to Penske Automotive Group common stockholders:</b>				
Continuing operations	\$ 0.71	\$ 0.56	\$ 1.34	\$ 1.11
Discontinued operations	(0.02)	(0.01)	(0.01)	(0.05)
<b>Net income attributable to Penske Automotive Group common stockholders</b>	<b>\$ 0.69</b>	<b>\$ 0.54</b>	<b>\$ 1.33</b>	<b>\$ 1.06</b>
Shares used in determining basic earnings per share	90,269	90,305	90,344	90,363
<b>Diluted earnings per share attributable to Penske Automotive Group common stockholders:</b>				
Continuing operations	\$ 0.71	\$ 0.56	\$ 1.34	\$ 1.11
Discontinued operations	(0.02)	(0.01)	(0.01)	(0.05)

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Net income attributable to Penske Automotive Group common stockholders	\$	0.69	\$	0.54	\$	1.32	\$	1.06
Shares used in determining diluted earnings per share		90,305		90,337		90,380		90,395
<b>Amounts attributable to Penske Automotive Group common stockholders:</b>								
Income from continuing operations	\$	64,478	\$	50,767	\$	121,661	\$	100,718
Less: Income attributable to non-controlling interests		453		520		808		708
Income from continuing operations, net of tax		64,025		50,247		120,853		100,010
Income (Loss) from discontinued operations, net of tax		(1,983)		(1,155)		(1,147)		(4,100)
Net income attributable to Penske Automotive Group common stockholders	\$	62,042	\$	49,092	\$	119,706	\$	95,910

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In thousands, except per share amounts)			
Net Income	\$ 62,495	\$ 49,612	\$ 120,514	\$ 96,618
Other Comprehensive Income:				
Foreign currency translation adjustment	1,556	(11,415)	(35,097)	(1,489)
Unrealized gain (loss) on interest rate swaps:				
Unrealized gain(loss) arising during the period, net of tax benefit(provision) of (\$370), \$701, (\$335), and \$1,524, respectively	566	(1,072)	512	(2,329)
Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of \$364, \$692, \$1,087, and \$1,361, respectively	556	1,057	1,661	2,080
Unrealized gain (loss) on interest rate swaps, net of tax	1,122	(15)	2,173	(249)
Other adjustments to Comprehensive Income, net	303	534	(1,214)	1,543
Other Comprehensive Income (Loss), Net of Taxes	2,981	(10,896)	(34,138)	(195)
Comprehensive Income	65,476	38,716	86,376	96,423
Less: Comprehensive income attributable to non-controlling interests	453	520	1,342	708
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 65,023	\$ 38,196	\$ 85,034	\$ 95,715

See Notes to Consolidated Condensed Financial Statements



Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(Unaudited) (In thousands)</b>	
<b>Operating Activities:</b>		
Net income	\$ 120,514	\$ 96,618
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	29,516	26,310
Earnings of equity method investments	(10,226)	(12,578)
Loss from discontinued operations, net of tax	1,147	4,100
Deferred income taxes	25,839	7,793
Changes in operating assets and liabilities:		
Accounts receivable	4,405	(8,400)
Inventories	(144,875)	(175,406)
Floor plan notes payable	81,365	176,164
Accounts payable and accrued expenses	62,132	93,237
Other	5,826	(5,885)
Net cash from continuing operating activities	175,643	201,953
<b>Investing Activities:</b>		
Purchase of equipment and improvements	(143,591)	(57,322)
Acquisitions net, including repayment of sellers' floor plan notes payable of \$1,758 and \$37,779, respectively	(30,734)	(111,522)
Other	(9,695)	(3,653)
Net cash from continuing investing activities	(184,020)	(172,497)
<b>Financing Activities:</b>		
Proceeds from borrowings under U.S. credit agreement revolving credit line	491,700	396,800
Repayments under U.S. credit agreement revolving credit line	(519,700)	(414,800)
Repayments under U.S. credit agreement term loan	(12,000)	
Repurchase of 3.5% senior subordinated convertible notes		(37,778)
Net borrowings (repayments) of car rental revolver	82,115	
Net borrowings (repayments) of other long-term debt	(53,286)	11,573
Net borrowings (repayments) of floor plan notes payable - non-trade	33,478	35,218
Repurchases of common stock	(15,813)	(9,829)
Dividends	(26,216)	(18,918)
Other	235	
Net cash from continuing financing activities	(19,487)	(37,734)
Discontinued operations:		
Net cash from discontinued operating activities	15,708	(1,073)
Net cash from discontinued investing activities	2,820	35,311
Net cash from discontinued financing activities	(7,857)	(17,010)
Net cash from discontinued operations	10,671	17,228
Net change in cash and cash equivalents	(17,193)	8,950
Cash and cash equivalents, beginning of period	43,447	26,997
Cash and cash equivalents, end of period	\$ 26,254	\$ 35,947
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for:		
Interest	\$ 47,019	\$ 43,780
Income taxes	11,377	19,180

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED CONDENSED STATEMENT OF EQUITY**

	<b>Common Stock Issued Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss) (Unaudited) (Dollars in thousands)</b>	<b>Total Penske Automotive Group Stockholders Equity</b>	<b>Non-controlling Interest</b>	<b>Total Equity</b>
Balance, January 1, 2013	90,294,765	\$ 9	\$ 700,013	\$ 611,026	\$ (6,833)	\$ 1,304,215	\$ 12,106	\$ 1,316,321
Equity compensation	414,755		4,585			4,585		4,585
Repurchase of common stock	(507,561)		(15,813)			(15,813)		(15,813)
Dividends				(26,216)		(26,216)		(26,216)
Distributions to non-controlling interests							(1,057)	(1,057)
Sale of subsidiary shares to non-controlling interests			235			235	143	378
Deconsolidation of subsidiary							(8,309)	(8,309)
Foreign currency translation					(35,631)	(35,631)	534	(35,097)
Interest rate swaps					2,173	2,173		2,173
Other					(1,214)	(1,214)		(1,214)
Net income				119,706		119,706	808	120,514
Balance, June 30, 2013	90,201,959	\$ 9	\$ 689,020	\$ 704,516	\$ (41,505)	\$ 1,352,040	\$ 4,225	\$ 1,356,265

See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**(In thousands, except per share amounts)**

**1. Interim Financial Statements**

***Business Overview***

Unless the context otherwise requires, the use of the terms PAG, we, us, and our in these Notes to the Consolidated Condensed Financial Statements refers to Penske Automotive Group, Inc. and its consolidated subsidiaries.

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenue. As of June 30, 2013, we operated 329 retail franchises, of which 172 franchises are located in the U.S. and 157 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K.

Each of our dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher-margin products, such as third-party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products. We also hold a 9.0% ownership interest in Penske Truck Leasing Co., L.P. ( PTL ), a leading provider of transportation services and supply chain management.

We are the Hertz rental car franchisee in the Memphis, Tennessee market and certain Indiana markets. We currently operate more than fifty on and off-airport Hertz rental car locations.

In June 2013, we acquired a 27% interest in Around-The Clock Freightliner ( ATC ), a retailer of Daimler branded medium, heavy and light-duty trucks in Texas and Oklahoma for \$15,900. ATC operates five full service retail locations and three additional parts and service locations. We are using the equity method to account for our investment in ATC.

In July 2013, we signed an agreement to acquire Western Star Trucks Australia, the exclusive importer and distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts for Australia and New Zealand. The purchase price of AU \$218,900 (approximately \$200,000), which includes a targeted amount of AU \$73,300

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(approximately \$67,000) of working capital, is projected to be paid in the third quarter, subject to the completion of certain closing conditions. We expect to initially finance the acquisition using cash flow from operations and available cash resources, including revolving loan capacity under our U.S. and U.K. credit agreements. Subsequent to closing, we intend to employ floor plan financing in regards to the vehicle inventories to partially fund the cash needs of the business and repay a portion of the revolving acquisition financing.

### ***Basis of Presentation***

The following unaudited consolidated condensed financial statements of PAG have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of June 30, 2013 and December 31, 2012 and for the three and six month periods ended June 30, 2013 and 2012 is unaudited, but includes all adjustments which the management of PAG believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities which have been treated as discontinued operations through June 30, 2013, and the results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2012, which are included as part of our Annual Report on Form 10-K.

### ***Recent Accounting Pronouncements***

In February 2013, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, we are required to present either on the face of the statement of income or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. We complied with the disclosure requirements of this ASU beginning with the quarter ended March 31, 2013.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 resolves the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-

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30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. This ASU is effective prospectively for the first annual period beginning after December 15, 2013. We do not expect adoption of ASU No. 2013-05 to affect our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued ASU No. 2013-10, Derivatives and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in ASU No. 2013-10 permit the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. This ASU is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We do not expect the adoption of ASU No. 2013-10 to affect our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 resolves the diversity in practice regarding the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for the first annual period beginning after December 15, 2013. We do not expect adoption of ASU No. 2013-11 to affect our consolidated financial position, results of operations, or cash flows.

*Discontinued Operations*

We account for dispositions in our retail operations as discontinued operations when it is evident that the operations and cash flows of a franchise being disposed of will be eliminated from on-going operations and that we will not have any significant continuing involvement in its operations.

In evaluating whether the cash flows of a dealership in our Retail reportable segment will be eliminated from ongoing operations, we consider whether it is likely that customers will migrate to similar franchises that we own in the same geographic market. Our consideration includes an evaluation of the brands sold at other dealerships we operate in the market and their proximity to the disposed dealership. When we dispose of franchises, we typically do not have continuing brand representation in that market. If the franchise being disposed of is located in a complex of PAG owned dealerships, we do not treat the disposition as a discontinued operation if we believe that the cash flows previously generated by the disposed franchise will be replaced by expanded operations of the remaining or replacement franchises.

Combined financial information regarding entities accounted for as discontinued operations follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	\$ 66,766	\$ 100,970	\$ 147,795	\$ 225,487
Pre-tax income (loss)	(2,923)	(1,697)	(1,655)	(12,856)
Gain on disposal	840		840	10,160

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	June 30, 2013	December 31, 2012
Inventories	\$ 14,338	\$ 44,649
Other assets	19,511	28,749
Total assets	\$ 33,849	\$ 73,398
Floor plan notes payable (including non-trade)	\$ 12,695	\$ 36,689
Other liabilities	10,852	14,590
Total liabilities	\$ 23,547	\$ 51,279

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include accounts receivable, inventories, income taxes, intangible assets and certain reserves.

*Fair Value of Financial Instruments*

Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and also establishes the following three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair

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value of the assets or liabilities

Our financial instruments consist of cash and cash equivalents, debt, floor plan notes payable, and interest rate swaps used to hedge future cash flows. Other than our fixed rate debt, the carrying amount of all significant financial instruments approximates fair value due either to length of maturity, the existence of variable interest rates that approximate prevailing market rates, or as a result of mark to market accounting.

Our fixed rate debt consists of amounts outstanding under our senior subordinated notes and mortgage facilities. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 2), and we estimate the fair value of our mortgage facilities using a present value technique based on our current market interest rates for similar types of financial instruments (Level 2). A summary of the carrying values and fair values of our 5.75% senior subordinated notes and our fixed rate mortgage facilities are as follows:

	June 30, 2013	
	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	\$ 550,000	\$ 561,000
Mortgage facilities	102,290	99,549

**2. Inventories**

Inventories consisted of the following:

	June 30, 2013	December 31, 2012
New vehicles	\$ 1,531,040	\$ 1,429,255
Used vehicles	508,109	484,269
Parts, accessories and other	86,622	86,682
Total inventories	\$ 2,125,771	\$ 2,000,206

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$8,797 and \$7,057 during the six months ended June 30, 2013 and 2012, respectively.

**3. Business Combinations**

We acquired one Hertz car rental franchise market area and one automotive retail franchise during the six months ended June 30, 2013. We acquired sixteen automotive retail franchises during the six months ended June 30, 2012. Our financial statements include the results of operations of the acquired dealerships and the rental car franchises from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in our consolidated condensed financial statements, and may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the six months ended June 30, 2013 and 2012 follows:



	June 30,	
	2013	2012
Accounts receivable	\$ 300	\$ 17,025
Inventory	1,905	80,766
Other current assets	158	
Property and equipment	20,131	32,599
Indefinite-lived intangibles	7,303	57,310
Other non-current assets		
Current liabilities	(55)	(49,362)
Non-current liabilities	992	(26,816)
Total consideration	30,734	111,522
Seller financed/assumed debt		
Cash used in acquisitions	\$ 30,734	\$ 111,522

The following unaudited consolidated pro forma results of operations of PAG for the three and six months ended June 30, 2013 and 2012 give effect to acquisitions consummated during 2013 and 2012 as if they had occurred on January 1, 2012:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	\$ 3,704,215	\$ 3,408,230	\$ 7,121,402	\$ 6,661,073
Income from continuing operations	64,528	52,803	121,614	103,517
Net income	62,092	51,128	119,659	98,709
Income from continuing operations per diluted common share	\$ 0.71	\$ 0.58	\$ 1.34	\$ 1.14
Net income per diluted common share	\$ 0.69	\$ 0.57	\$ 1.32	\$ 1.09

**4. Intangible Assets**

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the six months ended June 30, 2013:

	Goodwill		Franchise Value	
Balance, January 1, 2013	\$ 978,147	\$ 283,152		
Additions	7,303			
Deconsolidation of Italian investment	(7,231)	(2,908)		
Foreign currency translation	(22,039)	(5,258)		
Balance, June 30, 2013	\$ 956,180	\$ 274,986		

Goodwill additions of \$5,780 were related to our Hertz rental car operations within our Other reportable segment. All other changes were within our Retail reportable segment. As of June 30, 2013, the goodwill balance within our Retail and Other reportable segments was \$948,431 and \$7,749, respectively.

**5. Floor Plan Notes Payable Trade and Non-trade**

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. In the U.S., substantially all of our floor plan arrangements are due on demand; however, we have not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. We typically make monthly interest payments on the amount financed. Outside of the U.S., substantially all of the floor plan arrangements are payable on demand or have an original maturity of 90 days or less and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles that have been financed or the stated maturity.

The floor plan agreements grant a security interest in substantially all of the assets of our dealership subsidiaries, and in the U.S. are guaranteed by us. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in the prime rate, defined London Interbank Offered Rate ( LIBOR ), the Finance House Bank Rate, or the Euro Interbank Offer Rate. We classify floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-trade on our consolidated condensed balance sheets and classify related cash flows as a financing activity on our consolidated condensed statements of cash flows.

**6. Earnings Per Share**

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested restricted stock awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012 follows:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average number of common shares outstanding	90,269	90,305	90,344	90,363
Effect of non-participatory equity compensation	36	32	36	32
Weighted average number of common shares outstanding, including effect of dilutive securities	90,305	90,337	90,380	90,395

**7. Long-Term Debt**

Long-term debt consisted of the following:

	June 30, 2013		December 31, 2012	
U.S. credit agreement - revolving credit line	\$	22,000	\$	50,000
U.S. credit agreement - term loan		98,000		110,000
U.K. credit agreement - revolving credit line				48,741
U.K. credit agreement - term loan		31,943		38,993
U.K. credit agreement - overdraft line of credit				6,838
5.75% senior subordinated notes due 2022		550,000		550,000
Rental car revolver		105,286		23,171
Mortgage facilities		102,290		104,043
Other		10,684		5,731
Total long-term debt		920,203		937,517
Less: current portion		(44,896)		(19,493)
Net long-term debt	\$	875,307	\$	918,024

**U.S. Credit Agreement**

We are party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the "U.S. Credit Agreement"), which provides for up to \$375,000 in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, a non-amortizing term loan with a remaining balance of \$98,000, and for an additional \$10,000 of availability for letters of credit, through September 2015. The revolving loans bear interest at a defined LIBOR plus 2.25%, subject to an incremental 1.25% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.25%, may be prepaid at any time, but then may not be re-borrowed.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of June 30, 2013, we were in compliance

with all covenants under the U.S. Credit Agreement.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets are subject to security interests granted to lenders under the U.S. Credit Agreement. As of June 30, 2013, \$22,000 of revolver borrowings, \$98,000 of term loans and no letters of credit were outstanding under the U.S. Credit Agreement. We repaid \$12,000 under the term loan during the six months ended June 30, 2013.

***U.K. Credit Agreement***

Our subsidiaries in the U.K. (the U.K. subsidiaries) are party to a £100,000 revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10,000 demand overdraft line of credit with RBS (collectively, the U.K. credit agreement) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of June 30, 2013, no amounts were outstanding under the U.K. credit agreement.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends,

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dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments ( EBITAR ) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of June 30, 2013, our U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement.

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of our U.K. subsidiaries' assets are subject to security interests granted to lenders under the U.K. credit agreement. In July 2013, we amended the U.K. credit agreement and U.K. term loan to provide the U.K. subsidiaries with covenant flexibility to fund the purchase of Western Star Trucks Australia (discussed above) and operate the subsidiaries to be acquired.

In January 2012, our U.K. subsidiaries entered into a separate agreement with RBS, as agent for National Westminster Bank plc, providing for a £30,000 term loan which was used for working capital and an acquisition. The term loan is repayable in £1,500 quarterly installments through 2015 with a final payment of £7,500 due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries' ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined). As of June 30, 2013, the amount outstanding under the U.K. term loan was £21,000 (\$31,943).

***5.75% Senior Subordinated Notes***

In August 2012, we issued \$550,000 in aggregate principal amount of 5.75% Senior Subordinated Notes due 2022 (the 5.75% Notes ).

Interest on the 5.75% Notes is payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2013. The 5.75% Notes mature on October 1, 2022, unless earlier redeemed or purchased by us. The 5.75% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned domestic subsidiaries. The 5.75% Notes also contain customary negative covenants and events of default. As of June 30, 2013, we were in compliance with all negative covenants, and there were no events of default.

On or after October 1, 2017, we may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.75% Notes using the proceeds of specified equity offerings at any time prior to October 1, 2015 at a price specified in the indenture.

If we experience certain change of control events specified in the indenture, holders of the 5.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

***Rental Car Revolver***

We are party to a credit agreement with Toyota Motor Credit Corporation that currently provides us with up to \$150,000 in revolving loans for the acquisition of rental vehicles. The revolving loans bear interest at three-month LIBOR plus 2.50%. This agreement provides the lender with a secured interest in the vehicles and our rental car operations other assets, requires us to make monthly curtailment payments and expires in October 2014. As of June 30, 2013 outstanding loans under the rental car revolver amounted to \$105,286.

***Mortgage Facilities***

We are party to several mortgages which bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of June 30, 2013, we owed \$102,290 of principal under our mortgage facilities.

**8. Interest Rate Swaps**

We periodically use interest rate swaps to manage interest rate risk associated with our variable rate floor plan debt. We are party to interest rate swap agreements through December 2014 pursuant to which the LIBOR portion of \$300,000 of our floating rate floor plan debt is fixed at 2.135% and \$100,000 of our floating rate floor plan debt is fixed at a rate of 1.55%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements.

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We used Level 2 inputs to estimate the fair value of the interest rate swap agreements. As of June 30, 2013 and December 31, 2012, the fair value of the swaps designated as hedging instruments was estimated to be a liability of \$10,743 and \$14,337, respectively. During 2013 and 2012, there was no hedge ineffectiveness recorded in our income statement. During the three and six months ended June 30, 2013, the swaps increased the weighted average interest rate on our floor plan borrowings by approximately 35 and 37 basis points, respectively.

**9. Commitments and Contingent Liabilities**

We are involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. As of June 30, 2013, we were not party to any legal proceedings, including class action lawsuits, that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations, financial condition or cash flows.

We have historically structured our operations so as to minimize ownership of real property. As a result, we lease or sublease substantially all of our facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at our election. Pursuant to the leases for some of our larger facilities, we are required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require us to post collateral in the form of a letter of credit. A breach of the other lease covenants gives rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease. As of June 30, 2013, we were in compliance with all covenants under these leases.

We have sold a number of dealerships to third parties and, as a condition to certain of those sales, remain liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. We are also party to lease agreements on properties that we no longer use in our retail operations that we have sublet to third parties. We rely on subtenants to pay the rent and maintain the property at these locations. In the event the subtenant does not perform as expected, we may not be able to recover amounts owed to us and we could be required to fulfill these obligations.

We hold a 9.0% ownership interest in PTL. Historically General Electric Capital Corporation ( GECC ) has provided PTL with a majority of its financing. PTL has refinanced all of its GECC indebtedness. As part of that refinancing, we and the other PTL partners created a new company ( Holdings ), which, together with GECC, co-issued \$700,000 of 3.8% senior unsecured notes due 2019 (the Holdings Bonds ). A wholly-owned subsidiary of Holdings contributed \$700,000 derived from the net proceeds from the offering of the Holdings Bonds and a portion of its cash on hand to PTL in exchange for a 21.5% limited partner interest in PTL. PTL used the \$700,000 of funds to reduce its outstanding debt owed to GECC. GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds.

Additional capital contributions from the members may be required to fund interest and principal payments on the Holdings Bonds. In addition, we have agreed to indemnify GECC for 9.0% of any principal or interest that GECC is required to pay as co-obligor, and pay GECC an annual fee of approximately \$950 for acting as co-obligor. The maximum amount of our potential obligations to GECC under this agreement are 9.0% of the required principal repayment due in 2019 (which is expected to be \$63,100) and 9.0% of interest payments under the Holdings Bonds, plus fees and default interest, if any.



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In July 2013, we signed an agreement to acquire Western Star Trucks Australia, the exclusive importer and distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts for Australia and New Zealand. The purchase price of AU \$218,900 (approximately \$200,000), which includes a targeted amount of AU \$73,300 (approximately \$67,000) of working capital, is projected to be paid in the third quarter, subject to the completion of certain closing conditions. We expect to initially finance the acquisition using cash flow from operations and available cash resources, including revolving loan capacity under our U.S. and U.K. credit agreements. Subsequent to closing, we intend to employ floor plan financing in regards to the vehicle inventories to partially fund the cash needs of the business and repay a portion of the revolving acquisition financing.

We have \$18,197 of letters of credit outstanding as of June 30, 2013, and have posted \$9,110 of surety bonds in the ordinary course of business.

### **10. Equity**

#### *Share Repurchase*

During the six months ended June 30, 2013, we repurchased 410 shares of our outstanding common stock for \$12,680, or an average of \$30.93 per share, under a program approved by our Board of Directors. During the second quarter of 2013, we acquired 98 shares of our common stock for \$3,133, or an average of \$32.11, from employees in connection with a net share settlement feature of employee restricted stock awards.

Table of Contents**11. Accumulated Other Comprehensive Income / (Loss)**

The following tables below present the changes in accumulated other comprehensive income / (loss) by component and the reclassifications out of accumulated other comprehensive income / (loss) during the three and six months ended June 30, 2013 attributable to Penske Automotive Group common stockholders.

Three Months Ended June 30, 2013

	Interest Rate Swaps	Foreign Currency Translation	Other	Total
Balance at March 31, 2013	\$ (7,627)	\$ (38,381)	\$ 1,522	\$ (44,486)
Other comprehensive income before reclassifications	566	1,556	303	2,425
Amounts reclassified from accumulated other comprehensive income - net of tax	556			556
Net current-period other comprehensive income	1,122	1,556	303	2,981
Balance at June 30, 2013	\$ (6,505)	\$ (36,825)	\$ 1,825	\$ (41,505)

Six Months Ended June 30, 2013

	Interest Rate Swaps	Foreign Currency Translation	Other	Total
Balance at December 31, 2012	\$ (8,678)	\$ (1,194)	\$ 3,039	\$ (6,833)
Other comprehensive income before reclassifications	512	(34,747)	(1,214)	(35,449)
Amounts reclassified from accumulated other comprehensive income - net of tax	1,661	(884)		777
Net current-period other comprehensive income	2,173	(35,631)	(1,214)	(34,672)
Balance at June 30, 2013	\$ (6,505)	\$ (36,825)	\$ 1,825	\$ (41,505)

Within the amounts reclassified from accumulated other comprehensive income, the \$556 and \$1,661 associated with interest rate swaps is included in floor plan interest expense, and the \$(884) associated with foreign currency translation is included in selling, general, and administrative expenses.

**12. Segment Information**

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Our operations are organized by management into operating segments by line of business and geography. We have determined that we have two reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail, consisting of our automotive retail operations, and (ii) Other, consisting of our Hertz rental car business operating segment and our investments in non-automotive retail operations operating segment. The Retail reportable segment includes all automotive dealerships and all departments relevant to the operation of the dealerships and the retail automotive joint ventures. The individual dealership operations included in the Retail reportable segment have been grouped into four geographic operating segments: Eastern, Central, and Western United States and International. The geographic operating segments have been aggregated into one reportable segment as their operations (A) have similar economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions).

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	<b>Retail</b>		<b>Other</b>		<b>Intersegment Elimination</b>		<b>Total</b>
<b>Revenues</b>							
2013	\$ 3,692,798	\$	15,090	\$	(8,713)	\$	3,699,175
2012	3,315,051						3,315,051
<b>Segment income</b>							
2013	91,441		8,420		(219)		99,642
2012	70,659		7,201				77,860

Six Months Ended June 30

	<b>Retail</b>		<b>Other</b>		<b>Intersegment Elimination</b>		<b>Total</b>
<b>Revenues</b>							
2013	\$ 7,103,195	\$	21,976	\$	(21,397)	\$	7,103,774
2012	6,478,764						6,478,764
<b>Segment income</b>							
2013	175,868		9,693		(329)		185,232
2012	143,609		11,035				154,644

Table of Contents**13. Consolidating Condensed Financial Information**

The following tables include condensed consolidating financial information as of June 30, 2013 and December 31, 2012 and for the three and six month periods ended June 30, 2013 and 2012 for Penske Automotive Group, Inc. (as the issuer of the 5.75% Notes), guarantor subsidiaries and non-guarantor subsidiaries (primarily representing foreign entities). Guarantor subsidiaries are directly or indirectly 100% owned by PAG, and the guarantees are full and unconditional, and jointly and several. The condensed consolidating financial information includes certain allocations of balance sheet, income statement and cash flow items which are not necessarily indicative of the financial position, results of operations and cash flows of these entities on a stand-alone basis.

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**June 30, 2013**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 26,254	\$	\$	\$ 759	\$ 25,495
Accounts receivable, net	530,647	(364,074)	364,074	328,455	202,192
Inventories	2,125,771			1,318,613	807,158
Other current assets	90,352		7,068	33,953	49,331
Assets held for sale	33,849			15,984	17,865
<b>Total current assets</b>	<b>2,806,873</b>	<b>(364,074)</b>	<b>371,142</b>	<b>1,697,764</b>	<b>1,102,041</b>
Property and equipment, net	1,148,495		4,356	789,341	354,798
Intangible assets	1,231,166			767,816	463,350
Equity method investments	332,503		273,827		58,676
Other long-term assets	18,595	(1,490,576)	1,503,443	4,030	1,698
<b>Total assets</b>	<b>\$ 5,537,632</b>	<b>\$ (1,854,650)</b>	<b>\$ 2,152,768</b>	<b>\$ 3,258,951</b>	<b>\$ 1,980,563</b>
Floor plan notes payable	\$ 1,474,440	\$	\$	\$ 962,001	\$ 512,439
Floor plan notes payable non-trade	753,130		122,700	340,030	290,400
Accounts payable	314,050		3,338	130,711	180,001
Accrued expenses	226,968	(364,074)	465	129,726	460,851
Current portion of long-term debt	44,896			35,769	9,127
Liabilities held for sale	23,547			9,598	13,949
<b>Total current liabilities</b>	<b>2,837,031</b>	<b>(364,074)</b>	<b>126,503</b>	<b>1,607,835</b>	<b>1,466,767</b>
Long-term debt	875,307	(38,182)	670,000	175,856	67,633
Deferred tax liabilities	313,756			288,245	25,511
Other long-term liabilities	155,273			79,733	75,540
<b>Total liabilities</b>	<b>4,181,367</b>	<b>(402,256)</b>	<b>796,503</b>	<b>2,151,669</b>	<b>1,635,451</b>
Total equity	1,356,265	(1,452,394)	1,356,265	1,107,282	345,112
<b>Total liabilities and equity</b>	<b>\$ 5,537,632</b>	<b>\$ (1,854,650)</b>	<b>\$ 2,152,768</b>	<b>\$ 3,258,951</b>	<b>\$ 1,980,563</b>



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**CONDENSED CONSOLIDATING BALANCE SHEET**  
**December 31, 2012**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 43,447	\$	\$	\$ 36,478	\$ 6,969
Accounts receivable, net	554,851	(340,917)	340,917	375,442	179,409
Inventories	2,000,206			1,212,521	787,685
Other current assets	90,485		3,546	55,841	31,098
Assets held for sale	73,398			29,400	43,998
<b>Total current assets</b>	<b>2,762,387</b>	<b>(340,917)</b>	<b>344,463</b>	<b>1,709,682</b>	<b>1,049,159</b>
Property and equipment, net	1,031,188		4,474	662,722	363,992
Intangible assets	1,261,299			760,321	500,978
Equity method investments	303,160		252,816		50,344
Other long-term assets	20,956	(1,527,156)	1,540,447	5,029	2,636
<b>Total assets</b>	<b>\$ 5,378,990</b>	<b>\$ (1,868,073)</b>	<b>\$ 2,142,200</b>	<b>\$ 3,137,754</b>	<b>\$ 1,967,109</b>
<b>Floor plan notes payable</b>	<b>\$ 1,408,362</b>	<b>\$</b>	<b>\$</b>	<b>\$ 917,391</b>	<b>\$ 490,971</b>
Floor plan notes payable non-trade	725,526		112,085	346,683	266,758
Accounts payable	263,881		3,344	124,663	135,874
Accrued expenses	223,972	(340,917)	450	114,636	449,803
Current portion of long-term debt	19,493			9,745	9,748
Liabilities held for sale	51,279			17,766	33,513
<b>Total current liabilities</b>	<b>2,692,513</b>	<b>(340,917)</b>	<b>115,879</b>	<b>1,530,884</b>	<b>1,386,667</b>
Long-term debt	918,024	(38,692)	710,000	121,618	125,098
Deferred tax liabilities	287,818			260,445	27,373
Other long-term liabilities	164,314			85,151	79,163
<b>Total liabilities</b>	<b>4,062,669</b>	<b>(379,609)</b>	<b>825,879</b>	<b>1,998,098</b>	<b>1,618,301</b>
<b>Total equity</b>	<b>1,316,321</b>	<b>(1,488,464)</b>	<b>1,316,321</b>	<b>1,139,656</b>	<b>348,808</b>
<b>Total liabilities and equity</b>	<b>\$ 5,378,990</b>	<b>\$ (1,868,073)</b>	<b>\$ 2,142,200</b>	<b>\$ 3,137,754</b>	<b>\$ 1,967,109</b>

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**Three Months Ended June 30, 2013**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 3,699,175	\$	\$	\$ 2,285,609	\$ 1,413,566
Cost of sales	3,130,152			1,913,900	1,216,252
Gross profit	569,023			371,709	197,314
Selling, general and administrative expenses	440,331		4,695	281,360	154,276
Depreciation	14,985		411	8,843	5,731
Operating income (loss)	113,707		(5,106)	81,506	37,307
Floor plan interest expense	(10,900)		(2,459)	(5,219)	(3,222)
Other interest expense	(12,066)		(6,668)	(1,196)	(4,202)
Equity in earnings of affiliates	8,901		6,918		1,983
Equity in earnings of subsidiaries		(106,504)	106,504		
Income (loss) from continuing operations before income taxes	99,642	(106,504)	99,189	75,091	31,866
Income taxes	(35,164)	37,757	(35,164)	(29,130)	(8,627)
Income (loss) from continuing operations	64,478	(68,747)	64,025	45,961	23,239
(Loss) income from discontinued operations, net of tax	(1,983)	1,983	(1,983)	(540)	(1,443)
Net income (loss)	62,495	(66,764)	62,042	45,421	21,796
Other comprehensive income (loss), net of tax	2,981	(2,676)	2,981	1,122	1,554
Comprehensive income	65,476	(69,440)	65,023	46,543	23,350
Less: Comprehensive income attributable to the non-controlling interests	453				453
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 65,023	\$ (69,440)	\$ 65,023	\$ 46,543	\$ 22,897



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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**Three Months Ended June 30, 2012**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 3,315,051	\$	\$	\$ 2,001,589	\$ 1,313,462
Cost of sales	2,810,080			1,681,433	1,128,647
Gross profit	504,971			320,156	184,815
Selling, general and administrative expenses	400,637		4,740	247,494	148,403
Depreciation	13,319		246	7,394	5,679
Operating income (loss)	91,015		(4,986)	65,268	30,733
Floor plan interest expense	(9,845)		(2,254)	(4,175)	(3,416)
Other interest expense	(11,478)		(7,079)	(603)	(3,796)
Equity in earnings (losses) of affiliates	8,168		6,994	(40)	1,214
Equity in earnings of subsidiaries		(84,665)	84,665		
Income (loss) from continuing operations before income taxes	77,860	(84,665)	77,340	60,450	24,735
Income taxes	(27,093)	29,659	(27,093)	(23,227)	(6,432)
Income (loss) from continuing operations	50,767	(55,006)	50,247	37,223	18,303
(Loss) income from discontinued operations, net of tax	(1,155)	1,155	(1,155)	(399)	(756)
Net income (loss)	49,612	(53,851)	49,092	36,824	17,547
Other comprehensive income (loss), net of tax	(10,896)	11,430	(10,896)	(15)	(11,415)
Comprehensive income	38,716	(42,421)	38,196	36,809	6,132
Less: Comprehensive income attributable to non-controlling interests	520				520
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 38,196	\$ (42,421)	\$ 38,196	\$ 36,809	\$ 5,612

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**Six Months Ended June 30, 2013**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 7,103,774	\$	\$	\$ 4,319,855	\$ 2,783,919
Cost of sales	6,000,544			3,612,699	2,387,845
Gross profit	1,103,230			707,156	396,074
Selling, general and administrative expenses	854,770		9,853	540,027	304,890
Depreciation	29,516		789	17,205	11,522
Operating income (loss)	218,944		(10,642)	149,924	79,662
Floor plan interest expense	(21,168)		(4,746)	(10,093)	(6,329)
Other interest expense	(23,793)		(13,395)	(2,263)	(8,135)
Equity in earnings (losses) of affiliates	11,249		8,830		2,419
Equity in earnings of subsidiaries		(204,038)	204,038		
Income (loss) from continuing operations before income taxes	185,232	(204,038)	184,085	137,568	67,617
Income taxes	(63,571)	70,461	(63,571)	(53,709)	(16,752)
Income (loss) from continuing operations	121,661	(133,577)	120,514	83,859	50,865
(Loss) income from discontinued operations, net of tax	(1,147)	808	(808)	(33)	(1,114)
Net income (loss)	120,514	(132,769)	119,706	83,826	49,751
Other comprehensive income (loss), net of tax	(34,138)	36,313	(34,138)	(32)	(36,281)
Comprehensive income	86,376	(96,456)	85,568	83,794	13,470
Less: Comprehensive income attributable to non-controlling interests	1,342	(534)	534		1,342
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 85,034	\$ (95,922)	\$ 85,034	\$ 83,794	\$ 12,128

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**Six Months Ended June 30, 2012**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 6,478,764	\$	\$	\$ 3,824,510	\$ 2,654,254
Cost of sales	5,478,829			3,209,681	2,269,148
Gross profit	999,935			614,829	385,106
Selling, general and administrative expenses	788,619		9,335	484,583	294,701
Depreciation	26,310		608	14,438	11,264
Operating income (loss)	185,006		(9,943)	115,808	79,141
Floor plan interest expense	(19,368)		(4,452)	(7,947)	(6,969)
Other interest expense	(23,572)		(14,642)	(1,513)	(7,417)
Equity in earnings (losses) of affiliates	12,578		10,754	(40)	1,864
Equity in earnings of subsidiaries		(172,219)	172,219		
Income (loss) from continuing operations before income taxes	154,644	(172,219)	153,936	106,308	66,619
Income taxes	(53,926)	60,331	(53,926)	(43,806)	(16,525)
Income (loss) from continuing operations	100,718	(111,888)	100,010	62,502	50,094
(Loss) income from discontinued operations, net of tax	(4,100)	4,100	(4,100)	(2,049)	(2,051)
Net income (loss)	96,618	(107,788)	95,910	60,453	48,043
Other comprehensive income (loss), net of tax	(195)	1,738	(195)	(249)	(1,489)
Comprehensive income	96,423	(106,050)	95,715	60,204	46,554
Less: Comprehensive income attributable to non-controlling interests	708				708
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 95,715	\$ (106,050)	\$ 95,715	\$ 60,204	\$ 45,846

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**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Six Months Ended June 30, 2013**

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	\$ 175,643	\$ 72,085	\$ 51,307	\$ 52,251
Investing activities:				
Purchase of equipment and improvements	(143,591)	(671)	(120,322)	(22,598)
Dealership acquisitions, net	(30,734)		(29,314)	(1,420)
Other	(9,695)		(15,503)	5,808
Net cash from continuing investing activities	(184,020)	(671)	(165,139)	(18,210)
Financing activities:				
Net borrowings (repayments) of long-term debt	(11,171)	(40,000)	80,273	(51,444)
Net borrowings (repayments) of floor plan notes payable non-trade	33,478	10,615	(6,654)	29,517
Repurchase of common stock	(15,813)	(15,813)		
Dividends	(26,216)	(26,216)		
Distributions from (to) parent			392	(392)
Other	235			235
Net cash from continuing financing activities	(19,487)	(71,414)	74,011	(22,084)
Net cash from discontinued operations	10,671		4,102	6,569
Net change in cash and cash equivalents	(17,193)		(35,719)	18,526
Cash and cash equivalents, beginning of period	43,447		36,478	6,969
Cash and cash equivalents, end of period	\$ 26,254	\$	\$ 759	\$ 25,495

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**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Six Months Ended June 30, 2012**

	Total Company	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash from continuing operating activities	\$ 201,953	\$ 56,571	\$ 10,787	\$ 134,595
Investing activities:				
Purchase of equipment and improvements	(57,322)	(754)	(44,404)	(12,164)
Dealership acquisitions, net	(111,522)		(3,416)	(108,106)
Other	(3,653)		(970)	(2,683)
Net cash from continuing investing activities	(172,497)	(754)	(48,790)	(122,953)
Financing activities:				
Repurchase of 3.5% senior subordinated convertible notes	(37,778)	(37,778)		
Net borrowings (repayments) of long-term debt	(6,427)	(18,000)	(967)	12,540
Net borrowings (repayments) of floor plan notes payable non-trade	35,218	28,708	19,651	(13,141)
Repurchase of common stock	(9,829)	(9,829)		
Dividends	(18,918)	(18,918)		
Distributions from (to) parent			585	(585)
Net cash from continuing financing activities	(37,734)	(55,817)	19,269	(1,186)
Net cash from discontinued operations	17,228		9,933	7,295
Net change in cash and cash equivalents	8,950		(8,801)	17,751
Cash and cash equivalents, beginning of period	26,997		26,767	230
Cash and cash equivalents, end of period	\$ 35,947	\$	\$ 17,966	\$ 17,981

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in Forward Looking Statements. We have acquired and initiated a number of businesses during the periods presented and addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management's Discussion and Analysis of Financial Condition and Results of Operations has also been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through June 30, 2013.*

**Overview**

We are the second largest automotive retailer headquartered in the U.S. as measured by the \$7.1 billion in total revenue we generated during the six months ended June 30, 2013. As of June 30, 2013, we operated 329 retail automotive franchises, of which 172 franchises are located in the U.S. and 157 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. During the six months ended June 30, 2013, we retailed and wholesaled more than 216,000 vehicles. We are diversified geographically, with 64% of our total revenues during the six months ended June 30, 2013, generated in the U.S. and Puerto Rico and 36% generated outside the U.S. We offer approximately 40 brands with 96% of our total retail revenue during the six months ended June 30, 2013, generated from brands of non-U.S. based manufacturers, and 69% generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of finance and insurance products, extended service and maintenance contracts and replacement and aftermarket products.

We also hold a 9.0% ownership interest in Penske Truck Leasing Co., L.P. ( PTL ), a leading provider of transportation services and supply chain management. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia and is one of the largest purchasers of commercial trucks in North America. Product lines include full-service truck leasing, truck rental and contract maintenance, logistics services such as dedicated contract carriage, distribution center management, transportation management and acting as lead logistics provider. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by General Electric Capital Corporation ( GECC ). We account for our investment in PTL under the equity method, and we therefore record our share of PTL's earnings each quarter on our statements of income under the caption Equity in Earnings of Affiliates, which also includes the results of our other investments.

We are the Hertz rental car franchisee in the Memphis, Tennessee market and certain Indiana markets. We currently operate more than fifty on and off-airport Hertz rental car locations.

In June 2013, we acquired a 27% interest in Around-The Clock Freightliner ( ATC ), a retailer of Daimler branded medium, heavy and light-duty trucks in Texas and Oklahoma for \$15.9 million. ATC operates five full service retail locations and three additional parts and service locations. We are using the equity method to account for our investment in ATC.

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In July 2013, we signed an agreement to acquire Western Star Trucks Australia, the exclusive importer and distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts for Australia and New Zealand. The purchase price of AU \$218.9 million (approximately \$200.0 million), which includes a targeted amount of AU \$73.3 million (approximately \$67.0 million) of working capital, is projected to be paid in the third quarter, subject to the completion of certain closing conditions. We expect to initially finance the acquisition using available cash resources, including revolving loan capacity under our U.S. and U.K. credit agreements. Subsequent to closing, we intend to employ floor plan financing in regards to the vehicle inventories to partially fund the cash needs of the business and repay a portion of the revolving acquisition financing.

### Outlook

The level of new automotive unit sales in our markets impacts our results. The new vehicle market and the amount of customer traffic visiting our dealerships have improved during the past few years, and there are market expectations for continued improvement. During the six months ended June 30, 2013, total U.S. industry new vehicle unit sales increased from 7,272,541 to 7,820,966, representing an increase of 7.5%. We believe the U.S. automotive market will continue to improve based upon industry forecasts from companies such as JD Power, coupled with demand in the marketplace, an aging vehicle population, a strong credit environment for consumers, and the planned introduction of new models by many different vehicle brands.

During the six months ended June 30, 2013, vehicle registrations in the U.K. improved from 1,057,680 to 1,163,623, representing an increase of 10.0%. Based on industry forecasts from entities such as the Society of Motor Manufacturers and Traders ([www.smmmt.co.uk](http://www.smmmt.co.uk)), we believe, despite domestic and international economic concerns, the U.K. market will continue to grow as a result of U.K. motorists responding positively to new products and the latest fuel-efficient technology. We also expect continued resiliency in premium brand sales in the U.K. See Forward-Looking Statements.

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**Operating Overview**

New and used vehicle revenues include sales to retail customers and to leasing companies providing consumer automobile leasing. We generate finance and insurance revenues from sales of extended service and maintenance contracts, sales of insurance policies, commissions relating to the sale of finance and lease contracts to third parties and the sales of certain other products. Service and parts revenues include fees paid for repair, maintenance and collision services, and the sale of replacement parts and other aftermarket accessories.

Our gross profit tends to vary with the mix of revenues we derive from the sale of new vehicles, used vehicles, finance and insurance products, and service and parts transactions. Our gross profit varies across product lines, with vehicle sales usually resulting in lower gross profit margins and our other revenues resulting in higher gross profit margins. Factors such as inventory and vehicle availability, customer demand, consumer confidence, unemployment, general economic conditions, seasonality, weather, credit availability, fuel prices and manufacturers' advertising and incentives also impact the mix of our revenues, and therefore influence our gross profit margin.

Aggregate gross profit increased \$64.1 million, or 12.7%, and \$103.3 million, or 10.3%, during the three and six months ended June 30, 2013, compared to the same periods in prior year. The increase in gross profit is attributable to same-store increases in new and used vehicle, finance and insurance and service and parts gross profit. Our retail gross margin percentage decreased from 16.3% and 16.5% during the three and six months ended June 30, 2012 to 15.9% and 16.1% during the three and six months ended June 30, 2013, respectively, due primarily to gross margin decreases in our new and used vehicle sales.

Our selling expenses consist of advertising and compensation for sales personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance, legal and general management personnel, rent, insurance, utilities, and other expenses. As the majority of our selling expenses are variable, and we believe a significant portion of our general and administrative expenses are subject to our control, we believe our expenses can be adjusted over time to reflect economic trends.

Floor plan interest expense relates to financing incurred in connection with the acquisition of new and used vehicle inventories that is secured by those vehicles. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing. The cost of our variable rate indebtedness is based on the prime rate, defined London Interbank Offered Rate ( LIBOR ), the Bank of England Base Rate, the Finance House Base Rate, or the Euro Interbank Offered Rate. Our floor plan interest expense has increased during the three and six months ended June 30, 2013, as a result of an increase in the amounts outstanding under floor plan arrangements. Our other interest expense has increased during the three and six months ended June 30, 2013, due to an increased level of borrowing in 2013 relating to the issuance of our \$550.0 million 5.75% senior subordinated notes in August 2012. We used the proceeds of these notes to repurchase our \$375.0 million 7.75% senior subordinated notes. The overall increase in other interest expense was offset in part by the 200 basis point reduction in the interest rate.

Equity in earnings of affiliates represents our share of the earnings from our investments in joint ventures and other non-consolidated investments, including PTL. Because PTL is engaged in different businesses than we are, its operating performance may vary significantly from ours.



The future success of our business is dependent upon, among other things, general economic and industry conditions, our ability to consummate and integrate acquisitions, the level of vehicle sales in the markets where we operate, our ability to increase sales of higher margin products, especially service and parts services, our ability to realize returns on our significant capital investment in new and upgraded dealership facilities, our ability to integrate acquisitions and the return realized from our investments in various joint ventures and other non-consolidated investments. See Forward-Looking Statements.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the application of accounting policies that often involve making estimates and employing judgments. Such judgments influence the assets, liabilities, revenues and expenses recognized in our financial statements. Management, on an ongoing basis, reviews these estimates and assumptions. Management may determine that modifications in assumptions and estimates are required, which may result in a material change in our results of operations or financial position.

The following are the accounting policies applied in the preparation of our financial statements that management believes are most dependent upon the use of estimates and assumptions.

#### ***Revenue Recognition***

##### ***Vehicle, Parts and Service Sales***

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is completed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual

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vehicles. Taxes collected from customers and remitted to the governmental authorities are recorded on a net basis (excluded from revenue). During the six months ended June 30, 2013 and 2012, we earned \$225.8 million and \$212.3 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$222.8 million and \$209.2 million, respectively, was recorded as a reduction of cost of sales.

*Finance and Insurance Sales*

Subsequent to the sale of a vehicle to a customer, we sell installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. We receive a commission from the lender equal to either the difference between the interest rate charged to the customer and the interest rate set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions we received may be charged back based on the terms of the contracts. The revenue we record relating to these transactions is net of an estimate of the amount of chargebacks we will be required to pay. Our estimate is based upon our historical experience with similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products. Aggregate reserves relating to chargeback activity were \$23.7 million and \$23.4 million as of June 30, 2013 and December 31, 2012, respectively.

*Rental Car Revenue*

Rental and rental related revenues are recognized over the period the vehicles and accessories are rented based on the terms of the rental contract. Taxes collected from customers and remitted to the governmental authorities are recorded on a net basis (excluded from revenue).

*Impairment Testing*

Franchise value impairment is assessed as of October 1 every year and upon the occurrence of an indicator of impairment through a comparison of its carrying amount and estimated fair value. An indicator of impairment exists if the carrying value of a franchise exceeds its estimated fair value and an impairment loss may be recognized up to that excess. The fair value of franchise value is determined using a discounted cash flow approach, which includes assumptions about revenue and profitability growth, franchise profit margins, and our cost of capital. We also evaluate our franchise agreements in connection with the annual impairment testing to determine whether events and circumstances continue to support our assessment that the franchise agreements have an indefinite life.

Goodwill impairment is assessed at the reporting unit level as of October 1 every year and upon the occurrence of an indicator of impairment. Our operations are organized by management into operating segments by line of business and geography. We have determined we have two reportable segments as defined in generally accepted accounting principles for segment reporting: (i) Retail, consisting of our automotive retail operations and (ii) Other, consisting of our Hertz rental car business operating segment and our investments in non-automotive retail operations operating segment. We have determined that the dealerships in each of our operating segments within the Retail reportable segment are components that are aggregated into four geographical reporting units for the purpose of goodwill impairment testing, as they (A) have similar

economic characteristics (all are automotive dealerships having similar margins), (B) offer similar products and services (all sell new and used vehicles, service, parts and third-party finance and insurance products), (C) have similar target markets and customers (generally individuals) and (D) have similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). The geographic reporting units are Eastern, Central, and Western United States and International. The goodwill included in our Other reportable segment relates to our Hertz rental car business operating segment.

We prepare a qualitative assessment of the carrying value of goodwill using the criteria in ASC 350-20-35-3 to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value. If it were determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, additional analysis would be unnecessary. During 2012, we concluded that it was not more likely than not that any of the reporting units' fair value were less than their carrying amount. If the additional impairment testing was necessary, we would have estimated the fair value of our reporting units using an income valuation approach. The income valuation approach estimates our enterprise value using a net present value model, which discounts projected free cash flows of our business using our weighted average cost of capital as the discount rate. In connection with this process, we also reconcile the estimated aggregate fair values of our reporting units to our market capitalization. We believe that this reconciliation process is consistent with a market participant perspective. This consideration would also include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest and other significant assumptions including revenue and profitability growth, franchise profit margins, residual values and our cost of capital.

### *Investments*

We account for each of our investments under the equity method, pursuant to which we record our proportionate share of the investee's income each period. The net book value of our investments was \$332.5 million and \$303.2 million as of June 30, 2013 and December 31, 2012, respectively, including \$247.4 million relating to PTL as of June 30, 2013. Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth,

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profit margins, and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments' carrying value to fair value.

***Self-Insurance***

We retain risk relating to certain of our general liability insurance, workers' compensation insurance, auto physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and, for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above the pre-determined loss limits are paid by third-party insurance carriers. Certain insurers have limited available property coverage in response to the natural catastrophes experienced in recent years. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were \$23.3 million and \$20.1 million as of June 30, 2013 and December 31, 2012, respectively. Changes in the reserve estimate during 2013 relate primarily to our general liability and workers compensation programs.

***Income Taxes***

Tax regulations may require items to be included in our tax returns at different times than the items are reflected in our financial statements. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as the timing of depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that will be used as a tax deduction or credit in our tax returns in future years which we have already recorded in our financial statements. Deferred tax liabilities generally represent deductions taken on our tax returns that have not yet been recognized as expense in our financial statements. We establish valuation allowances for our deferred tax assets if the amount of expected future taxable income is not likely to allow for the use of the deduction or credit.

***Classification in Continuing and Discontinued Operations***

We classify the results of our operations in our consolidated financial statements based on generally accepted accounting principles relating to discontinued operations, which requires judgments, including whether a business will be divested, the period required to complete the divestiture, and the likelihood of changes to the divestiture plans. If we determine that a business should be either reclassified from continuing operations to discontinued operations or from discontinued operations to continuing operations, our consolidated financial statements for prior periods are revised to reflect such reclassification.

***New Accounting Pronouncements***

In February 2013, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires disclosure of amounts reclassified out

of accumulated other comprehensive income by component. In addition, we are required to present either on the face of the statement of income or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. We complied with the disclosure requirements of this ASU beginning with the quarter ended March 31, 2013.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. ASU No. 2013-05 resolves the diversity in practice about whether Subtopic 810-10, *Consolidation Overall*, or Subtopic 830-30, *Foreign Currency Matters Translation of Financial Statements*, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. This ASU is effective prospectively for the first annual period beginning after December 15, 2013. We do not expect adoption of ASU No. 2013-05 to affect our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued ASU No. 2013-10, *Derivatives and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. The amendments in ASU No. 2013-10 permit the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. This ASU is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We do not expect the adoption of ASU No. 2013-10 to affect our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 resolves the diversity in practice regarding the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for the first annual period beginning after December 15, 2013. We do not expect adoption of ASU No. 2013-11 to affect our consolidated financial position, results of operations, or cash flows.

## Results of Operations

The following tables present comparative financial data relating to our operating performance in the aggregate and on a same-store basis. Dealership results are included in same-store comparisons when we have consolidated the acquired entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2011, the results of the acquired entity would be included in annual same-store comparisons beginning with the year ended December 31, 2013 and in quarterly same store comparisons beginning with the quarter ended June 30, 2012.

Table of Contents*Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012***New Vehicle Data**

Dollars in millions, except per unit amounts	2013 vs. 2012			
	2013	2012	Change	% Change
New retail unit sales	51,307	45,987	5,320	11.6%
Same-store new retail unit sales	50,084	45,453	4,631	10.2%
New retail sales revenue	\$ 1,930.0	\$ 1,711.9	218.1	12.7%
Same-store new retail sales revenue	\$ 1,884.4	\$ 1,691.2	193.2	11.4%
New retail sales revenue per unit	\$ 37,617	\$ 37,225	392	1.1%
Same-store new retail sales revenue per unit	\$ 37,625	\$ 37,207	418	1.1%
Gross profit new	\$ 144.0	\$ 137.4	6.6	4.8%
Same-store gross profit new	\$ 141.0	\$ 135.9	5.1	3.8%
Average gross profit per new vehicle retailed	\$ 2,807	\$ 2,988	(181)	(6.1)%
Same-store average gross profit per new vehicle retailed	\$ 2,815	\$ 2,990	(175)	(5.9)%
Gross margin % new	7.5%	8.0%	(0.5)%	(6.3)%
Same-store gross margin % new	7.5%	8.0%	(0.5)%	(6.3)%

**Units**

Retail unit sales of new vehicles increased 5,320 units, or 11.6%, from 2012 to 2013, including an 11.3% increase in the U.S. and a 12.3% increase internationally. The increase is due to a 4,631 unit, or 10.2%, increase in same-store retail unit sales during the period, coupled with a 689 unit increase from net dealership acquisitions. Same-store units increased 8.9% in the U.S. and 13.6% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. The overall same-store increase was driven by a 13.6% increase in premium/luxury brands, a 7.6% increase in volume foreign brands and a 4.9% increase in domestic brands. Overall, we believe our premium, volume foreign, and domestic brands are being positively impacted by improved market conditions including increased credit availability, pent-up demand, and the introduction of new models.

**Revenues**

New vehicle retail sales revenue increased \$218.1 million, or 12.7%, from 2012 to 2013. The increase is due to a \$193.2 million, or 11.4%, increase in same-store revenues, coupled with a \$24.9 million increase from net dealership acquisitions. Same-store retail revenue increased 12.0% in the U.S. and 10.2% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. The overall same-store revenue increase is due primarily to the 10.2% increase in retail unit sales, which increased revenue by \$174.2 million, coupled with a \$418, or 1.1%, increase in average selling prices per unit, which increased revenue by \$19.0 million.

**Gross Profit**

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Retail gross profit from new vehicle sales increased \$6.6 million, or 4.8%, from 2012 to 2013. The increase is due to a \$5.1 million, or 3.8%, increase in same-store gross profit, coupled with a \$1.5 million increase from net dealership acquisitions. The same-store increase is due primarily to the 10.2% increase in retail unit sales, which increased gross profit by \$13.0 million, somewhat offset by a \$175, or 5.9%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by \$7.9 million. During the three months ended June 30, 2013 and 2012, we earned \$113.3 million and \$106.5 million, respectively, of rebates, incentives and reimbursements from manufacturers, which were recorded as a reduction of cost of sales. This \$6.8 million increase in incentives also contributed to the increase in new vehicle gross profit.

Table of Contents**Used Vehicle Data**

Dollars in millions, except per unit amounts	2013 vs. 2012			
	2013	2012	Change	% Change
Used retail unit sales	42,332	36,048	6,284	17.4%
Same-store used retail unit sales	41,061	35,723	5,338	14.9%
Used retail sales revenue	\$ 1,082.3	\$ 937.0	145.3	15.5%
Same-store used retail sales revenue	\$ 1,054.8	\$ 931.7	123.1	13.2%
Used retail sales revenue per unit	\$ 25,567	\$ 25,993	(426)	(1.6)%
Same-store used retail sales revenue per unit	\$ 25,688	\$ 26,083	(395)	(1.5)%
Gross profit used	\$ 81.6	\$ 72.5	9.1	12.6%
Same-store gross profit used	\$ 79.6	\$ 72.3	7.3	10.1%
Average gross profit per used vehicle retailed	\$ 1,928	\$ 2,012	(84)	(4.2)%
Same-store average gross profit per used vehicle retailed	\$ 1,937	\$ 2,023	(86)	(4.3)%
Gross margin % used	7.5%	7.7%	(0.2)%	(2.6)%
Same-store gross margin % used	7.5%	7.8%	(0.3)%	(3.8)%

**Units**

Retail unit sales of used vehicles increased 6,284 units, or 17.4%, from 2012 to 2013 including an 18.4% increase in the U.S. and a 15.5% increase internationally. The increase is due to a 5,338 unit, or 14.9%, increase in same-store retail unit sales, coupled with a 946 unit increase from net dealership acquisitions. Same-store units increased 15.2% in the U.S. and 14.4% internationally. The overall same-store increase was driven by a 14.4% increase in premium/luxury brands, a 17.2% increase in volume foreign brands, and a 6.5% increase in domestic brands. We believe that overall our same-store used vehicle sales are being positively impacted by improved market conditions including increased credit availability, pent-up demand, an increase in trade-in units due to an increase in new unit sales, and our focus on retailing trade-ins and minimizing wholesaled vehicles.

**Revenues**

Used vehicle retail sales revenue increased \$145.3 million, or 15.5%, from 2012 to 2013. The increase is due to a \$123.1 million, or 13.2%, increase in same-store revenues, coupled with a \$22.2 million increase from net dealership acquisitions. Same-store retail revenue increased 17.1% in the U.S. and increased 8.5% internationally. The overall same-store revenue increase is due to the 14.9% increase in same-store retail unit sales, which increased revenue by \$137.1 million, somewhat offset by a \$395, or 1.5%, decrease in comparative average selling prices per unit, which decreased revenue by \$14.0 million.

**Gross Profit**

Retail gross profit from used vehicle sales increased \$9.1 million, or 12.6%, from 2012 to 2013. The increase is due to a \$7.3 million, or 10.1%, increase in same-store gross profit, coupled with a \$1.8 million increase from net dealership acquisitions. The increase in same-store gross profit is due to the 14.9% increase in used retail unit sales, which increased gross profit by \$10.3 million, somewhat offset by a \$86, or 4.3%, decrease



in average gross profit per used vehicle retailed, which decreased retail gross profit by \$3.0 million.

### Finance and Insurance Data

Dollars in millions, except per unit amounts			2013 vs. 2012	
	2013	2012	Change	% Change
Finance and insurance revenue	\$ 95.8	\$ 81.3	\$ 14.5	17.8%
Same-store finance and insurance revenue	\$ 94.0	\$ 80.8	\$ 13.2	16.3%
Finance and insurance revenue per unit	\$ 1,024	\$ 991	\$ 33	3.3%
Same-store finance and insurance revenue per unit	\$ 1,032	\$ 995	\$ 37	3.7%

Finance and insurance revenue increased \$14.5 million, or 17.8%, from 2012 to 2013. The increase is due to a \$13.2 million, or 16.3%, increase in same-store revenues during the period, coupled with a \$1.3 million increase from net dealership acquisitions. The same-store revenue increase is due to a 12.3% increase in same-store retail unit sales, which increased revenue by \$10.2 million, coupled with a \$37, or 3.7%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$3.0 million. Finance and insurance revenue per unit was up 8.8% to \$1,001 per unit in the U.S. and down 7.0% to \$1,077 per unit internationally. We believe the increases in the U.S. are due to our efforts to increase finance and insurance revenue, which include adding resources to drive additional training, product penetration and targeting underperforming locations. We believe the decreases in international are due to increased use of subvented rate customer financing by captive lenders in the U.K., which results in lower finance commissions.

Table of Contents**Service and Parts Data**

Dollars in millions, except per unit amounts			2013 vs. 2012	
	2013	2012	Change	% Change
Service and parts revenue	\$ 391.6	\$ 362.2	29.4	8.1%
Same-store service and parts revenue	\$ 381.8	\$ 358.1	23.7	6.6%
Gross profit	\$ 235.2	\$ 212.0	23.2	10.9%
Same-store gross profit	\$ 229.0	\$ 210.2	18.8	8.9%
Gross margin	60.1%	58.5%	1.6%	2.7%
Same-store gross margin	60.0%	58.7%	1.3%	2.2%

**Revenues**

Service and parts revenue increased \$29.4 million, or 8.1%, from 2012 to 2013 including a 12.0% increase in the U.S. and a 1.3% decrease internationally. The international decrease is primarily attributable to the deconsolidation of our investment in Italian joint ventures during the first quarter of 2013, which had \$2.7 million of service and parts revenue during the three months ended June 30, 2012. The increase is due to a \$23.7 million, or 6.6%, increase in same-store revenues during the period, coupled with a \$5.7 million increase from net dealership acquisitions. The increase in same-store revenue is due to a \$9.9 million, or 3.8%, increase in customer pay revenue, an \$11.3 million, or 15.6%, increase in warranty revenue, a \$2.1 million, or 9.4%, increase in body shop revenue, and a \$0.5 million, or 9.0%, increase in vehicle preparation revenue. We believe that our parts and service business is being positively impacted by increasing units in operation due to increasing new vehicle sales in recent years.

**Gross Profit**

Service and parts gross profit increased \$23.2 million, or 10.9%, from 2012 to 2013 including a 13.7% increase in the U.S. and a 4.1% increase in internationally. The increase is due to an \$18.8 million, or 8.9%, increase in same-store gross profit during the period, coupled with a \$4.4 million increase from net dealership acquisitions. The same-store gross profit increase is due to the \$23.7 million, or 6.6%, increase in same-store revenues, which increased gross profit by \$14.2 million, coupled with a 2.7% increase in gross margin, which increased gross profit by \$4.6 million. The same-store gross profit increase is composed of a \$7.4 million, or 20.1%, increase in warranty gross profit, a \$5.5 million, or 16.9%, increase in vehicle preparation gross profit, a \$4.5 million, or 3.6%, increase in customer pay gross profit, and a \$1.3 million, or 9.6%, increase in body shop gross profit.

**Selling, General and Administrative**

Dollars in millions			2013 vs. 2012	
	2013	2012	Change	% Change
Personnel expense	\$ 243.8	\$ 221.1	\$ 22.7	10.3%
Advertising expense	\$ 21.4	\$ 22.5	\$ (1.1)	(4.9)%
Rent & related expense	\$ 63.5	\$ 61.7	\$ 1.8	2.9%
Other expense	\$ 111.6	\$ 95.3	\$ 16.3	17.1%
Total SG&A expenses	\$ 440.3	\$ 400.6	\$ 39.7	9.9%

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Same-store SG&A expenses	\$	422.8	\$	396.4	\$	26.4	6.7%
Personnel expense as % of gross profit		42.8%		43.8%		(100) bps	(2.3)%
Advertising expense as % of gross profit		3.8%		4.5%		(70) bps	(15.6)%
Rent & related expense as % of gross profit		11.2%		12.2%		(100) bps	(8.2)%
Other expense as % of gross profit		19.6%		18.9%		70 bps	3.7%
Total SG&A expenses as % of gross profit		77.4%		79.3%		(190) bps	(2.4)%
Same-store SG&A expenses as % of gross profit		77.4%		79.1%		(170) bps	(2.2)%

Selling, general and administrative expenses ( SG&A ) increased \$39.7 million, or 9.9%, from \$400.6 million to \$440.3 million. The aggregate increase is due to a \$26.4 million, or 6.7%, increase in same-store SG&A, coupled with a \$13.3 million increase from net dealership acquisitions. SG&A as a percentage of gross profit was 77.4%, an improvement of 190 basis points compared to 79.3% in the prior year. The increase in same-store SG&A is due primarily to a net increase in variable personnel expenses, as a result of an 8.9% increase in same-store retail gross profit versus the prior year.

Table of Contents**Floor Plan Interest Expense**

Floor plan interest expense, including the impact of swap transactions, increased \$1.1 million, or 10.7%, from \$9.8 million to \$10.9 million. This increase is due primarily to a \$0.9 million, or 9.6%, increase in same-store floor plan interest expense and a \$0.2 million increase from net dealership acquisitions. The same-store increase is due primarily to increased amounts outstanding under floor plan arrangements.

**Other Interest Expense**

Other interest expense increased \$0.6 million, or 5.1%, from \$11.5 million to \$12.1 million. The increase is primarily attributable to an increased level of borrowing in 2013 relating to the issuance of our \$550.0 million 5.75% senior subordinated notes in August 2012. We used the proceeds of these notes to repurchase our \$375.0 million 7.75% senior subordinated notes. The overall increase in other interest expense was offset in part by the 200 basis point reduction in the interest rate.

**Equity in Earnings of Affiliates**

Equity in earnings of affiliates increased \$0.7 million, or 8.5%, from \$8.2 million to \$8.9 million. The increase is primarily attributable to an increase in equity in earnings from our investments in foreign automotive retail joint ventures.

**Income Taxes**

Income taxes increased \$8.1 million, or 29.8%, from \$27.1 million to \$35.2 million. The increase is due primarily to an increase in our pre-tax income versus the prior year.

***Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012*****New Vehicle Data**

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
New retail unit sales	97,270	87,914	9,356	10.6%
Same-store new retail unit sales	94,120	86,746	7,374	8.5%
New retail sales revenue	\$ 3,678.8	\$ 3,261.8	417.0	12.8%

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Same-store new retail sales revenue	\$	3,566.0	\$	3,220.9	345.1	10.7%
New retail sales revenue per unit	\$	37,821	\$	37,102	719	1.9%
Same-store new retail sales revenue per unit	\$	37,888	\$	37,130	758	2.0%
Gross profit new	\$	279.8	\$	267.3	12.5	4.7%
Same-store gross profit new	\$	271.9	\$	264.2	7.7	2.9%
Average gross profit per new vehicle retailed	\$	2,877	\$	3,040	(163)	(5.4)%
Same-store average gross profit per new vehicle retailed	\$	2,889	\$	3,046	(157)	(5.2)%
Gross margin % new		7.6%		8.2%	(0.6)%	(7.3)%
Same-store gross margin % new		7.6%		8.2%	(0.6)%	(7.3)%

*Units*

Retail unit sales of new vehicles increased 9,356 units, or 10.6%, from 2012 to 2013, including an 11.5% increase in the U.S. and an 8.6% increase internationally. The increase is due to a 7,374 unit, or 8.5%, increase in same-store retail unit sales during the period, coupled with a 1,982 unit increase from net dealership acquisitions. Same-store units increased 8.8% in the U.S. and 7.8% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. The overall same-store increase was driven by an 11.0% increase in premium/luxury brands, a 6.8% increase in volume foreign brands and a 4.0% increase in domestic brands. Overall, we believe our premium, volume foreign, and domestic brands are being positively impacted by improved market conditions including increased credit availability, pent-up demand, and the introduction of new models.

*Revenues*

New vehicle retail sales revenue increased \$417.0 million, or 12.8%, from 2012 to 2013. The increase is due to a \$345.1 million, or 10.7%, increase in same-store revenues, coupled with a \$71.9 million increase from net dealership acquisitions. Same-store retail revenue increased 12.5% in the U.S. and 7.2% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. The overall same-store revenue increase is due primarily to the 8.5% increase in retail unit sales, which increased revenue by \$279.4 million, coupled with a \$758, or 2.0%, increase in average selling prices per unit, which increased revenue by \$65.7 million.

Table of Contents**Gross Profit**

Retail gross profit from new vehicle sales increased \$12.5 million, or 4.7%, from 2012 to 2013. The increase is due to a \$7.7 million, or 2.9%, increase in same-store gross profit, coupled with a \$4.8 million increase from net dealership acquisitions. The same-store increase is due primarily to the 8.5% increase in retail unit sales, which increased gross profit by \$21.3 million, somewhat offset by a \$157, or 5.2%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by \$13.6 million. During the six months ended June 30, 2013 and 2012, we earned \$222.9 million and \$209.2 million, respectively, of rebates, incentives and reimbursements from manufactures, which were recorded as a reduction of cost of sales. This \$13.7 million increase in incentives also contributed to the increase in new vehicle gross profit.

**Used Vehicle Data**

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
Used retail unit sales	82,429	72,519	9,910	13.7%
Same-store used retail unit sales	79,304	71,778	7,526	10.5%
Used retail sales revenue	\$ 2,084.3	\$ 1,872.3	212.0	11.3%
Same-store used retail sales revenue	\$ 2,020.9	\$ 1,860.1	160.8	8.6%
Used retail sales revenue per unit	\$ 25,286	\$ 25,818	(532)	(2.1)%
Same-store used retail sales revenue per unit	\$ 25,483	\$ 25,915	(432)	(1.7)%
Gross profit used	\$ 160.2	\$ 148.5	11.7	7.9%
Same-store gross profit used	\$ 155.2	\$ 147.7	7.5	5.1%
Average gross profit per used vehicle retailed	\$ 1,943	\$ 2,048	(105)	(5.1)%
Same-store average gross profit per used vehicle retailed	\$ 1,957	\$ 2,058	(101)	(4.9)%
Gross margin % used	7.7%	7.9%	(0.2)%	(2.5)%
Same-store gross margin % used	7.7%	7.9%	(0.2)%	(2.5)%

**Units**

Retail unit sales of used vehicles increased 9,910 units, or 13.7%, from 2012 to 2013 including a 15.9% increase in the U.S. and a 9.4% increase internationally. The increase is due to a 7,526 unit, or 10.5%, increase in same-store retail unit sales, coupled with a 2,384 unit increase from net dealership acquisitions. Same-store units increased 12.4% in the U.S. and 6.9% internationally. The overall same-store increase was driven by an 8.6% increase in premium/luxury brands, a 14.2% increase in volume foreign brands, and a 6.9% increase in domestic brands. We believe that overall our same-store used vehicle sales are being positively impacted by improved market conditions including increased credit availability, pent-up demand, an increase in trade-in units due to an increase in new unit sales, and our focus on retailing trade-ins and minimizing wholesaled vehicles.

**Revenues**

Used vehicle retail sales revenue increased \$212.0 million, or 11.3%, from 2012 to 2013. The increase is due to a \$160.8 million, or 8.6%, increase in same-store revenues, coupled with a \$51.2 million increase from net dealership acquisitions. Same-store retail revenue increased

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13.4% in the U.S. and 3.1% internationally. The overall same-store revenue increase is due to the 10.5% increase in same-store retail unit sales, which increased revenue by \$191.8 million, somewhat offset by a \$101, or 4.9%, decrease in comparative average selling prices per unit, which decreased revenue by \$31.0 million.

### *Gross Profit*

Retail gross profit from used vehicle sales increased \$11.7 million, or 7.9%, from 2012 to 2013. The increase is due to a \$7.5 million, or 5.1%, increase in same-store gross profit, coupled with a \$4.2 million increase from net dealership acquisitions. The increase in same-store gross profit is due to the 10.5% increase in used retail unit sales, which increased gross profit by \$14.7 million, somewhat offset by a \$101, or 4.9%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by \$7.2 million.

### **Finance and Insurance Data**

Dollars in millions, except per unit amounts	2013 vs. 2012				
	2013	2012	Change	% Change	
Finance and insurance revenue	\$ 182.6	\$ 159.2	\$ 23.4	14.7%	
Same store finance and insurance revenue	\$ 178.4	\$ 157.9	\$ 20.5	13.0%	
Finance and insurance revenue per unit	\$ 1,016	\$ 993	\$ 23	2.3%	
Same store finance and insurance revenue per unit	\$ 1,029	\$ 996	\$ 33	3.3%	

Finance and insurance revenue increased \$23.4 million, or 14.7%, from 2012 to 2013. The increase is due to a \$20.5 million, or 13.0%, increase in same-store revenue during the period, coupled with a \$2.9 million increase from net dealership acquisitions. The same-store revenue increase is due to a 9.4% increase in same-store retail unit sales, which increased revenue by \$15.3 million, coupled with a \$33, or 3.3%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$5.2 million. Finance and insurance revenue per unit was up 7.9% to \$985 per unit in the U.S. and down 6.9% to \$1,086 per unit internationally. We believe the increases in the U.S. are due to our efforts to increase finance and insurance revenue, which include

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adding resources to drive additional training, product penetration and targeting underperforming locations. We believe the decreases in international are due to increased use of subvented rate customer financing by captive lenders in the U.K., which results in lower finance commissions.

**Service and Parts Data**

Dollars in millions, except per unit amounts			2013 vs. 2012	
	2013	2012	Change	% Change
Service and parts revenue	\$ 776.9	\$ 723.3	53.6	7.4%
Same-store service and parts revenue	\$ 750.5	\$ 716.5	34.0	4.7%
Gross profit	\$ 459.7	\$ 420.3	39.4	9.4%
Same-store gross profit	\$ 444.6	\$ 417.0	27.6	6.6%
Gross margin	59.2%	58.1%	1.1%	1.9%
Same-store gross margin	59.2%	58.2%	1.0%	1.7%

**Revenues**

Service and parts revenue increased \$53.6 million, or 7.4%, from 2012 to 2013 including a 10.5% increase in the U.S. and a 0.1% increase internationally. The increase is due to a \$34.0 million, or 4.7%, increase in same-store revenues during the period, coupled with a \$19.6 million increase from net dealership acquisitions. The increase in same-store revenue is due to a \$15.6 million, or 10.6%, increase in warranty revenue, a \$15.1 million, or 2.9%, increase in customer pay revenue, a \$2.7 million, or 6.0%, increase in body shop revenue, and a \$0.6 million, or 6.0%, increase in vehicle preparation revenue. We believe that our parts and service business is being positively impacted by increasing units in operation due to increasing new vehicle sales in recent years.

**Gross Profit**

Service and parts gross profit increased \$39.4 million, or 9.4%, from 2012 to 2013 including a 12.1% increase in the U.S. and a 3.0% increase internationally. The increase is due to a \$27.6 million, or 6.6%, increase in same-store gross profit during the period, coupled with a \$11.8 million increase from net dealership acquisitions. The same-store gross profit increase is due to the \$34.0 million, or 4.7%, increase in same-store revenues, which increased gross profit by \$20.1 million, coupled with a 1.7% increase in gross margin, which increased gross profit by \$7.5 million. The same-store gross profit increase is composed of a \$10.6 million, or 14.2%, increase in warranty gross profit, an \$8.6 million, or 13.5%, increase in vehicle preparation gross profit, a \$6.5 million, or 2.6%, increase in customer pay gross profit, and a \$1.9 million, or 7.1%, increase in body shop gross profit.

**Selling, General and Administrative**

Dollars in millions			2013 vs. 2012	
	2013	2012	Change	% Change



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Personnel expense	\$	478.5	\$	437.1	\$	41.4	9.5%
Advertising expense	\$	40.4	\$	41.7	\$	(1.3)	(3.1)%
Rent & related expense	\$	126.8	\$	122.6	\$	4.2	3.4%
Other expense	\$	209.1	\$	187.2	\$	21.9	11.7%
Total SG&A expenses	\$	854.8	\$	788.6	\$	66.2	8.4%
Same-store SG&A expenses	\$	816.5	\$	778.8	\$	37.7	4.8%
Personnel expense as % of gross profit		43.4%		43.7%		(30) bps	(0.7)%
Advertising expense as % of gross profit		3.7%		4.2%		(50) bps	(11.9)%
Rent & related expense as % of gross profit		11.5%		12.3%		(80) bps	(6.5)%
Other expense as % of gross profit		19.0%		18.7%		30 bps	1.6%
Total SG&A expenses as % of gross profit		77.5%		78.9%		(140) bps	(1.8)%
Same-store SG&A expenses as % of gross profit		77.2%		78.6%		(140) bps	(1.8)%

Selling, general and administrative expenses ( SG&A ) increased \$66.2 million, or 8.4%, from \$788.6 million to \$854.8 million. The aggregate increase is due to a \$37.7 million, or 4.8%, increase in same-store SG&A, coupled with a \$28.5 million increase from net dealership acquisitions. SG&A as a percentage of gross profit was 77.5%, an improvement of 140 basis points compared to 78.9% in the prior year. The increase in same-store SG&A is due primarily to a net increase in variable personnel expenses, as a result of a 6.4% increase in same-store retail gross profit versus the prior year.

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**Floor Plan Interest Expense**

Floor plan interest expense, including the impact of swap transactions, increased \$1.8 million, or 9.3%, from \$19.4 million to \$21.2 million. This increase is due primarily to a \$1.5 million, or 7.9%, increase in same-store floor plan interest expense and a \$0.3 million increase from net dealership acquisitions. The same-store increase is due primarily to increased amounts outstanding under floor plan arrangements.

**Other Interest Expense**

Other interest expense increased \$0.2 million, or 0.9%, from \$23.6 million to \$23.8 million. The increase is primarily attributable to an increased level of borrowing in 2013 relating to the issuance of our \$550.0 million 5.75% senior subordinated notes in August 2012. We used the proceeds of these notes to repurchase our \$375.0 million 7.75% senior subordinated notes. The overall increase in other interest expense was offset in part by the 200 basis point reduction in the interest rate.

**Equity in Earnings of Affiliates**

Equity in earnings of affiliates decreased \$1.4 million or 10.6%, from \$12.6 million to \$11.2 million. The decrease is primarily attributable to a decrease in equity in earnings from our investment in PTL.

**Income Taxes**

Income taxes increased \$9.7 million, or 17.9%, from \$53.9 million to \$63.6 million. The increase is due primarily to an increase in our pre-tax income versus the prior year.

**Liquidity and Capital Resources**

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new businesses, the improvement and expansion of existing facilities, the purchase or construction of new facilities, debt service and repayments, dividends, and potentially repurchases of our outstanding securities under the program discussed below. Historically, these cash requirements have been met through cash flow from operations, borrowings under our credit agreements and floor plan arrangements, the issuance of debt securities, sale-leaseback transactions, mortgages, dividends and distributions from joint venture investments or the issuance of equity securities.

We have historically expanded our retail automotive operations through organic growth and the acquisition of retail automotive dealerships. We believe that cash flow from operations, dividends and distributions from our joint venture investments and our existing capital resources, including the liquidity provided by our credit agreements and floor plan financing arrangements, will be sufficient to fund our operations and commitments for at least the next twelve months, including the acquisition of Western Star Trucks Australia. In the event we pursue significant other acquisitions, other expansion opportunities, significant repurchases of our outstanding securities; or refinance or repay existing debt, we may need to raise additional capital either through the public or private issuance of equity or debt securities or through additional borrowings, which sources of funds may not necessarily be available on terms acceptable to us, if at all. In addition, our liquidity could be negatively impacted in the event we fail to comply with the covenants under our various financing and operating agreements or in the event our floor plan financing is withdrawn.

As of June 30, 2013, we had \$353.0 million and £110.0 million (\$167.3 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively.

### *Securities Repurchases*

From time to time, our Board of Directors has authorized securities repurchase programs pursuant to which we may, as market conditions warrant, purchase our outstanding common stock or debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. We have historically funded any such repurchases using cash flow from operations, borrowings under our U.S. credit facility, and borrowings under our U.S. floor plan arrangements. The decision to make repurchases will be based on factors such as the market price of the relevant security versus our view of its intrinsic value, the potential impact of such repurchases on our capital structure, and our consideration of any alternative uses of our capital, such as acquisitions and strategic investments in our current businesses, in addition to any then-existing limits imposed by our finance agreements and securities trading policy.

During the six months ended June 30, 2013, we repurchased 410,000 shares of our outstanding common stock on the open market for a total of \$12.7 million, or an average of \$30.93 per share, under a program approved by our Board of Directors. We have \$85.6 million in authorization under the existing securities repurchase program. During the second quarter of 2013, we acquired 97,561 shares of our common stock for \$3.1 million, or an average of \$32.11, from employees in connection with a net share settlement feature of employee restricted stock awards.

Table of Contents***Dividends***

We paid the following cash dividends on our common stock in 2012 and 2013:

**Per Share Dividends**

<b><u>2012</u></b>		
First Quarter	\$	0.10
Second Quarter		0.11
Third Quarter		0.12
Fourth Quarter		0.13
<b><u>2013</u></b>		
First Quarter	\$	0.14
Second Quarter		0.15

We also have announced a cash dividend of \$0.16 per share payable on September 3, 2013 to shareholders of record on August 12, 2013. Future quarterly or other cash dividends will depend upon a variety of factors considered relevant by our Board of Directors which may include our earnings, capital requirements, restrictions relating to any then-existing indebtedness, financial condition, and other factors.

***Vehicle Financing***

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan arrangements with various lenders, including a majority through captive finance companies associated with automotive manufacturers. In the U.S., the floor plan arrangements are due on demand; however, we have not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. We typically make monthly interest payments on the amount financed. Outside of the U.S., substantially all of our floor plan arrangements are payable on demand or have an original maturity of 90 days or less, and we are generally required to repay floor plan advances at the earlier of the sale of the vehicles that have been financed or the stated maturity.

The floor plan agreements typically grant a security interest in substantially all of the assets of our dealership subsidiaries, and in the U.S. are guaranteed by us. Interest rates under the floor plan arrangements are variable and increase or decrease based on changes in the prime rate, defined LIBOR, Finance House Base Rate, or Euro Interbank Offered Rate. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing. We also receive non-refundable credits from certain of our vehicle manufacturers, which are treated as a reduction of cost of sales as vehicles are sold.

***U.S. Credit Agreement***

We are party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to \$375.0 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, a non-amortizing term loan with a remaining balance of \$98.0 million, and for an additional \$10.0 million of availability for letters of credit, through September 2015. The revolving loans bear interest at a defined LIBOR plus 2.25%, subject to an incremental 1.25% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.25%, may be prepaid at any time, but then may not be re-borrowed.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of June 30, 2013, we were in compliance with all covenants under the U.S. Credit Agreement, and we believe we will remain in compliance with such covenants for the next twelve months. In making such determination, we considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments. See Forward Looking Statements below.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets are subject to security interests granted to lenders under the U.S. Credit Agreement. As of June 30, 2013, \$22.0 million of revolver borrowings, \$98.0 million of term loans and no letters of credit were outstanding under the U.S. Credit Agreement. We repaid \$12.0 million under the term loan during the six months ended June 30, 2013.

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***U.K. Credit Agreement***

Our subsidiaries in the U.K. (the U.K. subsidiaries ) are party to a £100.0 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10.0 million demand overdraft line of credit with RBS (collectively, the U.K. credit agreement ) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of June 30, 2013, no amounts were outstanding under the U.K. credit agreement.

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments ( EBITAR ) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of June 30, 2013, our U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement, and we believe they will remain in compliance with such covenants for the next twelve months. In making such determination, we considered the current margin of compliance with the covenants and our expected future results of operations, acquisitions, capital expenditures and investments in the U.K. See Forward Looking Statements below.

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of our U.K. subsidiaries' assets are subject to security interests granted to lenders under the U.K. credit agreement. In July 2013, we amended the U.K. credit agreement and U.K. term loan to provide the U.K. subsidiaries with covenant flexibility to fund the purchase of Western Star Trucks Australia (discussed above) and operate the subsidiaries to be acquired.

In January 2012, our U.K. subsidiaries entered into a separate agreement with RBS, as agent for National Westminster Bank plc, providing for a £30.0 million term loan which was used for working capital and an acquisition. The term loan is repayable in £1.5 million quarterly installments through 2015 with a final payment of £7.5 million due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries' ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined). As of June 30, 2013, the amount outstanding under the U.K. term loan was £21.0 million (\$31.9 million).

***5.75% Senior Subordinated Notes***

In August 2012, we issued \$550.0 million in aggregate principal amount of 5.75% Senior Subordinated Notes due 2022 (the 5.75% Notes ).

Interest on the 5.75% Notes is payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2013. The 5.75% Notes mature on October 1, 2022, unless earlier redeemed or purchased by us. The 5.75% Notes are our unsecured senior subordinated obligations and are guaranteed on an unsecured senior subordinated basis by our existing 100% owned domestic subsidiaries. The 5.75% Notes also contain

customary negative covenants and events of default. As of June 30, 2013, we were in compliance with all negative covenants, and there were no events of default.

On or after October 1, 2017, we may redeem the 5.75% Notes for cash at the redemption prices noted in the indenture, plus any accrued and unpaid interest. We may also redeem up to 40% of the 5.75% Notes using the proceeds of specified equity offerings at any time prior to October 1, 2015 at a price specified in the indenture.

If we experience certain change of control events specified in the indenture, holders of the 5.75% Notes will have the option to require us to purchase for cash all or a portion of their notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

#### ***Rental Car Revolver***

We are party to a credit agreement with Toyota Motor Credit Corporation that currently provides us with up to \$150.0 million in revolving loans for the acquisition of rental vehicles. The revolving loans bear interest at three-month LIBOR plus 2.50%. This agreement provides the lender with a secured interest in the vehicles and our rental car operations other assets, requires us to make monthly curtailment payments and expires in October 2014. As of June 30, 2013 outstanding loans under the rental car revolver amounted to \$105.3 million.

#### ***Mortgage Facilities***

We are party to several mortgages which bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain

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change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of June 30, 2013, we owed \$102.3 million of principal under our mortgage facilities.

***Short-term Borrowings***

We have three principal sources of short-term borrowings: the revolving portion of the U.S. credit agreement, the revolving portion of the U.K. credit agreement, and the floor plan agreements in place that we utilize to finance our vehicle inventories. Over time, we are able to access availability under the floor plan agreements to fund our cash needs, including payments made relating to our higher interest rate revolving credit agreements.

During the six months ended June 30, 2013, outstanding revolving commitments varied between \$10.0 million and \$124.0 million under the U.S. credit agreement and between £0 and £48.0 million (\$73.0 million) under the U.K. credit agreement's revolving credit line (excluding the overdraft facility), and the amounts outstanding under our floor plan agreements varied based on the timing of the receipt and expenditure of cash in our operations, driven principally by the levels of our vehicle inventories.

***Interest Rate Swaps***

We periodically use interest rate swaps to manage interest rate risk associated with our variable rate floor plan debt. We are party to interest rate swap agreements through December 2014 pursuant to which the LIBOR portion of \$300.0 million of our floating rate floor plan debt is fixed at 2.135% and \$100.0 million of our floating rate floor plan debt is fixed at 1.55%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements. During the three and six months ended June 30, 2013, the swaps increased the weighted average interest rate on our floor plan borrowing by 35 and 37 basis points, respectively.

***PTL Dividends***

We hold a 9.0% ownership interest in Penske Truck Leasing. During the six months ended June 30, 2013 and 2012, respectively, we received \$3.3 million and \$12.5 million of pro rata cash distributions relating to this investment. The decrease in dividends is due in part to PTL's change in policy to deliver quarterly in lieu of annual dividends. We currently expect to continue to receive future distributions from PTL quarterly, subject to its financial performance.

***Operating Leases***



We have historically structured our operations so as to minimize our ownership of real property. As a result, we lease or sublease a majority of our facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at our election. Pursuant to the leases for some of our larger facilities, we are required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require us to post collateral in the form of a letter of credit. A breach of our other lease covenants give rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease. As of June 30, 2013, we were in compliance with all covenants under these leases, and we believe we will remain in compliance with such covenants for the next twelve months.

#### ***Sale/Leaseback Arrangements***

We have in the past and may in the future enter into sale-leaseback transactions to finance certain property acquisitions and capital expenditures, pursuant to which we sell property and/or leasehold improvements to third parties and agree to lease those assets back for a certain period of time. Such sales generate proceeds which vary from period to period.

#### ***Off-Balance Sheet Arrangements***

We have sold a number of dealerships to third parties and, as a condition to certain of those sales, remain liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. We are also party to lease agreements on properties that we no longer use in our retail operations that we have sublet to third parties. We rely on subtenants to pay the rent and maintain the property at these locations. In the event a subtenant does not perform as expected, we may not be able to recover amounts owed to us and we could be required to fulfill these obligations. We believe we have made appropriate reserves relating to these locations.

We hold a 9.0% ownership interest in PTL. Historically General Electric Credit Corporation ( GECC ) has provided PTL with a majority of its financing. Since April 2012, PTL refinanced all of its GECC indebtedness. As part of that refinancing, we and the other PTL partners created a new company ( Holdings ), which, together with GECC, co-issued \$700.0 million of 3.8% senior unsecured notes due 2019 (the Holdings Bonds ). A wholly-owned subsidiary of Holdings contributed \$700.0 million derived from the net proceeds from the offering of the Holdings Bonds and a portion of its cash on hand to PTL in exchange for a 21.5% limited partner interest in PTL. PTL used the \$700.0 million of funds to reduce its outstanding debt owed to GECC. GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds.

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Additional capital contributions from the members may be required to fund interest and principal payments on the Holdings Bonds. In addition, we have agreed to indemnify GECC for 9.0% of any principal or interest that GECC is required to pay as co-obligor, and pay GECC an annual fee of approximately \$0.95 million for acting as co-obligor. The maximum amount of our potential obligations to GECC under this agreement are 9.0% of the required principal repayment due in 2019 (which is expected to be \$63.1 million) and 9.0% of interest payments under the Holdings Bonds, plus fees and default interest, if any. Although we do not currently expect to make material payments to GECC under this agreement, this outcome cannot be predicted with certainty.

In July 2013, we signed an agreement to acquire Western Star Trucks Australia, the exclusive importer and distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts for Australia and New Zealand. The purchase price of AU \$218.9 million (approximately \$200.0 million), which includes a targeted amount of AU \$73.3 million (approximately \$67.0 million) of working capital, is projected to be paid in the third quarter, subject to the completion of certain closing conditions. We expect to initially finance the acquisition using cash flow from operations and available cash resources, including revolving loan capacity under our U.S. and U.K. credit agreements. Subsequent to closing, we intend to employ floor plan financing in regards to the vehicle inventories to partially fund the cash needs of the business and repay a portion of the revolving acquisition financing.

**Cash Flows**

Cash and cash equivalents decreased by \$17.2 million and increased by \$9.0 million during the six months ended June 30, 2013 and 2012, respectively. The major components of these changes are discussed below.

***Cash Flows from Continuing Operating Activities***

Cash provided by continuing operating activities was \$175.6 million and \$202.0 million during the six months ended June 30, 2013 and 2012, respectively. Cash flows from continuing operating activities includes net income, as adjusted for non-cash items and the effects of changes in working capital.

We finance substantially all of our new and a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. We retain the right to select which, if any, financing source to utilize in connection with the procurement of vehicle inventories. Many vehicle manufacturers provide vehicle financing for the dealers representing their brands, however, it is not a requirement that we utilize this financing. Historically, our floor plan finance source has been based on aggregate pricing considerations.

In accordance with generally accepted accounting principles relating to the statement of cash flows, we report all cash flows arising in connection with floor plan notes payable with the manufacturer of a particular new vehicle as an operating activity in our statement of cash flows, and all cash flows arising in connection with floor plan notes payable to a party other than the manufacturer of a particular new vehicle and all floor plan notes payable relating to pre-owned vehicles as a financing activity in our statement of cash flows. Currently, the majority of our non-trade vehicle financing is with other manufacturer captive lenders. To date, we have not experienced any material limitation with respect to the amount or availability of financing from any institution providing us vehicle financing.

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We believe that changes in aggregate floor plan liabilities are typically linked to changes in vehicle inventory and, therefore, are an integral part of understanding changes in our working capital and operating cash flow. As a result, we prepare the following reconciliation to highlight our operating cash flows with all changes in vehicle floor plan being classified as an operating activity for informational purposes:

Dollars in millions	Six Months Ended June 30,			
	2013		2012	
Net cash from continuing operating activities as reported	\$	175.6	\$	193.8
Net borrowings (repayments) of floor plan notes payable non-trade as reported		33.5		35.2
Net cash from continuing operating activities including all floor plan notes payable	\$	209.1	\$	229.0

### *Cash Flows from Continuing Investing Activities*

Cash used in continuing investing activities was \$184.0 million and \$172.5 million during the six months ended June 30, 2013 and 2012, respectively. Cash flows from continuing investing activities consist primarily of cash used for capital expenditures and net expenditures for acquisitions and other investments. Capital expenditures were \$143.6 million, including \$76.5 million of capital expenditures relating to vehicle purchases for our Hertz rental car business, and \$57.3 million during the six months ended June 30, 2013 and 2012, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities, the construction of new facilities, the acquisition of the property or buildings associated with existing leased facilities and vehicle purchases for our Hertz rental car business. We currently expect to finance our retail automotive segment capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit facilities and our rental car revolver for Hertz capital expenditures. Cash used in acquisitions and other investments, net of cash acquired, was \$30.7 million and \$111.5 million during the six months ended June 30, 2013 and 2012, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of \$1.8 and \$37.8 million, respectively. Additionally, cash used in other investing activities were \$9.7 million and \$3.7 million during the six months ended June 30, 2013 and 2012, respectively.

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***Cash Flows from Continuing Financing Activities***

Cash used in continuing financing activities was \$19.5 million and \$37.7 million during the six months ended June 30, 2013 and 2012, respectively. Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, issuance and repurchases of long-term debt, repurchases of common stock, net borrowings or repayments of floor plan notes payable non-trade, and dividends. We had net repayments of long-term debt of \$11.2 million and \$6.4 million during the six months ended June 30, 2013 and 2012, respectively. We had net borrowings of floor plan notes payable non-trade of \$33.5 million and \$35.2 million during the six months ended June 30, 2013 and 2012, respectively. We repurchased common stock for a total of \$15.8 million and \$9.8 million during the six months ended June 30, 2013 and 2012, respectively. We also paid cash dividends to our stockholders of \$26.2 million and \$18.9 million during the six months ended June 30, 2013 and 2012, respectively.

***Cash Flows from Discontinued Operations***

Cash flows relating to discontinued operations are not currently considered, nor are they expected to be, material to our liquidity or our capital resources. Management does not believe that there are any material past, present or upcoming cash transactions relating to discontinued operations.

**Related Party Transactions**

***Stockholders Agreement***

Several of our directors and officers are affiliated with Penske Corporation or related entities. Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 35% of our outstanding common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui ) own approximately 17% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for up to two directors who are representatives of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2024, upon the mutual consent of the parties, or when either party no longer owns any of our common stock.

***Other Related Party Interests and Transactions***

Roger S. Penske is also a managing member of Transportation Resource Partners, an organization that invests in transportation-related industries. Richard J. Peters, one of our directors, is a managing director of Transportation Resource Partners and is a director of Penske Corporation. Robert H. Kurnick, Jr., our President and a director, is also the President and a director of Penske Corporation. Yoshimi Namba, one of our directors and officers, is also an employee of Mitsui & Co.

In June 2013, we acquired a 27% interest in Around-The Clock Freightliner ( ATC ), a retailer of Daimler branded medium, heavy and light-duty trucks in Texas and Oklahoma for \$15.9 million. Transportation Resource Partners simultaneously acquired a controlling interest in this company on the same financial terms as our investment. We and several other investors, including Transportation Resource Partners, have entered into a limited liability company agreement relating to this investment which, among other things, provides us with specified management rights, including the right to appoint one of six directors, and rights to purchase additional shares, and restricts our ability to transfer shares. We are also entitled to a management fee with respect to our ongoing advisory services provided to ATC.

We sometimes pay to and/or receive fees from Penske Corporation, its subsidiaries, and its affiliates for services rendered in the ordinary course of business, or to reimburse payments made to third parties on each other's behalf. These transactions are reviewed periodically by our Audit Committee and reflect the provider's cost or an amount mutually agreed upon by both parties.

As discussed above, we hold a 9.0% ownership interest in PTL, a leading provider of transportation services and supply chain management. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by GECC. Among other things, the relevant agreements provide us with specified distribution and governance rights and restrict our ability to transfer our interests.

We have also entered into other joint ventures with certain related parties as more fully discussed below.

#### **Joint Venture Relationships**

We are party to a number of joint ventures pursuant to which we own and operate automotive dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of June 30, 2013, our automotive retail joint venture relationships included:

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<b>Location</b>	<b>Dealerships</b>	<b>Ownership Interest</b>
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	83.57% (A) (B)
Las Vegas, Nevada	Ferrari, Maserati	50.00% (C)
Frankfurt, Germany	Lexus, Toyota	50.00% (C)
Aachen, Germany	Audi, Lexus, Skoda, Toyota, Volkswagen, Citroën	50.00% (C)
Monza, Italy	BMW, Mini	35.00% (C) (D)

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor ), owns a 16.43% interest in this joint venture which entitles the Investor to 20% of the joint venture's operating profits. In addition, the Investor has an option to purchase up to a total 20% interest in the joint venture for specified amounts. This joint venture is consolidated in our financial statements.

(B) Entity is consolidated in our financial statements.

(C) Entity is accounted for using the equity method of accounting.

(D) During the six months ended June 30, 2013, we sold 50% of our interest in the Italian joint venture. As a result of this sale, we deconsolidated the Italian joint venture.

**Cyclicality**

Unit sales of motor vehicles, particularly new vehicles, have been cyclical historically, fluctuating with general economic cycles. During economic downturns, the automotive retailing industry tends to experience periods of decline and recession similar to those experienced by the general economy. We believe that the industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, fuel prices, interest rates and credit availability.

**Seasonality**

Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third quarters of each year due in part to consumer buying trends. Also, vehicle demand, and to a lesser extent demand for service and parts, is generally lower during the winter months than in other seasons, particularly in regions of the U.S. where dealerships may be subject to severe winters. Our U.K. operations generally experience higher volumes of vehicle sales in the first and third quarters of each year, due primarily to vehicle registration practices in the U.K.

**Effects of Inflation**

We believe that inflation rates over the last few years have not had a significant impact on revenues or profitability. We do not expect inflation to have any near-term material effects on the sale of our products and services; however, we cannot be sure there will be no such effect in the future. We finance substantially all of our inventory through various revolving floor plan arrangements with interest rates that vary based on various benchmarks. Such rates have historically increased during periods of increasing inflation.

### Forward Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. Forward-looking statements generally can be identified by the use of terms such as may, will, should, expect, anticipate, believe, intend, plan, estimate, predict, potential, forecast, continu, terms, or the use of these terms in the negative. Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

- our future financial and operating performance;
- future acquisitions and dispositions, including the planned acquisition of Western Star Trucks Australia;
- future potential capital expenditures and securities repurchases;
- our ability to realize cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy in the various countries in which we operate;
- our ability to access the remaining availability under our credit agreements;

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- our liquidity;
- performance of joint ventures, including PTL;
- future foreign exchange rates;
- the outcome of various legal proceedings;
- results of self insurance plans;
- trends affecting our future financial condition or results of operations; and
- our business strategy.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in our 2012 annual report on Form 10-K filed February 28, 2013. Important factors that could cause actual results to differ materially from our expectations include the following:

- our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in interest rates, foreign exchange rates, consumer demand, consumer confidence, fuel prices, unemployment rates and credit availability;
- the number of new and used vehicles sold in our markets;
- automobile manufacturers exercise significant control over our operations, and we depend on them and continuation of our franchise agreements in order to operate our business;



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- we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more automobile manufacturers, including the adverse impact on the vehicle and parts supply chain due to natural disasters or other disruptions that interrupt the supply of vehicles and parts to us, may negatively impact our revenues and profitability;
- a restructuring of any significant automotive manufacturers or automotive suppliers;
- our dealership operations may be affected by severe weather or other periodic business interruptions;
- we have substantial risk of loss not covered by insurance;
- we may not be able to satisfy our capital requirements for acquisitions, dealership renovation projects, financing the purchase of our inventory, or refinancing of our debt when it becomes due;
- with respect to the planned acquisition of Western Star Trucks Australia, all of the conditions to closing may not occur or we may otherwise terminate that agreement;
- our level of indebtedness may limit our ability to obtain financing generally and may require that a significant portion of our cash flow be used for debt service;
- higher interest rates may significantly increase our variable rate interest costs and, because many customers finance their vehicle purchases, decrease vehicle sales;
- non-compliance with the financial ratios and other covenants under our credit agreements and operating leases;
- our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency valuations;
- import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;
- with respect to PTL, changes in the financial health of its customers, labor strikes or work stoppages by its employees, a reduction in PTL's asset utilization rates and industry competition which could impact distributions to us;

- we are dependent on continued availability of our information technology systems;
- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel;

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- new or enhanced regulations relating to automobile dealerships including those that may be issued by the Consumer Finance Protection Bureau restricting automotive financing;
- changes in tax, financial or regulatory rules or requirements;
- we are subject to numerous legal and administrative proceedings which, if the outcomes are adverse to us, could have a material adverse effect on our business;
- if state dealer laws in the U.S. are repealed or weakened, our automotive dealerships may be subject to increased competition and may be more susceptible to termination, non-renewal or renegotiation of their franchise agreements; and
- some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests.

In addition:

- the price of our common stock is subject to substantial fluctuation, which may be unrelated to our performance; and
- shares eligible for future sale, or issuable under the terms of our convertible notes, may cause the market price of our common stock to drop significantly, even if our business is doing well.

We urge you to carefully consider these risk factors in evaluating all forward-looking statements regarding our business. Readers of this report are cautioned not to place undue reliance on the forward-looking statements contained in this report. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Except to the extent required by federal securities laws and the Securities and Exchange Commission's rules and regulations, we have no intention or obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

*Interest Rates.* We are exposed to market risk from changes in interest rates on a significant portion of our outstanding debt. Outstanding revolving balances under our credit agreements bear interest at variable rates based on a margin over defined LIBOR or the Bank of England Base Rate. Based on the amount outstanding under these facilities as of June 30, 2013, a 100 basis point change in interest rates would result in an approximate \$1.2 million change to our annual other interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over the prime rate, defined LIBOR, the Finance House Base Rate, or the Euro Interbank Offered Rate. In 2011, we entered into forward-starting interest rate swap agreements beginning January 2012 and maturing December 2014 pursuant to which the LIBOR portion of \$300 million of our floating rate floor plan debt is fixed at a rate of 2.135% and \$100 million of our floating rate floor plan debt is fixed at a rate of 1.55%. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the trailing twelve months ended June 30, 2013, including consideration of the notional value of the swap agreements, a 100 basis point change in interest rates would result in an approximate \$16.3 million change to our annual floor plan interest expense.

We evaluate our exposure to interest rate fluctuations and follow established policies and procedures to implement strategies designed to manage the amount of variable rate indebtedness outstanding at any point in time in an effort to mitigate the effect of interest rate fluctuations on our earnings and cash flows. These policies include:

- the maintenance of our overall debt portfolio with targeted fixed and variable rate components;
- the use of authorized derivative instruments;
- the prohibition of using derivatives for trading or other speculative purposes; and
- the prohibition of highly leveraged derivatives or derivatives which we are unable to reliably value, or for which we are unable to obtain a market quotation.

Interest rate fluctuations affect the fair market value of our fixed rate debt, including our swaps, mortgages, and certain seller financed promissory notes, but, with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

*Foreign Currency Exchange Rates.* As of June 30, 2013, we had dealership operations in the U.K., Germany and Italy. In each of these markets, the local currency is the functional currency. We do not hedge against foreign currency fluctuations. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate \$252.2 million change to our revenues for the six months ended June 30, 2013.

In common with other automotive retailers, we purchase certain of our new vehicle and parts inventories from foreign manufacturers.

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Although we purchase the majority of our inventories in the local functional currency, our business is subject to certain risks, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility which may influence such manufacturers' ability to provide their products at competitive prices in the local jurisdictions. Our future results could be materially and adversely impacted by changes in these or other factors.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of our management, including the principal executive and financial officers, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our principal executive and financial officers, to allow timely discussions regarding required disclosure.

Based upon this evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, we maintain internal controls designed to provide us with the information required for accounting and financial reporting purposes. There were no changes in our internal control over financial reporting that occurred during the most recent quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are involved in litigation which may relate to claims brought by governmental authorities, customers, vendors, or employees, including class action claims and purported class action claims. We are not a party to any legal proceedings, including class action lawsuits, that individually or in the aggregate, are reasonably expected to have a material adverse effect on us. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In February 2010, our Board of Directors authorized the repurchase of up to \$150.0 million of our outstanding common stock, debt or convertible debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. The program has an indefinite duration. During the second quarter of 2013, we did not repurchase any common stock under this program. As of June 30, 2013, our remaining authorization under the program was \$85.6 million.

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During the second quarter of 2013, we acquired 97,561 shares of our common stock for \$3.1 million from employees in connection with vesting of employee restricted stock awards.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>
April 1 to April 30, 2013		\$	
May 1 to May 31, 2013		\$	
June 1 to June 30, 2013	97,561	\$ 32.11	
	97,561	\$ 32.11	

### **Item 5. Other Information**

On July 30, 2013, our two largest stockholders renewed their existing stockholders agreement with certain changes. The revised stockholders agreement (the Revised Stockholders Agreement ) between Penske Corporation and its wholly owned subsidiary, Penske Automotive Holdings Corp (together with Penske Corporation, Penske ) and Mitsui & Co. Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui ) has been extended an additional ten years.

The Revised Stockholders Agreement is substantially the same as the existing agreement except that it terminates on March 26, 2024 and requires that Penske vote all of the shares of our common stock beneficially owned by Penske in favor of (i) one representative of Mitsui for election as a director of PAG as long as Mitsui beneficially owns 10% or more (but less than 20%) of our common stock, and (ii) two representatives of Mitsui for

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election as directors of PAG as long as Mitsui beneficially owns 20% or more of our common stock. The provisions requiring that Mitsui vote all of the shares of common stock they beneficially own in favor of up to 14 persons voted for by Penske for election as directors of PAG and that, in the event Penske desires to transfer equity securities in PAG to a third party during the term of the Revised Stockholders Agreement (other than one or more transfers not exceeding the 1,992,408 shares in the aggregate), Penske must permit Mitsui to participate in such transfer on a pro rata basis, each remain unchanged. See Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operation Related Party Transactions for additional information concerning our relationships with Penske and Mitsui.

**Item 6. Exhibits**

4.1	Consent and Amendment Letter – Amendment No. 2 dated July 26, 2013 to U.K. Credit Agreement (incorporated by reference to exhibit 4.1 to our July 29, 2013 Form 8-K).
10.1	Amended and Restated Limited Liability Company Agreement of ATC Holdco, LLC dated June 10, 2013 by and among TRP III (ATC) I, LP, TRP (ATC) II, LP, PAG Investments, LLC, and other investors.
10.2	Stockholders Agreement by and among Mitsui & Co., Ltd., Mitsui & Co. (U.S.A.), Inc., Penske Corporation and Penske Automotive Holdings Corp. dated as of July 30, 2013 (incorporated by reference to exhibit 46 to Amendment No. 26 to Schedule 13D filed on July 30, 2013).
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification.
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification.
32	Section 1350 Certification.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PENSKE AUTOMOTIVE GROUP, INC.

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Date: August 1, 2013

By: /s/ Roger S. Penske  
Roger S. Penske  
*Chief Executive Officer*

Date: August 1, 2013

By: /s/ David K. Jones  
David K. Jones  
*Chief Financial Officer*



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**EXHIBIT INDEX**

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase.