

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-Q

October 30, 2013

[Table of Contents](#)

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 September 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 October 22, 2013, there were 90,199,990 shares of voting common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets as of September 30, 2013 and December 31, 2012</u>	3
<u>Consolidated Condensed Statements of Income for the three and nine months ended September 30, 2013 and 2012</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2013 and 2012</u>	6
<u>Consolidated Condensed Statement of Equity for the nine months ended September 30, 2013</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 4. Controls and Procedures</u>	44
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	45
<u>Item 1A. Risk Factors</u>	45
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 6. Exhibits</u>	46

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2013	December 31, 2012
	(Unaudited) (In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 71,101	\$ 43,447
Accounts receivable, net of allowance for doubtful accounts of \$3,330 and \$2,979	588,311	554,851
Inventories	2,293,390	2,000,206
Other current assets	83,508	90,485
Assets held for sale	1,065	71,107
Total current assets	3,037,375	2,760,096
Property and equipment, net	1,211,020	1,031,188
Goodwill	1,118,369	980,438
Franchise value	283,128	283,152
Equity method investments	333,081	303,160
Other long-term assets	27,831	20,956
Total assets	\$ 6,010,804	\$ 5,378,990
LIABILITIES AND EQUITY		
Floor plan notes payable	\$ 1,537,185	\$ 1,408,362
Floor plan notes payable non-trade	802,051	725,526
Accounts payable	380,000	263,881
Accrued expenses	275,483	223,972
Current portion of long-term debt	46,894	19,493
Liabilities held for sale	2,592	51,279
Total current liabilities	3,044,205	2,692,513
Long-term debt	1,014,070	918,024
Deferred tax liabilities	338,430	287,818
Other long-term liabilities	156,708	164,314
Total liabilities	4,553,413	4,062,669
Commitments and contingent liabilities		
Equity		
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; 90,200 shares issued and outstanding at September 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	691,886	700,013
Retained earnings	755,344	611,026
Accumulated other comprehensive income (loss)	(3,054)	(6,833)

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Total Penske Automotive Group stockholders' equity	1,444,185	1,304,215
Non-controlling interest	13,206	12,106
Total equity	1,457,391	1,316,321
Total liabilities and equity	\$ 6,010,804	\$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In thousands, except per share amounts)			
Revenue:				
New vehicle	\$ 1,995,836	\$ 1,736,131	\$ 5,674,658	\$ 4,997,923
Used vehicle	1,098,484	969,130	3,182,822	2,841,403
Finance and insurance, net	99,758	83,650	282,353	242,892
Service and parts	381,485	365,351	1,158,404	1,088,665
Fleet and wholesale	182,629	181,758	541,924	643,901
Commercial vehicle and car rental	65,951		87,756	
Total revenues	3,824,143	3,336,020	10,927,917	9,814,784
Cost of sales:				
New vehicle	1,846,504	1,601,762	5,245,533	4,596,274
Used vehicle	1,017,109	898,264	2,941,273	2,622,055
Service and parts	152,033	154,203	469,229	457,205
Fleet and wholesale	180,162	180,307	532,391	637,831
Commercial vehicle and car rental	48,427		56,353	
Total cost of sales	3,244,235	2,834,536	9,244,779	8,313,365
Gross profit	579,908	501,484	1,683,138	1,501,419
Selling, general and administrative expenses	454,188	400,039	1,308,958	1,188,658
Depreciation	15,784	13,704	45,300	40,014
Operating income	109,936	87,741	328,880	272,747
Floor plan interest expense	(10,840)	(9,951)	(32,008)	(29,319)
Other interest expense	(12,370)	(11,583)	(36,163)	(35,155)
Equity in earnings of affiliates	11,240	8,814	22,489	21,392
Debt redemption costs		(17,753)		(17,753)
Income from continuing operations before income taxes	97,966	57,268	283,198	211,912
Income taxes	(31,692)	(15,421)	(95,263)	(69,347)
Income from continuing operations	66,274	41,847	187,935	142,565
Income (Loss) from discontinued operations, net of tax	(742)	(534)	(1,889)	(4,634)
Net income	65,532	41,313	186,046	137,931
Less: Income attributable to non-controlling interests	257	282	1,065	990
Net income attributable to Penske Automotive Group common stockholders	\$ 65,275	\$ 41,031	\$ 184,981	\$ 136,941
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	\$ 0.73	\$ 0.46	\$ 2.07	\$ 1.57
Discontinued operations	(0.01)	(0.01)	(0.02)	(0.05)
Net income attributable to Penske Automotive Group common stockholders	\$ 0.72	\$ 0.45	\$ 2.05	\$ 1.52
Shares used in determining basic earnings per share	90,201	90,264	90,298	90,330
Diluted earnings per share attributable to Penske Automotive Group common				

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stockholders:

Continuing operations	\$	0.73	\$	0.46	\$	2.07	\$	1.57
Discontinued operations		(0.01)		(0.01)		(0.02)		(0.05)
Net income attributable to Penske Automotive Group common stockholders	\$	0.72	\$	0.45	\$	2.05	\$	1.52
Shares used in determining diluted earnings per share		90,237		90,296		90,334		90,362

Amounts attributable to Penske

Automotive Group common stockholders:

Income from continuing operations	\$	66,274	\$	41,847	\$	187,935	\$	142,565
Less: Income attributable to non-controlling interests		257		282		1,065		990
Income from continuing operations, net of tax		66,017		41,565		186,870		141,575
Income (Loss) from discontinued operations, net of tax		(742)		(534)		(1,889)		(4,634)
Net income attributable to Penske Automotive Group common stockholders	\$	65,275	\$	41,031	\$	184,981	\$	136,941

See Notes to Consolidated Condensed Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In thousands, except per share amounts)			
Net Income	\$ 65,532	\$ 41,313	\$ 186,046	\$ 137,931
Other Comprehensive Income:				
Foreign currency translation adjustment	41,811	16,707	6,714	15,224
Unrealized gain (loss) on interest rate swaps:				
Unrealized gain (loss) arising during the period, net of tax benefit (provision) of \$(178), \$590, \$(513), and \$2,114, respectively	272	(903)	784	(3,232)
Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of \$361, \$705, \$1,447, and \$2,066, respectively	552	1,078	2,213	3,158
Unrealized gain (loss) on interest rate swaps, net of tax	824	175	2,997	(74)
Unrealized gain (loss) on forward exchange contracts	(4,013)		(4,013)	
Other adjustments to Comprehensive Income, net	(173)	1,066	(1,385)	2,608
Other Comprehensive Income (Loss), Net of Taxes	38,449	17,948	4,313	17,758
Comprehensive Income	103,981	59,261	190,359	155,689
Less: Comprehensive income attributable to non-controlling interests	257	489	1,599	1,197
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 103,724	\$ 58,772	\$ 188,760	\$ 154,492

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	2013	Nine Months Ended September 30, (Unaudited) (In thousands)	2012
Operating Activities:			
Net income	\$	186,046	\$ 137,931
Adjustments to reconcile net income to net cash from continuing operating activities:			
Depreciation		45,300	40,014
Earnings of equity method investments		(18,456)	(16,796)
Loss from discontinued operations, net of tax		1,889	4,634
Debt redemption costs			17,753
Deferred income taxes		47,145	14,867
Changes in operating assets and liabilities:			
Accounts receivable		(17,699)	(31,591)
Inventories		(156,158)	(190,627)
Floor plan notes payable		126,343	256,015
Accounts payable and accrued expenses		72,269	37,560
Other		11,318	(7,012)
Net cash from continuing operating activities		297,997	262,748
Investing Activities:			
Purchase of equipment and improvements		(122,952)	(96,380)
Purchase of Penske Car Rental vehicles		(82,313)	
Proceeds from sale-leaseback transactions			1,584
Acquisitions net, including repayment of sellers floor plan notes payable of \$1,045 and \$49,467, respectively		(221,160)	(137,805)
Other		(7,493)	3,496
Net cash from continuing investing activities		(433,918)	(229,105)
Financing Activities:			
Proceeds from borrowings under U.S. credit agreement revolving credit line		808,700	525,800
Repayments under U.S. credit agreement revolving credit line		(814,700)	(657,800)
Repayments under U.S. credit agreement term loan		(12,000)	(17,000)
Repurchase of 3.5% senior subordinated convertible notes			(62,687)
Issuance of 5.75% senior subordinated notes			550,000
Repurchase of 7.75% senior subordinated notes			(390,755)
Net borrowings (repayments) of car rental revolver		73,885	
Net borrowings (repayments) of other long-term debt		67,940	15,087
Net borrowings (repayments) of floor plan notes payable non-trade		76,525	32,410
Repurchases of common stock		(15,813)	(9,829)
Dividends		(40,663)	(29,760)
Payment of deferred financing fees			(8,502)
Other		235	
Net cash from continuing financing activities		144,109	(53,036)
Discontinued operations:			
Net cash from discontinued operating activities		11,845	(3,704)
Net cash from discontinued investing activities		29,857	34,902
Net cash from discontinued financing activities		(22,236)	(12,916)
Net cash from discontinued operations		19,466	18,282
Net change in cash and cash equivalents		27,654	(1,111)
Cash and cash equivalents, beginning of period		43,447	26,997

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Cash and cash equivalents, end of period	\$	71,101	\$	25,886
Supplemental disclosures of cash flow information:				
Cash paid for:				
Interest	\$	61,986	\$	64,340
Income taxes		23,200		35,232

See Notes to Consolidated Condensed Financial Statements

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

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Unaudited)	Total Penske Automotive Group Stockholders Equity	Non-controlling Interest	Total Equity
	Shares	Amount	Capital	Earnings	Income (Loss)	Equity	Interest	Equity
(Dollars in thousands)								
Balance, December 31, 2012	90,294,765	\$ 9	\$ 700,013	\$ 611,026	\$ (6,833)	\$ 1,304,215	\$ 12,106	\$ 1,316,321
Equity compensation	412,786		7,451			7,451		7,451
Repurchases of common stock	(507,561)		(15,813)			(15,813)		(15,813)
Dividends				(40,663)		(40,663)		(40,663)
Distributions to non-controlling interests							(1,247)	(1,247)
Sale of subsidiary shares to non-controlling interest			235			235	143	378
Deconsolidation of Italian investment							(8,309)	(8,309)
Reconsolidation of Italian investment							8,914	8,914
Foreign currency translation					6,180	6,180	534	6,714
Interest rate swaps					2,997	2,997		2,997
Forward exchange contracts					(4,013)	(4,013)		(4,013)
Other					(1,385)	(1,385)		(1,385)
Net income				184,981		184,981	1,065	186,046
Balance, September 30, 2013	90,199,990	\$ 9	\$ 691,886	\$ 755,344	\$ (3,054)	\$ 1,444,185	\$ 13,206	\$ 1,457,391

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and 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 an international transportation services company, operating retail automotive dealerships, Hertz car rental franchises and commercial vehicle distribution. We are the second largest automotive retailer headquartered in the U.S. as measured by total revenue. As of September 30, 2013, we operated 321 retail franchises, of which 171 franchises are located in the U.S. and 150 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.

In August 2013, we completed the acquisition of 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 across Australia, New Zealand and portions of Southeast Asia. The business also includes two retail truck dealerships. We refer to this business as

Penske Commercial Vehicles. Since our acquisition of Penske Commercial Vehicles on August 30, 2013, it has generated \$49,426 of revenue through the distribution and retail sale of vehicles and parts to a network of 84 dealerships. The purchase price of approximately \$200,000 included vehicle inventory, parts and other assets, and is subject to a working capital adjustment that is expected to be finalized in the fourth quarter of 2013.

During the nine months ended September 30, 2013, we acquired one U.K. franchise, Guy Salmon Land Rover Northampton. We also were awarded two franchises, Maserati of Warwick and Lamborghini Leicester. We disposed of twenty-six franchises representing nine different brands, principally consisting of ten Toyota/Lexus and twelve Chrysler/Jeep/Dodge franchises in the U.K. During the three months ended September 30, 2013, we acquired an additional 35% interest in our joint venture operating dealerships in northern Italy, resulting in a 70% controlling interest in the Italian joint venture as of September 30, 2013.

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. Our Hertz car rental business generated \$38,600 of revenue during the nine months ended September 30, 2013.

Basis of Presentation

The accompanying 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 September 30, 2013 and December 31, 2012 and for the three and nine month periods ended September 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 September 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.

Table of Contents

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.

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 15,158	\$ 107,391	\$ 162,953	\$ 332,878
Pre-tax income (loss)	(955)	(817)	(2,609)	(13,673)

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Gain (loss) on disposal	(31)	285	809	10,445
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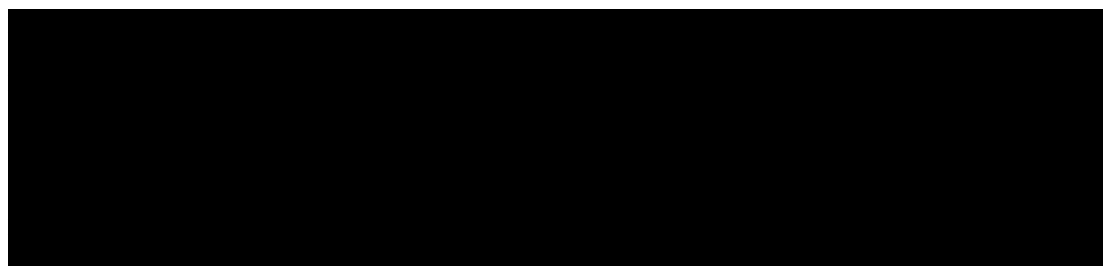
	September 30, 2013	December 31, 2012
Inventories	\$ 10	\$ 44,649
Other assets	1,055	26,458
Total assets	\$ 1,065	\$ 71,107
Floor plan notes payable (including non-trade)	\$ 40	\$ 36,689
Other liabilities	2,552	14,590
Total liabilities	\$ 2,592	\$ 51,279

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.

Table of Contents***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:



Our financial instruments consist of cash and cash equivalents, debt, floor plan notes payable, forward exchange contracts 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 1), 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:

	September 30, 2013	
	Carrying Value	Fair Value
5.75% senior subordinated notes due 2022	\$ 550,000	\$ 543,070
Mortgage facilities	101,445	101,777

2. Inventories

Inventories consisted of the following:

	September 30, 2013	December 31, 2012
New vehicles	\$ 1,497,648	\$ 1,429,250
Used vehicles	582,695	484,269

Commercial vehicles	121,575	
Parts, accessories and other	91,472	86,687
Total inventories	\$ 2,293,390	\$ 2,000,206

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$26,445 and \$23,085 during the nine months ended September 30, 2013 and 2012, respectively.

3. Business Combinations

We acquired Penske Commercial Vehicles as discussed in Note 1, one Hertz car rental franchise market area and one automotive retail franchise during the nine months ended September 30, 2013. We acquired twenty-one automotive retail franchises during the nine months ended September 30, 2012. Our financial statements include the results of operations of the acquired entities 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 nine months ended September 30, 2013 and 2012 follows:

Table of Contents

	September 30,	
	2013	2012
Accounts receivable	\$ 20,117	\$ 28,907
Inventory	124,259	94,627
Other current assets	2,812	411
Property and equipment	26,062	34,261
Indefinite-lived intangibles	133,075	61,686
Other non-current assets	8,427	745
Current liabilities	(94,107)	(58,926)
Non-current liabilities	515	(23,906)
Total consideration	221,160	137,805
Seller financed/assumed debt		
Cash used in acquisitions	\$ 221,160	\$ 137,805

The following unaudited consolidated pro forma results of operations of PAG for the three and nine months ended September 30, 2013 and 2012, give effect to acquisitions consummated during 2013 and 2012 as if they had occurred effective at the beginning of the period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 3,892,754	\$ 3,547,785	\$ 11,244,562	\$ 10,419,047
Income from continuing operations	68,843	50,454	200,498	162,012
Net income	67,844	49,638	197,544	156,388
Income from continuing operations per diluted common share	\$ 0.76	\$ 0.56	\$ 2.21	\$ 1.78
Net income per diluted common share	\$ 0.75	\$ 0.55	\$ 2.19	\$ 1.73

4. Intangible Assets

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

	Goodwill	Franchise Value
Balance, December 31, 2012	\$ 980,438	\$ 283,152
Additions	133,075	
Deconsolidation of Italian investment	(7,231)	(2,908)
Reconsolidation of Italian investment	7,434	3,068
Foreign currency translation	4,653	(184)
Balance, September 30, 2013	\$ 1,118,369	\$ 283,128

Goodwill additions of \$5,780 and \$125,596 were related to our Hertz rental car operations and Penske Commercial Vehicles, respectively, within our Other reportable segment. All other changes were within our Retail reportable segment. As of September 30, 2013, the goodwill balance within our Retail and Other reportable segments was \$981,060 and \$137,309, respectively.

5. Floor Plan Notes Payable Trade and Non-trade

We finance substantially all of the commercial vehicles we purchase for distribution, new vehicles for retail sale and a portion of our used vehicle inventories for retail sale 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 and distribution subsidiaries, and in the U.S., Australia and New Zealand are guaranteed by us. Interest rates under the floor plan arrangements are variable and

Table of Contents

increase or decrease based on changes in the prime rate, defined London Interbank Offered Rate (LIBOR), the Finance House Bank Rate, the Euro Interbank Offer Rate or the Australian or New Zealand Bank Bill Swap Rate. We classify floor plan notes payable to a party other than the manufacturer of a particular new vehicle or commercial 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 equity 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 nine months ended September 30, 2013 and 2012 follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average number of common shares outstanding	90,201,075	90,263,865	90,297,797	90,330,378
Effect of non-participatory equity compensation	36,000	32,000	36,000	32,000
Weighted average number of common shares outstanding, including effect of dilutive securities	90,237,075	90,295,865	90,333,797	90,362,378

7. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2013	December 31, 2012
U.S. credit agreement - revolving credit line	\$ 44,000	\$ 50,000
U.S. credit agreement - term loan	98,000	110,000
U.K. credit agreement - revolving credit line	124,625	48,741
U.K. credit agreement - term loan	31,561	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	97,056	23,171
Mortgage facilities	101,445	104,043
Other	14,277	5,731
Total long-term debt	1,060,964	937,517
Less: current portion	(46,894)	(19,493)
Net long-term debt	\$ 1,014,070	\$ 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 2016. 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 September 30, 2013, we were in compliance with all covenants under the U.S. Credit Agreement.

Table of Contents

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 September 30, 2013, \$44,000 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 nine months ended September 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 September 30, 2013, £77,000 (\$124,625) was 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 September 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 Penske Commercial Vehicles (discussed above) and operate the subsidiaries 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 September 30, 2013, the amount outstanding under the U.K. term loan was £19,500 (\$31,561).

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 September 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

Table of Contents

monthly curtailment payments and expires in October 2014. As of September 30, 2013, outstanding loans under the rental car revolver amounted to \$97,056.

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 September 30, 2013, we owed \$101,445 of principal under our mortgage facilities.

8. Derivatives and Hedging

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.

We used Level 2 inputs to estimate the fair value of the interest rate swap agreements. As of September 30, 2013 and December 31, 2012, the fair value of the swaps designated as hedging instruments was estimated to be a liability of \$9,379 and \$14,337, respectively. During 2013 and 2012, there was no hedge ineffectiveness recorded in our income statement. During the three and nine months ended September 30, 2013, the swaps increased the weighted average interest rate on our floor plan borrowings by approximately 35 and 36 basis points, respectively.

Penske Commercial Vehicles sells vehicles and parts purchased from manufacturers in the U.S., Germany, and United Kingdom. In order to protect against exchange rate movements, we enter into forward foreign exchange contracts against anticipated cash flows. The contracts are timed to mature when major shipments are scheduled to arrive in Australia and when receipt of payment from customers is expected. We classify our forward foreign exchange contracts as cash flow hedges and state them at fair value. We used Level 2 inputs to estimate the fair value of the forward foreign exchange contracts. The fair value of the contracts designated as hedging instruments was estimated to be an asset of \$1,965 as of September 30, 2013.

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 September 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 September 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.

Table of Contents

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.

Our floor plan credit agreement with Mercedes Benz Financial Services Australia (MBA) provides us revolving loans for the acquisition of commercial vehicles for distribution to our retail network. This facility includes a limited parent guarantee and a commitment to repurchase dealer vehicles in the event the dealer s floor plan agreement with MBA is terminated.

We have \$18,197 of letters of credit outstanding as of September 30, 2013, and have posted \$9,154 of surety bonds in the ordinary course of business.

10. Equity

Share Repurchase

During the nine months ended September 30, 2013, we repurchased 410,000 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 nine months ended September 30, 2013, we acquired 97,629 shares of our common stock for \$3,135, or an average of \$32.11, from employees in connection with a net share settlement feature of employee equity awards.

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 nine months ended September 30, 2013, attributable to Penske Automotive Group common stockholders.

Three Months Ended September 30, 2013

	Interest Rate Swaps	Foreign Currency Translation	Other	Total
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Balance at June 30, 2013	\$	(6,505)	\$	(36,825)	\$	1,825	\$	(41,505)
Other comprehensive income before reclassifications		272		41,811		(4,184)		37,899
Amounts reclassified from accumulated other comprehensive income - net of tax		552						552
Net current-period other comprehensive income		824		41,811		(4,184)		38,451
Balance at September 30, 2013	\$	(5,681)	\$	4,986	\$	(2,359)	\$	(3,054)

Nine Months Ended September 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		784		7,064		(5,398)		2,450
Amounts reclassified from accumulated other comprehensive income - net of tax		2,213		(884)				1,329
Net current-period other comprehensive income		2,997		6,180		(5,398)		3,779
Balance at September 30, 2013	\$	(5,681)	\$	4,986	\$	(2,359)	\$	(3,054)

Within the amounts reclassified from accumulated other comprehensive income, the \$552 and \$2,213 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.

Table of Contents**12. Segment Information**

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, our investments in non-automotive retail operations operating segment and our Penske Commercial Vehicles 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).

Three Months Ended September 30

	Retail		Other		Intersegment Elimination		Total
Revenues							
2013	\$ 3,763,840	\$	66,050	\$	(5,747)	\$	3,824,143
2012	3,336,020						3,336,020
Segment income							
2013	51,732		13,485		58		65,275
2012	33,119		7,912				41,031

Nine Months Ended September 30

	Retail		Other		Intersegment Elimination		Total
Revenues							
2013	\$ 10,867,035	\$	88,026	\$	(27,144)	\$	10,927,917
2012	9,814,784						9,814,784
Segment income							
2013	162,074		23,178		(271)		184,981
2012	117,994		18,947				136,941

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

The following tables include condensed consolidating financial information as of September 30, 2013 and December 31, 2012 and for the three and nine month periods ended September 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
September 30, 2013

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 71,101	\$	\$	\$ 7,514	\$ 63,587
Accounts receivable, net	588,311	(378,659)	378,659	292,806	295,505
Inventories	2,293,390			1,300,592	992,798
Other current assets	83,508		2,955	32,593	47,960
Assets held for sale	1,065			165	900
Total current assets	3,037,375	(378,659)	381,614	1,633,670	1,400,750
Property and equipment, net	1,211,020		4,251	814,083	392,686
Intangible assets	1,401,497			768,677	632,820
Equity method investments	333,081		280,730		52,351
Other long-term assets	27,831	(1,602,664)	1,613,941	5,232	11,322
Total assets	\$ 6,010,804	\$ (1,981,323)	\$ 2,280,536	\$ 3,221,662	\$ 2,489,929
Floor plan notes payable	\$ 1,537,185	\$	\$	\$ 884,700	\$ 652,485
Floor plan notes payable non-trade	802,051		128,100	375,983	297,968
Accounts payable	380,000		2,841	128,236	248,923
Accrued expenses	275,483	(378,659)	205	142,530	511,407
Current portion of long-term debt	46,894			36,236	10,658
Liabilities held for sale	2,592			383	2,209
Total current liabilities	3,044,205	(378,659)	131,146	1,568,068	1,723,650
Long-term debt	1,014,070	(96,472)	692,000	166,262	252,280
Deferred tax liabilities	338,430			313,342	25,088
Other long-term liabilities	156,708			77,865	78,843
Total liabilities	4,553,413	(475,131)	823,146	2,125,537	2,079,861
Total equity	1,457,391	(1,506,192)	1,457,390	1,096,125	410,068
Total liabilities and equity	\$ 6,010,804	\$ (1,981,323)	\$ 2,280,536	\$ 3,221,662	\$ 2,489,929

Table of Contents**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	71,107			28,716	42,391
Total current assets	2,760,096	(340,917)	344,463	1,708,998	1,047,552
Property and equipment, net	1,031,188		4,474	662,722	363,992
Intangible assets	1,263,590			761,005	502,585
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
Total assets	\$ 5,378,990	\$ (1,868,073)	\$ 2,142,200	\$ 3,137,754	\$ 1,967,109
Floor plan notes payable	\$ 1,408,362	\$	\$	\$ 917,391	\$ 490,971
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
Total current liabilities	2,692,513	(340,917)	115,879	1,530,884	1,386,667
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
Total liabilities	4,062,669	(379,609)	825,879	1,998,098	1,618,301
Total equity	1,316,321	(1,488,464)	1,316,321	1,139,656	348,808
Total liabilities and equity	\$ 5,378,990	\$ (1,868,073)	\$ 2,142,200	\$ 3,137,754	\$ 1,967,109

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended September 30, 2013

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 3,824,143	\$	\$	\$ 2,296,224	\$ 1,527,919
Cost of sales	3,244,235			1,933,197	1,311,038
Gross profit	579,908			363,027	216,881
Selling, general and administrative expenses	454,188		5,475	280,222	168,491
Depreciation	15,784		417	9,538	5,829
Operating income (loss)	109,936		(5,892)	73,267	42,561
Floor plan interest expense	(10,840)		(2,428)	(4,951)	(3,461)
Other interest expense	(12,370)		(7,159)	(1,951)	(3,260)
Equity in earnings of affiliates	11,240		10,035		1,205
Equity in earnings of subsidiaries		(103,153)	103,153		
Income (loss) from continuing operations before income taxes	97,966	(103,153)	97,709	66,365	37,045
Income taxes	(31,692)	33,458	(31,692)	(24,116)	(9,342)
Income (loss) from continuing operations	66,274	(69,695)	66,017	42,249	27,703
Income (loss) from discontinued operations, net of tax	(742)	742	(742)	(151)	(591)
Net income (loss)	65,532	(68,953)	65,275	42,098	27,112
Other comprehensive income (loss), net of tax	38,449	(38,622)	38,449	824	37,798
Comprehensive income	103,981	(107,575)	103,724	42,922	64,910
Less: Comprehensive income attributable to non-controlling interests	257				257
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 103,724	\$ (107,575)	\$ 103,724	\$ 42,922	\$ 64,653

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF INCOME****Three Months Ended September 30, 2012**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 3,336,020	\$	\$	\$ 1,997,423	\$ 1,338,597
Cost of sales	2,834,536			1,687,417	1,147,119
Gross profit	501,484			310,006	191,478
Selling, general and administrative expenses	400,039		5,073	244,259	150,707
Depreciation	13,704		328	7,580	5,796
Operating income (loss)	87,741		(5,401)	58,167	34,975
Floor plan interest expense	(9,951)		(2,322)	(4,300)	(3,329)
Other interest expense	(11,583)		(7,695)	(804)	(3,084)
Equity in earnings of affiliates	8,814		7,784		1,030
Equity in earnings of subsidiaries		(82,373)	82,373		
Debt redemption costs	(17,753)		(17,753)		
Income (loss) from continuing operations before income taxes	57,268	(82,373)	56,986	53,063	29,592
Income taxes	(15,421)	22,292	(15,421)	(14,733)	(7,559)
Income (loss) from continuing operations	41,847	(60,081)	41,565	38,330	22,033
Income (loss) from discontinued operations, net of tax	(534)	534	(534)	219	(753)
Net income (loss)	41,313	(59,547)	41,031	38,549	21,280
Other comprehensive income (loss), net of tax	17,948	(16,882)	17,948	175	16,707
Comprehensive income	59,261	(76,429)	58,979	38,724	37,987
Less: Comprehensive income attributable to non-controlling interests	489	(207)	207		489
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 58,772	\$ (76,222)	\$ 58,772	\$ 38,724	\$ 37,498

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF INCOME****Nine Months Ended September 30, 2013**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 10,927,917	\$	\$	\$ 6,616,079	\$ 4,311,838
Cost of sales	9,244,779			5,545,896	3,698,883
Gross profit	1,683,138			1,070,183	612,955
Selling, general and administrative expenses	1,308,958		15,328	820,249	473,381
Depreciation	45,300		1,206	26,743	17,351
Operating income (loss)	328,880		(16,534)	223,191	122,223
Floor plan interest expense	(32,008)		(7,174)	(15,044)	(9,790)
Other interest expense	(36,163)		(20,555)	(4,214)	(11,394)
Equity in earnings of affiliates	22,489		18,865		3,624
Equity in earnings of subsidiaries		(307,531)	307,531		
Income (loss) from continuing operations before income taxes	283,198	(307,531)	282,133	203,933	104,663
Income taxes	(95,263)	103,839	(95,263)	(77,745)	(26,094)
Income (loss) from continuing operations	187,935	(203,692)	186,870	126,188	78,569
Income (loss) from discontinued operations, net of tax	(1,889)	1,889	(1,889)	(184)	(1,705)
Net income (loss)	186,046	(201,803)	184,981	126,004	76,864
Other comprehensive income (loss), net of tax	4,313	(4,516)	4,313	2,997	1,519
Comprehensive income	190,359	(206,319)	189,294	129,001	78,383
Less: Comprehensive income attributable to non-controlling interests	1,599	(534)	534		1,599
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 188,760	\$ (205,785)	\$ 188,760	\$ 129,001	\$ 76,784

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF INCOME****Nine Months Ended September 30, 2012**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 9,814,784	\$	\$	\$ 5,821,934	\$ 3,992,850
Cost of sales	8,313,365			4,897,098	3,416,267
Gross profit	1,501,419			924,836	576,583
Selling, general and administrative expenses	1,188,658		14,408	728,842	445,408
Depreciation	40,014		936	22,018	17,060
Operating income (loss)	272,747		(15,344)	173,976	114,115
Floor plan interest expense	(29,319)		(6,774)	(12,247)	(10,298)
Other interest expense	(35,155)		(21,986)	(2,668)	(10,501)
Equity in earnings of affiliates	21,392		18,538		2,854
Equity in earnings of subsidiaries		(254,241)	254,241		
Debt redemption costs	(17,753)		(17,753)		
Income (loss) from continuing operations before income taxes	211,912	(254,241)	210,922	159,061	96,170
Income taxes	(69,347)	83,603	(69,347)	(59,519)	(24,084)
Income (loss) from continuing operations	142,565	(170,638)	141,575	99,542	72,086
Income (loss) from discontinued operations, net of tax	(4,634)	4,634	(4,634)	(1,830)	(2,804)
Net income (loss)	137,931	(166,004)	136,941	97,712	69,282
Other comprehensive income (loss), net of tax	17,758	(15,150)	17,758	(74)	15,224
Comprehensive income	155,689	(181,154)	154,699	97,638	84,506
Less: Comprehensive income attributable to non-controlling interests	1,197	(207)	207		1,197
Comprehensive income attributable to Penske Automotive Group common stockholders	\$ 154,492	\$ (180,947)	\$ 154,492	\$ 97,638	\$ 83,309

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Nine Months Ended September 30, 2013**

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	\$ 297,997	\$ 59,444	\$ 56,502	\$ 182,051
Investing activities:				
Purchase of equipment and improvements	(122,952)	(983)	(84,506)	(37,463)
Purchase of Penske Car Rental vehicles	(82,313)		(82,313)	
Acquisitions, net	(221,160)		(22,005)	(199,155)
Other	(7,493)		(7,522)	29
Net cash from continuing investing activities	(433,918)	(983)	(196,346)	(236,589)
Financing activities:				
Net borrowings (repayments) of long-term debt	123,825	(18,000)	71,147	70,678
Net borrowings (repayments) of floor plan notes payable non-trade	76,525	16,015	29,300	31,210
Repurchases of common stock	(15,813)	(15,813)		
Dividends	(40,663)	(40,663)		
Distributions from (to) parent			1,154	(1,154)
Other	235			235
Net cash from continuing financing activities	144,109	(58,461)	101,601	100,969
Net cash from discontinued operations	19,466		9,279	10,187
Net change in cash and cash equivalents	27,654		(28,964)	56,618
Cash and cash equivalents, beginning of period	43,447		36,478	6,969
Cash and cash equivalents, end of period	\$ 71,101	\$	\$ 7,514	\$ 63,587

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Nine Months Ended September 30, 2012**

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
	(In thousands)			
Net cash from continuing operating activities	\$ 262,748	\$ 95,748	\$ 40,064	\$ 126,936
Investing activities:				
Purchase of equipment and improvements	(96,380)	(766)	(67,233)	(28,381)
Proceeds from sale-leaseback transactions	1,584			1,584
Acquisitions, net	(137,805)		(3,416)	(134,389)
Other	3,496	(3,812)		7,308
Net cash from continuing investing activities	(229,105)	(4,578)	(70,649)	(153,878)
Financing activities:				
Repurchase of 3.5% senior subordinated convertible notes	(62,687)	(62,687)		
Issuance of 5.75% senior subordinated notes	550,000	550,000		
Repurchase of 7.75% senior subordinated notes	(390,755)	(390,755)		
Net borrowings (repayments) of long-term debt	(133,913)	(149,000)	(1,598)	16,685
Net borrowings (repayments) of floor plan notes payable non-trade	32,410	9,363	11,471	11,576
Repurchases of common stock	(9,829)	(9,829)		
Dividends	(29,760)	(29,760)		
Payment of deferred financing fees	(8,502)	(8,502)		
Distributions from (to) parent			4,747	(4,747)
Net cash from continuing financing activities	(53,036)	(91,170)	14,620	23,514
Net cash from discontinued operations	18,282		6,725	11,557
Net change in cash and cash equivalents	(1,111)		(9,240)	8,129
Cash and cash equivalents, beginning of period	26,997		26,767	230
Cash and cash equivalents, end of period	\$ 25,886	\$	\$ 17,527	\$ 8,359

Table of Contents

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 Part II, Item 1A Risk Factors and 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 September 30, 2013.

Overview

We are an international transportation services company, operating retail automotive dealerships, Hertz car rental franchises and commercial vehicle distribution. We are the second largest automotive retailer headquartered in the U.S. as measured by the \$10.9 billion in total revenue we generated during the nine months ended September 30, 2013. As of September 30, 2013, we operated 321 retail automotive franchises, of which 171 franchises are located in the U.S. and 150 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. During the nine months ended September 30, 2013, we retailed and wholesaled more than 334,000 vehicles. We are diversified geographically, with 64% of our total revenues during the nine months ended September 30, 2013, generated in the U.S. and Puerto Rico and 36% generated outside the U.S. We offer 38 brands with 96% of our total retail revenue during the nine months ended September 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.

In August 2013, we completed the acquisition of 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 across Australia, New Zealand and portions of Southeast Asia. The business also includes two retail truck dealerships. We refer to this business as Penske Commercial Vehicles. Since our acquisition of Penske Commercial Vehicles on August 30, 2013, it has generated \$49.4 million of revenue through the distribution and retail sale of vehicles and parts to a network of 84 dealerships. The purchase price of approximately \$200.0 million included vehicle inventory, parts and other assets, and is subject to a working capital adjustment that is expected to be finalized in the fourth quarter of 2013.

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During the nine months ended September 30, 2013, we acquired one U.K. franchise, Guy Salmon Land Rover Northampton. We also were awarded two franchises, Maserati of Warwick and Lamborghini Leicester. We disposed of twenty-six franchises representing nine different brands, principally consisting of ten Toyota/Lexus and twelve Chrysler/Jeep/Dodge franchises in the U.K. During the three months ended September 30, 2013, we acquired an additional 35% interest in our joint venture operating dealerships in northern Italy, resulting in a 70% controlling interest in the Italian joint venture as of September 30, 2013.

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.

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. According to Automotive News, during the nine months ended September 30, 2013, total U.S. industry new vehicle unit sales increased from 10,900,661 to 11,773,338, representing an increase of 8.0%. 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 nine months ended September 30, 2013, vehicle registrations in the U.K. improved from 1,620,609 to 1,794,924, representing an increase of 10.8%. Based on industry forecasts from entities such as the Society of Motor Manufacturers and Traders (www.smm.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 technology. We also expect continued resiliency in premium brand sales in the U.K. See Part II, Item 1A Risk Factors and Forward-Looking Statements.

Table of Contents

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 \$78.4 million, or 15.6%, and \$181.8 million, or 12.1%, during the three and nine months ended September 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 15.9% and 16.3% during the three and nine months ended September 30, 2012, to 15.7% and 15.9% during the three and nine months ended September 30, 2013, respectively, due primarily to a gross margin decrease in our new vehicle sales. Also contributing to the aggregate gross profit increase was our commercial vehicle and car rental gross margin, which collectively was 26.6% and 35.8%, during the three and nine months ended September 30, 2013, respectively.

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, the Euro Interbank Offered Rate or the Australian or New Zealand Bank Bill Swap Rate (BBSW). Our floor plan interest expense has increased during the three and nine months ended September 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 nine months ended September 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, the success of our distribution of commercial vehicles 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

Table of Contents

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 vehicles. Taxes collected from customers and remitted to governmental authorities are recorded on a net basis (excluded from revenue). During the nine months ended September 30, 2013 and 2012, we earned \$369.8 million and \$344.6 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$360.7 million and \$335.9 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 products to customers, including guaranteed asset protection insurance, vehicle theft protection 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 \$24.4 million and \$23.4 million as of September 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).

Penske Commercial Vehicle Revenue

Revenue from the distribution of goods is recognized generally at the time of delivery of goods to the retailer.

Impairment Testing

Franchise value impairment is assessed during the fourth quarter 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 during the fourth quarter 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 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, our investments in non-automotive retail operations operating segment, and our Penske Commercial Vehicles 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 and our Penske Commercial Vehicles operating segment. The Hertz rental car business operating segment has been identified as its own reporting unit. We have identified a distribution reporting unit and a retail reporting unit within our Penske Commercial Vehicles 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

Table of Contents

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 \$333.1 million and \$303.2 million as of September 30, 2013 and December 31, 2012, respectively, including \$251.6 million relating to PTL as of September 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, 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 \$24.5 million and \$20.1 million as of September 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

Table of Contents

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.

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012**New Vehicle Data**

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
New retail unit sales	53,509	47,166	6,343	13.4%
Same-store new retail unit sales	52,327	46,684	5,643	12.1%
New retail sales revenue	\$ 1,995.8	\$ 1,736.1	259.7	15.0%
Same-store new retail sales revenue	\$ 1,953.4	\$ 1,716.2	237.2	13.8%
New retail sales revenue per unit	\$ 37,299	\$ 36,809	490	1.3%
Same-store new retail sales revenue per unit	\$ 37,330	\$ 36,763	567	1.5%
Gross profit new	\$ 149.3	\$ 134.4	14.9	11.1%
Same-store gross profit new	\$ 146.8	\$ 132.7	14.1	10.6%
Average gross profit per new vehicle retailed	\$ 2,791	\$ 2,849	(58)	(2.0)%
Same-store average gross profit per new vehicle retailed	\$ 2,805	\$ 2,842	(37)	(1.3)%
Gross margin % new	7.5%	7.7%	(0.2)%	(2.6)%
Same-store gross margin % new	7.5%	7.7%	(0.2)%	(2.6)%

Units

Retail unit sales of new vehicles increased 6,343 units, or 13.4%, from 2012 to 2013, including an 11.6% increase in the U.S. and an 18.2% increase internationally. The increase is due to a 5,643 unit, or 12.1%, increase in same-store retail unit sales during the period, coupled with a 700 unit increase from net dealership acquisitions. Same-store units increased 8.9% in the U.S. and 20.3% 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 14.7% increase in premium/luxury brands, a 9.3% increase in volume foreign brands and a 14.4% 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 \$259.7 million, or 15.0%, from 2012 to 2013. The increase is due to a \$237.2 million, or 13.8%, increase in same-store revenues, coupled with a \$22.5 million increase from net dealership acquisitions. Same-store retail revenue increased 9.6% in the U.S. and 23.2% 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 12.1% increase in retail unit sales, which increased revenue by \$210.7 million, coupled with a \$567, or 1.5%, increase in average selling prices per unit, which increased revenue by \$26.5 million.

Gross Profit

Retail gross profit from new vehicle sales increased \$14.9 million, or 11.1%, from 2012 to 2013. The increase is due to a \$14.1 million, or 10.6%, increase in same-store gross profit, coupled with a \$0.8 million increase from net dealership acquisitions. The same-store increase is due primarily to the 12.1% increase in retail unit sales, which increased gross profit by \$15.8 million, somewhat offset by a \$37, or 1.3%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by \$1.7 million. The decrease in the same-store average gross profit per new vehicle retailed is primarily attributable to our volume foreign brands, which decreased 8.4%. During the three months ended September 30, 2013 and 2012, we earned \$137.8 million and \$126.7 million, respectively, of rebates, incentives and

Table of Contents

reimbursements from manufacturers, which were recorded as a reduction of cost of sales. This \$11.1 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	43,518	38,287	5,231	13.7%
Same-store used retail unit sales	42,231	37,783	4,448	11.8%
Used retail sales revenue	\$ 1,098.5	\$ 969.1	129.4	13.4%
Same-store used retail sales revenue	\$ 1,071.8	\$ 960.9	110.9	11.5%
Used retail sales revenue per unit	\$ 25,242	\$ 25,312	(70)	(0.3)%
Same-store used retail sales revenue per unit	\$ 25,378	\$ 25,431	(53)	(0.2)%
Gross profit used	\$ 81.4	\$ 70.9	10.5	14.8%
Same-store gross profit used	\$ 79.3	\$ 70.3	9.0	12.8%
Average gross profit per used vehicle retailed	\$ 1,870	\$ 1,851	19	1.0%
Same-store average gross profit per used vehicle retailed	\$ 1,877	\$ 1,860	17	0.9%
Gross margin % used	7.4%	7.3%	0.1%	1.4%
Same-store gross margin % used	7.4%	7.3%	0.1%	1.4%

Units

Retail unit sales of used vehicles increased 5,231 units, or 13.7%, from 2012 to 2013 including a 16.7% increase in the U.S. and a 7.7% increase internationally. The increase is due to a 4,448 unit, or 11.8%, increase in same-store retail unit sales, coupled with a 783 unit increase from net dealership acquisitions. Same-store units increased 13.3% in the U.S. and 8.8% internationally. The overall same-store increase was driven by a 9.8% increase in premium/luxury brands, a 14.9% increase in volume foreign brands, and an 11.9% 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, an increase in certified pre-owned activity from lease turn ins and our focus on retailing trade-ins and minimizing wholesaled vehicles.

Revenues

Used vehicle retail sales revenue increased \$129.4 million, or 13.4%, from 2012 to 2013. The increase is due to a \$110.9 million, or 11.5%, increase in same-store revenues, coupled with an \$18.5 million increase from net dealership acquisitions. Same-store retail revenue increased 16.6% in the U.S. and increased 5.6% internationally. The overall same-store revenue increase is due to the 11.8% increase in same-store retail unit sales, which increased revenue by \$112.9 million, somewhat offset by a \$53, or 0.2%, decrease in comparative average selling prices per unit, which decreased revenue by \$2.0 million.

Gross Profit

Retail gross profit from used vehicle sales increased \$10.5 million, or 14.8%, from 2012 to 2013. The increase is due to a \$9.0 million, or 12.8%, increase in same-store gross profit, coupled with a \$1.5 million increase from net dealership acquisitions. The increase in same-store gross profit is due to the 11.8% increase in used retail unit sales, which increased gross profit by \$8.4 million, coupled with a \$17, or 0.9%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by \$0.6 million.

Finance and Insurance Data

Dollars in millions, except per unit amounts	2013 vs. 2012					
	2013	2012	Change		Change	% Change
Finance and insurance revenue	\$ 99.8	\$ 83.7	\$ 16.1		\$ 16.1	19.2%
Same-store finance and insurance revenue	\$ 97.9	\$ 83.4	\$ 14.5		\$ 14.5	17.4%
Finance and insurance revenue per unit	\$ 1,028	\$ 979	\$ 49		\$ 49	5.0%
Same-store finance and insurance revenue per unit	\$ 1,036	\$ 987	\$ 49		\$ 49	5.0%

Finance and insurance revenue increased \$16.1 million, or 19.2%, from 2012 to 2013. The increase is due to a \$14.5 million, or 17.4%, increase in same-store revenues during the period, coupled with a \$1.6 million increase from net dealership acquisitions. The same-store revenue increase is due to a 11.9% increase in same-store retail unit sales, which increased revenue by \$10.4 million, coupled with a \$49, or 5.0%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$4.1 million. Finance and insurance revenue per unit increased 9.6% to \$997 per unit in the U.S. and decreased 3.1% to \$1,098 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	\$ 381.5	\$ 365.4	16.1	4.4%
Same-store service and parts revenue	\$ 372.6	\$ 360.3	12.3	3.4%
Gross profit	\$ 229.5	\$ 211.1	18.4	8.7%
Same-store gross profit	\$ 224.0	\$ 209.4	14.6	7.0%
Gross margin	60.1%	57.8%	2.3%	4.0%
Same-store gross margin	60.1%	58.1%	2.0%	3.4%

Revenues

Service and parts revenue increased \$16.1 million, or 4.4%, from 2012 to 2013 including an 8.9% increase in the U.S. and a 5.8% decrease internationally. The increase is due to a \$12.3 million, or 3.4%, increase in same-store revenues during the period, coupled with a \$3.8 million increase from net dealership acquisitions. The increase in same-store revenue is due to a \$6.4 million, or 2.5%, increase in customer pay revenue, a \$5.2 million, or 6.9%, increase in warranty revenue, a \$0.5 million, or 10.3%, increase in vehicle preparation revenue, and a \$0.2 million, or 0.9%, increase in body shop 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 \$18.4 million, or 8.7%, from 2012 to 2013 including an 11.2% increase in the U.S. and a 2.9% increase internationally. The increase is due to a \$14.6 million, or 7.0%, increase in same-store gross profit during the period, coupled with a \$3.8 million increase from net dealership acquisitions. The same-store gross profit increase is due to the \$12.3 million, or 3.4%, increase in same-store revenues, which increased gross profit by \$7.4 million, coupled with a 3.4% increase in gross margin, which increased gross profit by \$7.2 million. The same-store gross profit increase is due to a \$6.1 million, or 18.3%, increase in vehicle preparation gross profit, a \$4.0 million, or 10.6%, increase in warranty gross profit, a \$3.5 million, or 2.8%, increase in customer pay gross profit, and a \$1.0 million, or 7.0%, increase in body shop gross profit.

Commercial Vehicle and Car Rental Data

Commercial vehicle and car rental gross profit was \$17.5 million during the three months ended September 30, 2013. Commercial vehicle and car rental gross profit was composed of \$10.5 million from our Hertz car rental operating segment and \$7.0 million from our Penske Commercial Vehicles operating segment, which we acquired on August 30, 2013. None of the businesses included in these two operating segments were owned by us during the three months ended September 30, 2012.

Selling, General and Administrative

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Dollars in millions			2013 vs. 2012	
	2013	2012	Change	% Change
Personnel expense	\$ 248.2	\$ 221.3	\$ 26.9	12.1%
Advertising expense	\$ 21.3	\$ 21.4	\$ (0.1)	(0.5)%
Rent & related expense	\$ 64.3	\$ 61.5	\$ 2.8	4.5%
Other expense	\$ 120.4	\$ 95.8	\$ 24.6	25.7%
Total SG&A expenses	\$ 454.2	\$ 400.0	\$ 54.2	13.5%
Same-store SG&A expenses	\$ 432.6	\$ 396.1	\$ 36.5	9.2%
Personnel expense as % of gross profit	42.8%	44.1%	(130)bps	(3.0)%
Advertising expense as % of gross profit	3.7%	4.3%	(60)bps	(13.9)%
Rent & related expense as % of gross profit	11.1%	12.3%	(120)bps	(9.6)%
Other expense as % of gross profit	20.8%	19.1%	170bps	8.7%
Total SG&A expenses as % of gross profit	78.3%	79.8%	(150)bps	(1.8)%
Same-store SG&A expenses as % of gross profit	78.6%	79.7%	(110)bps	(1.4)%

Selling, general and administrative expenses (SG&A) increased \$54.2 million, or 13.5%, from \$400.0 million to \$454.2 million. The aggregate increase is due to a \$36.5 million, or 9.2%, increase in same-store SG&A, coupled with a \$17.7 million increase from net dealership acquisitions. SG&A as a percentage of gross profit was 78.3%, an improvement of 150 basis points compared to 79.8% in the prior year. The

Table of Contents

increase in same-store SG&A is due primarily to a net increase in variable personnel expenses, as a result of a 10.5% increase in same-store retail gross profit versus the prior year. The increase includes \$1.9 million of acquisition-related costs associated with the acquisition of Penske Commercial Vehicles.

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, increased \$0.8 million, or 8.9%, from \$10.0 million to \$10.8 million. This increase is due primarily to a \$0.6 million, or 6.1%, 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 \$0.8 million, or 6.8%, from \$11.6 million to \$12.4 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 \$2.4 million, or 27.5%, from \$8.8 million to \$11.2 million. The increase is primarily attributable to an increase in equity in earnings from our investments in non-automotive retail joint ventures.

Income Taxes

Income taxes increased \$16.3 million, or 105.5%, from \$15.4 million to \$31.7 million. The increase is due primarily to a \$40.7 million increase in our pre-tax income versus the prior year (in part due to \$17.8 million of debt redemption costs in the prior year) and a higher mix of U.S. income, which is taxed at higher rates. Additionally, the prior year's effective income tax rate was lower due to an approximate \$2.0 million benefit from the reduction of deferred tax liabilities in the U.K.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

New Vehicle Data

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
New retail unit sales	150,779	135,080	15,699	11.6%
Same-store new retail unit sales	145,947	133,002	12,945	9.7%
New retail sales revenue	\$ 5,674.7	\$ 4,997.9	676.8	13.5%
Same-store new retail sales revenue	\$ 5,503.3	\$ 4,922.9	580.4	11.8%
New retail sales revenue per unit	\$ 37,636	\$ 37,000	636	1.7%
Same-store new retail sales revenue per unit	\$ 37,708	\$ 37,013	695	1.9%
Gross profit new	\$ 429.1	\$ 401.6	27.5	6.8%
Same-store gross profit new	\$ 417.6	\$ 395.9	21.7	5.5%
Average gross profit per new vehicle retailed	\$ 2,846	\$ 2,973	(127)	(4.3)%
Same-store average gross profit per new vehicle retailed	\$ 2,861	\$ 2,976	(115)	(3.9)%
Gross margin % new	7.6%	8.0%	(0.4)%	(5.0)%
Same-store gross margin % new	7.6%	8.0%	(0.4)%	(5.0)%

Units

Retail unit sales of new vehicles increased 15,699 units, or 11.6%, from 2012 to 2013, including an 11.5% increase in the U.S. and an 11.8% increase internationally. The increase is due to a 12,945 unit, or 9.7%, increase in same-store retail unit sales during the period, coupled with a 2,754 unit increase from net dealership acquisitions. Same-store units increased 8.8% in the U.S. and 11.9% 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 12.3% increase in premium/luxury brands, a 7.6% increase in volume foreign brands and a 7.5% 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 \$676.8 million, or 13.5%, from 2012 to 2013. The increase is due to a \$580.4 million, or 11.8%, increase in same-store revenues, coupled with a \$96.4 million increase from net dealership acquisitions. Same-store retail revenue increased 11.5% in the U.S. and 12.4% internationally due in part to more favorable macro-economic conditions in the U.S. and in the U.K. The overall

Table of Contents

same-store revenue increase is due primarily to the 9.7% increase in retail unit sales, which increased revenue by \$488.0 million, coupled with a \$695, or 1.9%, increase in average selling prices per unit, which increased revenue by \$92.4 million.

Gross Profit

Retail gross profit from new vehicle sales increased \$27.5 million, or 6.8%, from 2012 to 2013. The increase is due to a \$21.7 million, or 5.5%, increase in same-store gross profit, coupled with a \$5.8 million increase from net dealership acquisitions. The same-store increase is due primarily to the 9.7% increase in retail unit sales, which increased gross profit by \$37.0 million, somewhat offset by a \$115, or 3.9%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by \$15.3 million.

Used Vehicle Data

Dollars in millions, except per unit amounts	2013	2012	2013 vs. 2012	
			Change	% Change
Used retail unit sales	125,947	110,806	15,141	13.7%
Same-store used retail unit sales	121,139	109,271	11,868	10.9%
Used retail sales revenue	\$ 3,182.8	\$ 2,841.4	341.4	12.0%
Same-store used retail sales revenue	\$ 3,084.2	\$ 2,815.4	268.8	9.5%
Used retail sales revenue per unit	\$ 25,271	\$ 25,643	(372)	(1.5)%
Same-store used retail sales revenue per unit	\$ 25,460	\$ 25,765	(305)	(1.2)%
Gross profit used	\$ 241.5	\$ 219.3	22.2	10.1%
Same-store gross profit used	\$ 233.9	\$ 217.5	16.4	7.5%
Average gross profit per used vehicle retailed	\$ 1,918	\$ 1,980	(62)	(3.1)%
Same-store average gross profit per used vehicle retailed	\$ 1,931	\$ 1,990	(59)	(3.0)%
Gross margin % used	7.6%	7.7%	(0.1)%	(1.3)%
Same-store gross margin % used	7.6%	7.7%	(0.1)%	(1.3)%

Units

Retail unit sales of used vehicles increased 15,141 units, or 13.7%, from 2012 to 2013 including a 16.2% increase in the U.S. and an 8.8% increase internationally. The increase is due to an 11,868 unit, or 10.9%, increase in same-store retail unit sales, coupled with a 3,273 unit increase from net dealership acquisitions. Same-store units increased 12.6% in the U.S. and 7.4% internationally. The overall same-store increase was driven by an 8.9% increase in premium/luxury brands, a 14.4% increase in volume foreign brands, and an 8.6% 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, an increase in certified pre-owned activity from lease turn ins and our focus on retailing trade-ins and minimizing wholesaled vehicles.

Revenues

Used vehicle retail sales revenue increased \$341.4 million, or 12.0%, from 2012 to 2013. The increase is due to a \$268.8 million, or 9.5%, increase in same-store revenues, coupled with a \$72.6 million increase from net dealership acquisitions. Same-store retail revenue increased 14.5% in the U.S. and 3.8% internationally. The overall same-store revenue increase is due to the 10.9% increase in same-store retail unit sales, which increased revenue by \$302.1 million, somewhat offset by a \$305, or 1.2%, decrease in comparative average selling prices per unit, which decreased revenue by \$33.3 million.

Gross Profit

Retail gross profit from used vehicle sales increased \$22.2 million, or 10.1%, from 2012 to 2013. The increase is due to a \$16.4 million, or 7.5%, increase in same-store gross profit, coupled with a \$5.8 million increase from net dealership acquisitions. The increase in same-store gross profit is due to the 10.9% increase in used retail unit sales, which increased gross profit by \$22.9 million, somewhat offset by a \$59, or 3.0%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by \$6.5 million. During the nine months ended September 30, 2013 and 2012, we earned \$360.7 million and \$335.9 million, respectively, of rebates, incentives and reimbursements from manufacturers, which were recorded as a reduction of cost of sales. This \$24.8 million increase in incentives also contributed to the increase in new vehicle gross profit.

Table of Contents**Finance and Insurance Data**

Dollars in millions, except per unit amounts	2013		2012		2013 vs. 2012		
					Change	% Change	
Finance and insurance revenue	\$	282.4	\$	242.9	\$	39.5	16.3%
Same store finance and insurance revenue	\$	275.6	\$	240.8	\$	34.8	14.5%
Finance and insurance revenue per unit	\$	1,020	\$	988	\$	32	3.2%
Same store finance and insurance revenue per unit	\$	1,032	\$	994	\$	38	3.8%

Finance and insurance revenue increased \$39.5 million, or 16.3%, from 2012 to 2013. The increase is due to a \$34.8 million, or 14.5%, increase in same-store revenue during the period, coupled with a \$4.7 million increase from net dealership acquisitions. The same-store revenue increase is due to a 10.2% increase in same-store retail unit sales, which increased revenue by \$25.6 million, coupled with a \$38, or 3.8%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$9.2 million. Finance and insurance revenue per unit increased 8.5% to \$989 per unit in the U.S. and decreased 5.6% to \$1,090 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.

Service and Parts Data

Dollars in millions, except per unit amounts	2013		2012		2013 vs. 2012		
					Change	% Change	
Service and parts revenue	\$	1,158.4	\$	1,088.7	\$	69.7	6.4%
Same-store service and parts revenue	\$	1,120.4	\$	1,075.4	\$	45.0	4.2%
Gross profit	\$	689.2	\$	631.5	\$	57.7	9.1%
Same-store gross profit	\$	666.8	\$	625.3	\$	41.5	6.6%
Gross margin		59.5%		58.0%		1.5%	2.6%
Same-store gross margin		59.5%		58.1%		1.4%	2.4%

Revenues

Service and parts revenue increased \$69.7 million, or 6.4%, from 2012 to 2013 including a 10.0% increase in the U.S. and a 1.9% decrease internationally. The increase is due to a \$45.0 million, or 4.2%, increase in same-store revenues during the period, coupled with a \$24.7 million increase from net dealership acquisitions. The increase in same-store revenue is due to a \$20.7 million, or 2.7%, increase in customer pay revenue, a \$20.3 million, or 9.2%, increase in warranty revenue, a \$3.0 million, or 4.3%, increase in body shop revenue, and a \$1.0 million, or 7.2%, 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

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Service and parts gross profit increased \$57.7 million, or 9.1%, from 2012 to 2013 including an 11.8% increase in the U.S. and a 3.0% increase internationally. The increase is due to a \$41.5 million, or 6.6%, increase in same-store gross profit during the period, coupled with a \$16.2 million increase from net dealership acquisitions. The same-store gross profit increase is due to the \$45.0 million, or 4.2%, increase in same-store revenues, which increased gross profit by \$26.8 million, coupled with a 2.4% increase in gross margin, which increased gross profit by \$14.7 million. The same-store gross profit increase is due to a \$14.6 million, or 15.0%, increase in vehicle preparation gross profit, a \$14.3 million, or 12.8%, increase in warranty gross profit, a \$9.6 million, or 2.6%, increase in customer pay gross profit, and a \$3.0 million, or 7.1%, increase in body shop gross profit.

Commercial Vehicle and Car Rental Data

Commercial vehicle and car rental gross profit was \$31.4 million during the nine months ended September 30, 2013. Commercial vehicle and car rental gross profit was composed of \$24.3 million from our Hertz car rental operating segment and \$7.1 million from our Penske Commercial Vehicles operating segment, which we acquired on August 30, 2013. None of the businesses included in these two operating segments were owned by us during the nine months ended September 30, 2012.

Table of Contents**Selling, General and Administrative**

Dollars in millions			2013 vs. 2012	
	2013	2012	Change	% Change
Personnel expense	\$ 726.7	\$ 658.3	\$ 68.4	10.4%
Advertising expense	\$ 61.7	\$ 63.1	\$ (1.4)	(2.3)%
Rent & related expense	\$ 191.1	\$ 184.1	\$ 7.0	3.8%
Other expense	\$ 329.5	\$ 283.0	\$ 46.5	16.4%
Total SG&A expenses	\$ 1,309.0	\$ 1,188.7	\$ 120.3	10.1%
Same-store SG&A expenses	\$ 1,245.0	\$ 1,171.7	\$ 73.3	6.3%
Personnel expense as % of gross profit	43.2%	43.8%	(60)bps	(1.5)%
Advertising expense as % of gross profit	3.7%	4.2%	(50)bps	(12.8)%
Rent & related expense as % of gross profit	11.4%	12.3%	(90)bps	(7.4)%
Other expense as % of gross profit	19.6%	18.9%	70bps	3.8%
Total SG&A expenses as % of gross profit	77.8%	79.2%	(140)bps	(1.8)%
Same-store SG&A expenses as % of gross profit	77.6%	78.9%	(130)bps	(1.7)%

Selling, general and administrative expenses (SG&A) increased \$120.3 million, or 10.1%, from \$1,188.7 million to \$1,309.0 million. The aggregate increase is due to a \$73.3 million, or 6.3%, increase in same-store SG&A, coupled with a \$47.0 million increase from net dealership acquisitions. SG&A as a percentage of gross profit was 77.8%, an improvement of 140 basis points compared to 79.2% 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 7.7% increase in same-store retail gross profit versus the prior year. The increase includes \$1.9 million of acquisition-related costs associated with the acquisition of Penske Commercial Vehicles.

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, increased \$2.7 million, or 9.2%, from \$29.3 million to \$32.0 million. This increase is due primarily to a \$2.1 million, or 7.2%, increase in same-store floor plan interest expense and a \$0.6 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 \$1.0 million, or 2.9%, from \$35.2 million to \$36.2 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 \$1.1 million or 5.1%, from \$21.4 million to \$22.5 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 \$26.0 million, or 37.4%, from \$69.3 million to \$95.3 million. The increase is due primarily to a \$71.3 million increase in our pre-tax income versus the prior year. The prior year included \$17.8 million of debt redemption costs.

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 operations through organic growth and the acquisition of dealerships and other businesses. 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

Table of Contents

for at least the next twelve months. 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 September 30, 2013, we had \$331.0 million and £33.0 million (\$53.4 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 nine months ended September 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 nine months ended September 30, 2013, we acquired 97,629 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 equity awards.

Dividends

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

Per Share Dividends

<u>2012</u>		
First Quarter	\$	0.10
Second Quarter		0.11
Third Quarter		0.12

Fourth Quarter		0.13
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2013

First Quarter	\$	0.14
Second Quarter		0.15
Third Quarter		0.16

We also have announced a cash dividend of \$0.17 per share payable on December 2, 2013 to shareholders of record on November 11, 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 the commercial vehicles we purchase for distribution, new vehicles for retail sale and a portion of our used vehicle inventories for retail sale under revolving floor plan arrangements with various lenders, including the 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., Australia and New Zealand 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, the Finance House Base Rate, the Euro Interbank Offered Rate or the Australian or New Zealand Bank Bill Swap 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.

Table of Contents

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 2016. 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 September 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 Part II, Item 1A Risk Factors and 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 September 30, 2013, \$44.0 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 nine months ended September 30, 2013.

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 September 30, 2013, £77.0 million (\$124.6 million) was 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 September 30, 2013, our U.K. subsidiaries were in compliance with

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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 Part II, Item 1A Risk Factors and 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 Penske Commercial Vehicles (discussed above) and operate the subsidiaries 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 September 30, 2013, the amount outstanding under the U.K. term loan was £19.5 million (\$31.6 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%

Table of Contents

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 September 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 September 30, 2013 outstanding loans under the rental car revolver amounted to \$97.1 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 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 September 30, 2013, we owed \$101.4 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 nine months ended September 30, 2013, outstanding revolving commitments varied between \$10.0 million and \$164.5 million under the U.S. credit agreement and between £0 and £77.0 million (\$124.6 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 nine months ended September 30, 2013, the swaps increased the weighted average interest rate on our floor plan borrowing by 35 and 36 basis points, respectively.

PTL Dividends

We hold a 9.0% ownership interest in Penske Truck Leasing. During the nine months ended September 30, 2013 and 2012, respectively, we received \$6.2 million and \$15.4 million of pro rata cash distributions relating to this investment. The decrease in dividends is due primarily to PTL's change in policy to deliver quarterly in lieu of annual dividends, which resulted in additional dividends in 2012. 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

Table of Contents

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 September 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.

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 August 2013, we completed the acquisition of Penske Commercial Vehicles, 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 across Australia, New Zealand and portions of Southeast Asia. The purchase price of approximately \$200.0 million included vehicle inventory, parts

and other assets, and is subject to a working capital adjustment that is expected to be finalized in the fourth quarter of 2013.

Our floor plan credit agreement with Mercedes Benz Financial Services Australia (MBA) provides us revolving loans for the acquisition of commercial vehicles for distribution to our retail network. This facility includes a limited parent guarantee and a commitment to repurchase dealer vehicles in the event the dealer's floor plan agreement with MBA is terminated.

Cash Flows

Cash and cash equivalents increased by \$27.7 million and decreased by \$1.1 million during the nine months ended September 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 \$298.0 million and \$262.7 million during the nine months ended September 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 the commercial vehicles we purchase for distribution, new vehicles for retail sale and a portion of our used vehicle inventories for retail sale under revolving floor plan arrangements with various lenders, including the captive finance companies associated with automotive manufacturers. 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.

Table of Contents

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, all floor plan notes payable relating to pre-owned vehicles and all floor plan notes payable related to our commercial 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.

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	Nine Months Ended September 30,	
	2013	2012
Net cash from continuing operating activities as reported	\$ 298.0	\$ 262.7
Net borrowings (repayments) of floor plan notes payable non-trade as reported	76.5	32.4
Net cash from continuing operating activities including all floor plan notes payable	\$ 374.5	\$ 295.1

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was \$433.9 million and \$229.1 million during the nine months ended September 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 \$205.3 million, including \$82.3 million of capital expenditures relating to vehicle purchases for our Hertz rental car business, and \$96.4 million during the nine months ended September 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 \$221.2 million and \$137.8 million during the nine months ended September 30, 2013 and 2012, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of \$1.0 and \$49.5 million, respectively. Additionally, cash used in other investing activities was \$7.5 million during the nine months ended September 30, 2013 and cash provided by other investing activities was \$3.5 million during the nine months ended September 30, 2012.

Cash Flows from Continuing Financing Activities

Cash provided by continuing financing activities was \$144.1 million during the nine months ended September 30, 2013 and cash used in continuing financing activities was \$53.0 million during the nine months ended September 30, 2012. 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 borrowings of long-term debt of \$123.8 million during the nine months ended September 30, 2013 and net repayments of long-term debt of \$133.9 million during the nine months ended September 30, 2012. We had net borrowings of floor plan notes payable non-trade of \$76.5 million and \$32.4 million during the nine months ended September 30, 2013 and 2012, respectively. We repurchased common stock for a total of \$15.8 million and \$9.8 million during the nine

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months ended September 30, 2013 and 2012, respectively. We also paid cash dividends to our stockholders of \$40.7 million and \$29.8 million during the nine months ended September 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

Table of Contents

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 September 30, 2013, our automotive retail joint venture relationships included:

Location	Dealerships	Ownership Interest
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	70.00%(B)(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 third quarter of 2013 we purchased a 35% interest in this joint venture. As a result of this third quarter purchase, we are now consolidating 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

Table of Contents

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;
- 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;
- 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;

- we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more

Table of Contents

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;

- the success of our commercial vehicle distribution operations depends upon continued availability of the vehicles we distribute, demand for those vehicles and general economic conditions in those markets;

- 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;

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- 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;
- with respect to our Hertz rental car operations, we are subject to residual risk on the rental vehicles and the risk that a substantial number of the rental vehicles may be unavailable due to recall or other reasons;
- 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;
- 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.

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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.

Table of Contents

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 September 30, 2013, a 100 basis point change in interest rates would result in an approximate \$2.7 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, the Euro Interbank Offered Rate, or the Australian or New Zealand Bank Bill Swap Rate (BBSW).

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 \$300.0 million of our floating rate floor plan debt is fixed at a rate of 2.135% and \$100.0 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 September 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 \$17.1 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 September 30, 2013, we had operations in the U.K., Germany, Italy, Australia and New Zealand. In each of these markets, the local currency is the functional currency. 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 \$391.9 million change to our revenues for the nine months ended September 30, 2013.

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

Table of Contents

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 1A. Risk Factors

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The following updates the risk factors included in our 2012 Form 10-K:

The success of our commercial vehicle distribution is directly impacted by availability and demand for the vehicles we distribute. Since August 30, 2013, we are the exclusive distributor of Western Star commercial trucks, MAN commercial trucks and buses, and Dennis Eagle refuse collection vehicles, together with associated parts across Australia, New Zealand and portions of Southeast Asia. The profitability of this business depends upon the number of vehicles we distribute, which in turn is impacted by demand for these vehicles. We believe demand for these vehicles is subject to general economic conditions, regulatory changes, competitiveness of the vehicles and other factors over which we have limited control. In the event sales of these vehicles are less than we expect, our related results of operations and cash flows for this aspect of our business may be materially adversely affected. In the event of supply disruptions or if sufficient quantities of these vehicles are not made available to us, or if we accept vehicles and are unable to economically distribute those vehicles to our network, our cash flows or results of operations for this aspect of our business may be materially adversely affected.

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 third quarter of 2013, we did not repurchase any common stock under this program. As of September 30, 2013, our remaining authorization under the program was \$85.6 million.

During the third quarter of 2013, we acquired 68 shares of our common stock for \$2,528 from employees to satisfy tax obligations in connection with the grant of employee equity awards.

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
July 1 to July 31, 2013	68	\$ 37.18	
August 1 to August 31, 2013		\$	
September 1 to September 30, 2013	68	\$ 37.18	

Table of Contents

Item 6. Exhibits

10.1	Form of Restricted Stock Unit Agreement*
10.2	Amendment dated September 25, 2013 to Amended and Restated Limited Liability Company Agreement of ATC Holdco, LLC dated June 10, 2013 by and among TRP III (ATC) I, LP, TRP III (ATC) II, LP, PAG Investments, LLC, and other investors.
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.

*Compensatory plans or contracts

Table of Contents

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.

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

Date: October 30, 2013

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

Date: October 30, 2013

Table of Contents

EXHIBIT INDEX

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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.

*Compensatory plans or contracts