UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2013

or

o **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)

Delaware	**22-3086739**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
2555 Telegraph Road, **Bloomfield Hills, Michigan**	**48302-0954**
(Address of principal executive offices)	(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 x No o

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 x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

As of April 21, 2013, there were 90,302,508 shares of voting common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2013	December 31, 2012
	(Unaudited) (In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 31,627	$ 43,753
Accounts receivable, net of allowance for doubtful accounts of $2,437 and $2,919	527,663	552,868
Inventories	2,023,529	1,991,167
Other current assets	89,488	90,854
Assets held for sale	108,468	94,441
Total current assets	2,780,775	2,773,083
Property and equipment, net	1,078,627	1,023,781
Goodwill	950,636	974,720
Franchise value	274,955	283,292
Equity method investments	311,251	303,160
Other long-term assets	18,738	20,954
Total assets	$ 5,414,982	$ 5,378,990
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 1,425,199	$ 1,408,363
Floor plan notes payable non-trade	744,223	716,621
Accounts payable	287,744	263,349
Accrued expenses	226,080	223,574
Current portion of long-term debt	33,053	19,493
Liabilities held for sale	81,452	62,156
Total current liabilities	2,797,751	2,693,556
Long-term debt	858,676	918,024
Deferred tax liabilities	297,851	287,818
Other long-term liabilities	155,128	163,271
Total liabilities	4,109,406	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; 90,303 shares issued and outstanding at March 31, 2013; 90,295 shares issued and outstanding at December 31, 2012	9	9
Non-voting Common Stock, $0.0001 par value, 7,125 shares authorized; none issued and outstanding		
Class C Common Stock, $0.0001 par value, 20,000 shares authorized; none issued and outstanding		
Additional paid-in-capital	689,523	700,013
Retained earnings	656,034	611,026
Accumulated other comprehensive income (loss)	(44,486)	(6,833)
Total Penske Automotive Group stockholders equity	1,301,080	1,304,215
Non-controlling interest	4,496	12,106
Total equity	1,305,576	1,316,321
Total liabilities and equity	$ 5,414,982	$ 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 March 31, 2013	Three Months Ended March 31, 2012
	(Unaudited) (In thousands, except per share amounts)	
Revenue:		
New vehicle	$ 1,742,833	$ 1,543,991
Used vehicle	1,004,964	936,091
Finance and insurance, net	86,685	77,752
Service and parts	383,483	359,206
Other	181,902	239,350
Total revenues	3,399,867	3,156,390
Cost of sales:		
New vehicle	1,607,458	1,414,388
Used vehicle	926,493	860,032
Service and parts	159,615	151,654
Other	173,314	236,457
Total cost of sales	2,866,880	2,662,531
Gross profit	532,987	493,859
Selling, general and administrative expenses	413,312	386,705
Depreciation	14,449	12,950
Operating income	105,226	94,204
Floor plan interest expense	(10,211)	(9,493)
Other interest expense	(11,776)	(12,131)
Equity in earnings of affiliates	2,348	4,410
Income from continuing operations before income taxes	85,587	76,990
Income taxes	(28,381)	(26,908)
Income from continuing operations	57,206	50,082
Income (Loss) from discontinued operations, net of tax	813	(3,076)
Net income	58,019	47,006
Less: Income attributable to non-controlling interests	355	188
Net income attributable to Penske Automotive Group common stockholders	$ 57,664	$ 46,818
Basic earnings per share attributable to Penske Automotive Group common stockholders:		
Continuing operations	$ 0.63	$ 0.55
Discontinued operations	0.01	(0.03)
Net income attributable to Penske Automotive Group common stockholders	$ 0.64	$ 0.52
Shares used in determining basic earnings per share	90,421	90,306
Diluted earnings per share attributable to Penske Automotive Group common stockholders:		
Continuing operations	$ 0.63	$ 0.55
Discontinued operations	0.01	(0.03)
Net income attributable to Penske Automotive Group common stockholders	$ 0.64	$ 0.52
Shares used in determining diluted earnings per share	90,457	90,338
Amounts attributable to Penske Automotive Group common stockholders:		
Income from continuing operations	$ 57,206	$ 50,082
Less: Income attributable to non-controlling interests	355	188
Income from continuing operations, net of tax	56,851	49,894
Income (Loss) from discontinued operations, net of tax	813	(3,076)
Net income attributable to Penske Automotive Group common stockholders	$ 57,664	$ 46,818

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2013	2012
	(Unaudited) (In thousands, except per share amounts)	
Net Income	$ 58,019	$ 47,006
Other Comprehensive Income:		
Foreign currency translation adjustment	(36,653)	9,926
Unrealized gain (loss) on interest rate swaps:		
Unrealized gain(loss) arising during the period, net of tax benefit of $35 and $822, respectively	(54)	(1,257)
Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of $723, and $669, respectively	1,105	1,023
Unrealized gain (loss) on interest rate swaps, net of tax	1,051	(234)
Other adjustments to Comprehensive Income, net	(1,517)	1,009
Other Comprehensive Income(Loss), Net of Taxes	(37,119)	10,701
Comprehensive Income	20,900	57,707
Less: Comprehensive income attributable to non-controlling interests	889	188
Comprehensive income attributable to Penske Automotive Group common stockholders	$ 20,011	$ 57,519

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	$ 58,019	$ 47,006
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	14,449	12,950
Earnings of equity method investments	(2,348)	(4,410)
(Income) loss from discontinued operations, net of tax	(813)	3,076
Deferred income taxes	11,630	4,880
Changes in operating assets and liabilities:		
Accounts receivable	6,885	(33,678)
Inventories	(53,091)	(101,396)
Floor plan notes payable	32,119	134,089
Accounts payable and accrued expenses	33,500	74,150
Other	2,725	(11,461)
Net cash from continuing operating activities	103,075	125,206
Investing Activities:		
Purchase of equipment and improvements	(68,398)	(26,173)
Dealership acquisitions net, including repayment of sellers floor plan notes payable of $0 and $36,906, respectively	(27,180)	(108,106)
Other	5,744	
Net cash from continuing investing activities	(89,834)	(134,279)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	247,700	194,300
Repayments under U.S. credit agreement revolving credit line	(287,700)	(219,300)
Net borrowings (repayments) of car rental revolver	49,779	
Net borrowings (repayments) of other long-term debt	(49,368)	34,766
Net borrowings (repayments) of floor plan notes payable non-trade	33,477	(367)
Repurchases of common stock	(12,680)	(8,522)
Dividends	(12,656)	(8,973)
Net cash from continuing financing activities	(31,448)	(8,096)
Discontinued operations:		
Net cash from discontinued operating activities	(2,766)	(2,774)
Net cash from discontinued investing activities	989	34,370
Net cash from discontinued financing activities	7,858	(10,491)
Net cash from discontinued operations	6,081	21,105
Net change in cash and cash equivalents	(12,126)	3,936
Cash and cash equivalents, beginning of period	43,753	27,201
Cash and cash equivalents, end of period	$ 31,627	$ 31,137
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 13,478	$ 14,061
Income taxes	3,259	7,740

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity Attributable to Penske Automotive Group	Non-controlling Interest	Total Equity
			(Unaudited) (Dollars in thousands)					
Balance, January 1, 2013	90,294,765	$ 9	$ 700,013	$ 611,026	$ (6,833)	$ 1,304,215	$ 12,106	$ 1,316,321
Equity compensation	417,743		2,190			2,190		2,190
Repurchase of common stock	(410,000)		(12,680)			(12,680)		(12,680)
Dividends				(12,656)		(12,656)		(12,656)
Distributions to non-controlling interests							(190)	(190)
Deconsolidation of subsidiary							(8,309)	(8,309)
Foreign currency translation					(37,187)	(37,187)	534	(36,653)
Interest rate swaps					1,051	1,051		1,051
Other					(1,517)	(1,517)		(1,517)
Net income				57,664		57,664	355	58,019
Balance, March 31, 2013	90,302,508	$ 9	$ 689,523	$ 656,034	$ (44,486)	$ 1,301,080	$ 4,496	$ 1,305,576

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

1. Interim Financial Statements

Business Overview

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

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenue. As of March 31, 2013, we operated 342 retail franchises, of which 174 franchises are located in the U.S. and 168 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K.

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

We are the Hertz rental car franchisee in the Memphis, Tennessee market. In March 2013, we also acquired the assets and franchise rights to become the operator of Hertz rental car locations in certain markets throughout Indiana. We now operate more than fifty on and off-airport Hertz rental car locations.

During the first quarter of 2013, we sold 50% of our holdings in our Italian automotive retail joint venture. As a result of this transaction, we deconsolidated the Italian joint venture and will account for our remaining 35% interest using the equity method.

Basis of Presentation

The following unaudited consolidated condensed financial statements of PAG have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of March 31, 2013 and December 31, 2012 and for the three month periods ended March 31, 2013 and 2012 is unaudited, but includes all adjustments that are of a normal recurring nature, which our management believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements, including the comparative periods presented, have been adjusted for entities that have been treated as discontinued operations through March 31, 2013 in accordance with generally accepted accounting principles. 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 for 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.

Table of Contents

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 March 31, 2013	2012
Revenues	$ 85,761	$ 131,840
Pre-tax income (loss)	1,271	(954)
Loss on disposal		(182)

	March 31, 2013	December 31, 2012
Inventories	$ 61,918	$ 53,688
Other assets	46,550	40,753
Total assets	$ 108,468	$ 94,441
Floor plan notes payable (including non-trade)	$ 55,350	$ 45,593
Other liabilities	26,102	16,563
Total liabilities	$ 81,452	$ 62,156

Estimates

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

Fair Value of Financial Instruments

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

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

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

Table of Contents

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

	March 31, 2013			
		Carrying Value		Fair Value
5.75% senior subordinated notes due 2022	$	550,000	$	573,375
Mortgage facilities		103,205		105,154

2. Inventories

Inventories consisted of the following:

		March 31, 2013		December 31, 2012
New vehicles	$	1,430,247	$	1,421,074
Used vehicles		511,938		484,760
Parts, accessories and other		81,344		85,333
Total inventories	$	2,023,529	$	1,991,167

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $8,339 and $5,265 during the three months ended March 31, 2013 and 2012, respectively.

3. Business Combinations

We acquired one Hertz car rental franchise during the three months ended March 31, 2013 and thirteen automotive retail franchises during the three months ended March 31, 2012. Our financial statements include the results of operations of the acquired dealerships 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 three months ended March 31, 2013 and 2012 follows:

	March 31,			
		2013		2012
Accounts receivable	$		$	16,976
Inventory		117		79,650
Other current assets		80		
Property and equipment		20,021		32,593
Indefinite-lived intangibles		6,962		54,992

Current liabilities				(49,290)
Non-current liabilities				(26,815)
Total consideration		27,180		108,106
Seller financed/assumed debt				
Cash used in dealership acquisitions	$	27,180	$	108,106

The following unaudited consolidated pro forma results of operations of PAG for the three months ended March 31, 2013 and 2012 give effect to acquisitions consummated during 2013 and 2012 as if they had occurred on January 1, 2012:

Table of Contents

	Three Months Ended March 31, 2013		2012
Revenues	$ 3,403,722		$ 3,236,892
Income from continuing operations	56,961		50,681
Net income	57,419		47,417
Income from continuing operations per diluted common share	$ 0.63		$ 0.56
Net income per diluted common share	$ 0.63		$ 0.52

4. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the three months ended March 31, 2013:

	Goodwill	Franchise Value
Balance, January 1, 2013	$ 974,720	$ 283,292
Additions	6,962	
Deconsolidation of Italian investment	(7,231)	(2,908)
Foreign currency translation	(23,815)	(5,429)
Balance, March 31, 2013	$ 950,636	$ 274,955

Goodwill additions of $6,962 were related to our Hertz rental car operations within our Other reportable segment. All other changes were within our Retail reportable segment. As of March 31, 2013, the goodwill balance within our Retail and Other reportable segments was $939,735 and $10,901, respectively.

5. Floor Plan Notes Payable Trade and Non-trade

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

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

11

Table of Contents

6. Earnings Per Share

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested restricted stock awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 follows:

	Three Months Ended March 31,	
	2013	**2012**
Weighted average number of common shares outstanding	90,421	90,306
Effect of non-participatory equity compensation	36	32
Weighted average number of common shares outstanding, including effect of dilutive securities	90,457	90,338

7. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2013	**December 31, 2012**
U.S. credit agreement - revolving credit line	$ 10,000	$ 50,000
U.S. credit agreement - term loan	110,000	110,000
U.K. credit agreement - revolving credit line	3,040	48,741
U.K. credit agreement - term loan	34,205	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	72,950	23,171
Mortgage facilities	103,205	104,043
Other	8,329	5,731
Total long-term debt	891,729	937,517
Less: current portion	(33,053)	(19,493)
Net long-term debt	$ 858,676	$ 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 $110,000, and for an additional $10,000 of availability for letters of credit, through September 2015. The revolving loans bear interest at a defined LIBOR plus 2.25%, subject to an incremental 1.25% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.25%, may be prepaid at any time, but then may not be re-borrowed.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of March 31, 2013, we were in compliance with all covenants under the U.S. Credit Agreement.

The U.S. Credit Agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets are subject to security interests granted to lenders under the U.S. Credit Agreement. As of March 31, 2013, $10,000 of revolver borrowings, $110,000 of term loans and $500 of letters of credit were outstanding under the U.S. Credit Agreement.

Table of Contents

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 March 31, 2013, outstanding loans under the U.K. credit agreement amounted to £2,000 ($3,040).

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 March 31, 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 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 March 31, 2013, the amount outstanding under the U.K. term loan was £22,500 ($34,205).

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) in a private offering under Rule 144A and Regulation S of the Securities Act of 1933.

We used a portion of the net proceeds of the 5.75% Notes to redeem $375,000 in aggregate principal amount of our 7.75% Senior Subordinated Notes due 2016, and to pay fees and expenses in connection with the offering. The remaining proceeds from the 5.75% Notes were used to repay amounts outstanding under our U.S. credit agreement and our U.S. floor plan borrowings.

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 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 March 31, 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 $100,000 in revolving loans for the acquisition of rental vehicles. The revolving loans bear interest at three-month LIBOR plus 2.50%. This agreement provides the lender with a secured interest in the vehicles and our rental car operations other assets, requires us to make monthly curtailment payments and expires in October 2014. As of March 31, 2013 outstanding loans under the rental car revolver amounted to $72,950.

Table of Contents

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 March 31, 2013, we owed $103,205 of principal under our mortgage facilities.

8. Interest Rate Swaps

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

We used Level 2 inputs to estimate the fair value of the interest rate swap agreements. As of March 31, 2013 and December 31, 2012, the fair value of the swaps designated as hedging instruments was estimated to be a liability of $12,598 and $14,337, respectively. During 2013 and 2012, there was no hedge ineffectiveness recorded in our income statement. During the three months ended March 31, 2013, the swaps increased the weighted average interest rate on our floor plan borrowings by approximately 38 basis points.

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 March 31, 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 March 31, 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. Since April 2012, PTL has refinanced a significant amount 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 to certain investors through an offering pursuant to Rule 144A of the Securities Act of 1933, as amended (the Holdings Bonds). A wholly-owned subsidiary of Holdings contributed $700,000 derived from the net proceeds from the offering of the Holdings Bonds and a portion of its cash on hand to PTL in exchange for a 21.5% limited partner interest in PTL. PTL used the $700,000 of funds to reduce its outstanding debt owed to GECC. GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds.

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

We have $500 of letters of credit outstanding as of March 31, 2013, and have posted $9,047 of surety bonds in the ordinary course of business.

Table of Contents

10. Equity

Share Repurchase

During the first quarter of 2013, we repurchased 410 shares of our outstanding common stock for $12,680, or an average of $30.93 per share, under a program approved by our Board of Directors.

11. Accumulated Other Comprehensive Income / (Loss)

The table below presents the changes in accumulated other comprehensive income / (loss) by component and the reclassifications out of accumulated other comprehensive income / (loss) during the three months ended March 31, 2013 attributable to Penske Automotive Group common stockholders.

	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	(54)	(36,303)	(1,517)	(37,874)
Amounts reclassified from accumulated other comprehensive income - net of tax	1,105	(884)		221
Net current-period other comprehensive income	1,051	(37,187)	(1,517)	(37,653)
Balance at March 31, 2013	$ (7,627)	$ (38,381)	$ 1,522	$ (44,486)

Within the amounts reclassified from accumulated other comprehensive income, the $1,105 associated with interest rate swaps is included in floor plan interest expense, and the $(884) associated with foreign currency translation is included in selling, general, and administrative expenses.

12. Segment Information

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

Three Months Ended March 31

	Retail	Other	Intersegment Elimination	Total
Revenues				
2013	$ 3,405,665	$ 6,886	$ (12,684)	$ 3,399,867
2012	3,156,390			3,156,390
Segment income				
2013	84,424	1,273	(110)	85,587
2012	73,156	3,834		76,990

Table of Contents

13. Condensed Consolidating Financial Information

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

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 31,627	$	$	$ 19,102	$ 12,525
Accounts receivable, net	527,663	(352,395)	352,395	293,820	233,843
Inventories	2,023,529			1,206,377	817,152
Other current assets	89,488		3,375	41,500	44,613
Assets held for sale	108,468			66,477	41,991
Total current assets	2,780,775	(352,395)	355,770	1,627,276	1,150,124
Property and equipment, net	1,078,627		4,353	727,320	346,954
Intangible assets	1,225,591			763,430	462,161
Equity method investments	311,251		254,392		56,859
Other long-term assets	18,738	(1,459,958)	1,473,072	4,086	1,538
Total assets	$ 5,414,982	$ (1,812,353)	$ 2,087,587	$ 3,122,112	$ 2,017,636
Floor plan notes payable	$ 1,425,199	$	$	$ 884,419	$ 540,780
Floor plan notes payable non-trade	744,223		109,321	317,087	317,815
Accounts payable	287,744		2,564	124,555	160,625
Accrued expenses	226,080	(352,395)	126	127,936	450,413
Current portion of long-term debt	33,053			23,932	9,121
Liabilities held for sale	81,452			42,717	38,735
Total current liabilities	2,797,751	(352,395)	112,011	1,520,646	1,517,489
Long-term debt	858,676	(39,314)	670,000	156,321	71,669
Deferred tax liabilities	297,851			272,900	24,951
Other long-term liabilities	155,128			81,088	74,040
Total liabilities	4,109,406	(391,709)	782,011	2,030,955	1,688,149
Total equity	1,305,576	(1,420,644)	1,305,576	1,091,157	329,487
Total liabilities and equity	$ 5,414,982	$ (1,812,353)	$ 2,087,587	$ 3,122,112	$ 2,017,636

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	$ 43,753	$	$	$ 36,783	$ 6,970
Accounts receivable, net	552,868	(340,917)	340,917	372,638	180,230
Inventories	1,991,167			1,197,456	793,711
Other current assets	90,854		3,546	55,836	31,472
Assets held for sale	94,441			59,113	35,328
Total current assets	2,773,083	(340,917)	344,463	1,721,826	1,047,711
Property and equipment, net	1,023,781		4,474	654,248	365,059
Intangible assets	1,258,012			756,655	501,357
Equity method investments	303,160		252,816		50,344
Other long-term assets	20,954	(1,527,156)	1,540,447	5,025	2,638
Total assets	$ 5,378,990	$ (1,868,073)	$ 2,142,200	$ 3,137,754	$ 1,967,109
Floor plan notes payable	$ 1,408,363	$	$	$ 917,390	$ 490,973
Floor plan notes payable non-trade	716,621		112,085	334,122	270,414
Accounts payable	263,349		3,344	123,754	136,251
Accrued expenses	223,574	(340,917)	450	113,753	450,288
Current portion of long-term debt	19,493			9,745	9,748
Liabilities held for sale	62,156			33,163	28,993
Total current liabilities	2,693,556	(340,917)	115,879	1,531,927	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	163,271			84,108	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 March 31, 2013

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	$ 3,399,867	$	$	$ 2,017,973	$ 1,381,894
Cost of sales	2,866,880			1,685,065	1,181,815
Gross profit	532,987			332,908	200,079
Selling, general and administrative expenses	413,312		5,158	256,469	151,685
Depreciation	14,449		378	8,251	5,820
Operating income (loss)	105,226		(5,536)	68,188	42,574
Floor plan interest expense	(10,211)		(2,287)	(4,810)	(3,114)
Other interest expense	(11,776)		(6,716)	(1,067)	(3,993)
Equity in earnings of affiliates	2,348		1,912		436
Equity in earnings of subsidiaries		(97,859)	97,859		
Income (loss) from continuing operations before income taxes	85,587	(97,859)	85,232	62,311	35,903
Income taxes	(28,381)	32,586	(28,381)	(24,426)	(8,160)
Income (loss) from continuing operations	57,206	(65,273)	56,851	37,885	27,743
(Loss) income from discontinued operations, net of tax	813	(813)	813	601	212
Net income (loss)	58,019	(66,086)	57,664	38,486	27,955
Other comprehensive income (loss), net of tax	(37,119)	36,784	(37,119)	1,051	(37,835)
Comprehensive income	20,900	(29,302)	20,545	39,537	(9,880)
Less: Comprehensive income attributable to the non-controlling interests	889	(534)	534		889
Comprehensive income attributable to Penske Automotive Group common stockholders	$ 20,011	$ (28,768)	$ 20,011	$ 39,537	$ (10,769)

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2012

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	$ 3,156,390	$	$	$ 1,806,894	$ 1,349,496
Cost of sales	2,662,531			1,514,572	1,147,959
Gross profit	493,859			292,322	201,537
Selling, general and administrative expenses	386,705		4,595	234,721	147,389
Depreciation	12,950		362	6,958	5,630
Operating income (loss)	94,204		(4,957)	50,643	48,518
Floor plan interest expense	(9,493)		(2,198)	(3,723)	(3,572)
Other interest expense	(12,131)		(7,563)	(910)	(3,658)
Equity in earnings of affiliates	4,410		3,760		650
Equity in earnings of subsidiaries		(87,760)	87,760		
Income (loss) from continuing operations before income taxes	76,990	(87,760)	76,802	46,010	41,938
Income taxes	(26,908)	30,742	(26,908)	(20,635)	(10,107)
Income (loss) from continuing operations	50,082	(57,018)	49,894	25,375	31,831
(Loss) income from discontinued operations, net of tax					