PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
May 05, 2014
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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, 2014

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 (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 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 the definitions of accelerated filer, large accelerated filer, accelerated filer and smaller reporting company 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 15, 2014, there were 90,550,026 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2014	December 31, 2013
	(Unaudited) (In millions, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 54.9	$ 49.8
Accounts receivable, net of allowance for doubtful accounts of $3.9 and $2.4	677.7	600.8
Inventories	2,547.3	2,518.3
Other current assets	101.8	88.4
Assets held for sale	55.6	107.3
Total current assets	3,437.3	3,364.6
Property and equipment, net	1,301.2	1,232.2
Goodwill	1,205.6	1,144.5
Franchise value	296.3	295.4
Equity method investments	352.0	346.9
Other long-term assets	19.8	31.9
Total assets	$ 6,612.2	$ 6,415.5
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 1,721.6	$ 1,685.1
Floor plan notes payable non-trade	908.7	901.6
Accounts payable	411.7	373.3
Accrued expenses	319.1	262.6
Current portion of long-term debt	65.1	50.0
Liabilities held for sale	36.9	59.7
Total current liabilities	3,463.1	3,332.3
Long-term debt	1,010.3	1,033.2
Deferred tax liabilities	364.8	361.4
Other long-term liabilities	190.8	166.5
Total liabilities	5,029.0	4,893.4
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; 90,550,026 shares issued and outstanding at March 31, 2014; 90,243,731 shares issued and outstanding at December 31, 2013		
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	696.9	693.6
Retained earnings	850.5	799.2
Accumulated other comprehensive income (loss)	18.0	11.6

Total Penske Automotive Group stockholders equity		1,565.4		1,504.4
Non-controlling interest		17.8		17.7
Total equity		1,583.2		1,522.1
Total liabilities and equity	$	6,612.2	$	6,415.5

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended March 31,			
	2014		2013	
	(Unaudited) (In millions, except per share amounts)			
Revenue:				
New vehicle	$	2,026.3	$	1,716.8
Used vehicle		1,201.6		988.2
Finance and insurance, net		104.9		85.9
Service and parts		417.5		379.7
Fleet and wholesale		187.9		171.9
Commercial vehicles, car rental and other		109.8		6.8
Total revenues	$	4,048.0	$	3,349.3
Cost of sales:				
New vehicle		1,869.6		1,583.1
Used vehicle		1,114.6		910.9
Service and parts		170.3		158.5
Fleet and wholesale		183.5		167.7
Commercial vehicles, car rental and other		86.0		2.5
Total cost of sales		3,424.0		2,822.7
Gross profit		624.0		526.6
Selling, general and administrative expenses		487.8		407.1
Depreciation		16.5		14.3
Operating income		119.7		105.2
Floor plan interest expense		(11.1)		(10.1)
Other interest expense		(13.1)		(11.5)
Equity in earnings of affiliates		5.1		2.3
Income from continuing operations before income taxes		100.6		85.9
Income taxes		(34.1)		(28.3)
Income from continuing operations		66.5		57.6
Income (Loss) from discontinued operations, net of tax		1.4		0.4
Net income		67.9		58.0
Less: Income attributable to non-controlling interests		0.4		0.3
Net income attributable to Penske Automotive Group common stockholders	$	67.5	$	57.7
Basic earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	$	0.73	$	0.63
Discontinued operations		0.02		0.00
Net income attributable to Penske Automotive Group common stockholders	$	0.75	$	0.64
Shares used in determining basic earnings per share		90.4		90.4
Diluted earnings per share attributable to Penske Automotive Group common stockholders:				
Continuing operations	$	0.73	$	0.63
Discontinued operations		0.02		0.00
Net income attributable to Penske Automotive Group common stockholders	$	0.75	$	0.64
Shares used in determining diluted earnings per share		90.5		90.5
Amounts attributable to Penske Automotive Group common stockholders:				
Income from continuing operations	$	66.5	$	57.6
Less: Income attributable to non-controlling interests		0.4		0.3
Income from continuing operations, net of tax		66.1		57.3

Income (Loss) from discontinued operations, net of tax		1.4		0.4
Net income attributable to Penske Automotive Group common stockholders	$	67.5	$	57.7

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,			
	2014		2013	
	(Unaudited) (In millions, except per share amounts)			
Net Income	$	67.9	$	58.0
Other Comprehensive Income:				
Foreign currency translation adjustment		9.3		(36.6)
Unrealized gain (loss) on interest rate swaps:				
Unrealized gain(loss) arising during the period, net of tax benefits		(0.2)		(0.1)
Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of $0.7, and $0.7, respectively		1.1		1.1
Unrealized gain (loss) on interest rate swaps, net of tax		0.9		1.0
Other adjustments to Comprehensive Income, net		(4.0)		(1.5)
Other Comprehensive Income(Loss), Net of Taxes		6.2		(37.1)
Comprehensive Income		74.1		20.9
Less: Comprehensive income attributable to non-controlling interests		0.2		0.9
Comprehensive income attributable to Penske Automotive Group common stockholders	$	73.9	$	20.0

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(Unaudited) (In millions)	
Operating Activities:		
Net income	$ 67.9	$ 58.0
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	16.5	14.3
Earnings of equity method investments	(5.1)	(2.3)
(Income) loss from discontinued operations, net of tax	(1.4)	(0.4)
Deferred income taxes	(0.1)	11.6
Changes in operating assets and liabilities:		
Accounts receivable	(77.5)	10.7
Inventories	(0.4)	(58.1)
Floor plan notes payable	36.5	29.4
Accounts payable and accrued expenses	87.4	30.0
Other	8.7	4.7
Net cash from continuing operating activities	132.5	97.9
Investing Activities:		
Purchase of equipment and improvements	(34.5)	(32.8)
Purchase of car rental vehicles	(28.5)	(35.9)
Dealership acquisitions net, including repayment of sellers floor plan notes payable of $22.4 and $0, respectively	(81.8)	(27.2)
Other	8.3	5.7
Net cash from continuing investing activities	(136.5)	(90.2)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	323.0	247.7
Repayments under U.S. credit agreement revolving credit line	(313.0)	(287.7)
Proceeds from borrowings under car rental revolver	28.0	49.8
Repayments of car rental revolver	(13.7)	
Net borrowings (repayments) of other long-term debt	(36.3)	(49.3)
Net borrowings (repayments) of floor plan notes payable non-trade	7.1	41.7
Repurchases of common stock		(12.7)
Dividends	(16.2)	(12.6)
Net cash from continuing financing activities	(21.1)	(23.1)
Discontinued operations:		
Net cash from discontinued operating activities	(23.1)	3.2
Net cash from discontinued investing activities	54.0	0.8
Net cash from discontinued financing activities	(0.7)	(0.4)
Net cash from discontinued operations	30.2	3.6
Net change in cash and cash equivalents	5.1	(11.8)
Cash and cash equivalents, beginning of period	49.8	43.8
Cash and cash equivalents, end of period	$ 54.9	$ 32.0
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 17.6	$ 13.5
Income taxes	9.2	3.3

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

	Common Stock Issued Shares	Common Stock 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 millions)							
Balance, January 1, 2014	90,243,731	$	$ 693.6	$ 799.2	$ 11.6	$ 1,504.4	$ 17.7	$ 1,522.1
Equity compensation	306,295		3.3			3.3		3.3
Dividends				(16.2)		(16.2)		(16.2)
Distributions to non-controlling interests							(0.3)	(0.3)
Purchase of controlling interest							0.2	0.2
Foreign currency translation					9.5	9.5	(0.2)	9.3
Interest rate swaps					0.9	0.9		0.9
Other					(4.0)	(4.0)		(4.0)
Net income				67.5		67.5	0.4	67.9
Balance, March 31, 2014	90,550,026	$	$ 696.9	$ 850.5	$ 18.0	$ 1,565.4	$ 17.8	$ 1,583.2

See Notes to Consolidated Condensed Financial Statements

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

1. Interim Financial Statements

Business Overview

We are an international transportation services company, operating retail automotive dealerships, commercial vehicle distribution and car rental franchises principally in the United States, Western Europe, Australia and New Zealand, and employing approximately 18,000 people worldwide.

Automotive Dealership. We are the second largest automotive retailer headquartered in the U.S. as measured by the $14.7 billion in total revenue we generated in 2013. As of March 31, 2014, we operated 323 automotive retail franchises, of which 175 franchises are located in the U.S. and 148 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the three months ended March 31, 2014, we retailed and wholesaled more than 115,000 vehicles. We are diversified geographically, with 59% of our total automotive dealership revenues in the three months ended March 31, 2014 generated in the U.S. and Puerto Rico and 41% generated outside the U.S. We offer over 35 vehicle brands, with 72% of our automotive dealership revenue in the three months ended March 31, 2014 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 higher-margin products, such as third-party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products. We operate these dealerships under franchise agreements with a number of automotive manufacturers and distributors which are subject to certain rights and restrictions typical of the industry.

During the three months ended March 31, 2014, we acquired one U.S. franchise, BMW of Greenwich (CT), were awarded one franchise and disposed of three franchises.

Commercial Vehicle. On August 30, 2013, we acquired Western Star Trucks Australia, the exclusive importer and distributor of Western Star heavy duty trucks (a Daimler brand), MAN heavy and medium duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts across Australia, New Zealand and portions of Southeast Asia. The business distributes vehicles and parts to a network of more than 70 dealership locations including three company-owned retail commercial vehicle dealerships.

Car Rental. We are the Hertz car rental franchisee in the Memphis, Tennessee market and certain Indiana markets. We currently manage more than fifty on- and off-airport Hertz car rental locations with approximately 5,900 vehicles in the fleet. Our car rental business complements our existing U.S. automotive dealership operations.

Penske Truck Leasing. We hold a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading provider of transportation services and supply chain management.

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, 2014 and December 31, 2013 and for the three month periods ended March 31, 2014 and 2013 is unaudited, but includes all adjustments which our management believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for the prior periods have been revised for entities that have been treated as discontinued operations through March 31, 2014, and 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, 2013, which are included as part of our Annual Report on Form 10-K.

Recent Accounting Pronouncements

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

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subsidiary or group of assets that is a business within a foreign entity. This ASU was effective prospectively for the first annual period beginning after December 15, 2013. The adoption of ASU No. 2013-05 has had no effect on 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 was effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU No. 2013-10 has had no effect on 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 was effective for the first annual period beginning after December 15, 2013. The adoption of ASU No. 2013-11 has had no effect on our consolidated financial position, results of operations, or cash flows.

In April 2014, the FASB issued ASU No. 2014-8, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-8 changes the requirements for reporting discontinued operations to only allow presentation of a disposal of an entity or component of an entity as a discontinued operation if it represents a strategic shift that has (or will have) a major effect on an entities operations or financial results. This ASU is effective for the first annual period beginning after December 15, 2014. We anticipate the adoption of ASU No. 2014-8 to result in fewer of our disposals qualifying for discontinued operations treatment.

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 franchise being disposed. 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, 2014		2013	
Revenues	$	46.6	$	136.3
Pre-tax income (loss)	$	(8.2)	$	1.0
Pre-tax gain (loss) on disposal	$	14.8	$	

	March 31, 2014		December 31, 2013	
Inventories	$	32.3	$	55.8
Other assets		23.3		51.5
Total assets	$	55.6	$	107.3
Floor plan notes payable (including non-trade)	$	21.8	$	43.6
Other liabilities		15.1		16.1
Total liabilities	$	36.9	$	59.7

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

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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, 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 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, 2014	
	Carrying Value	**Fair Value**
5.75% senior subordinated notes due 2022	$ 550.0	$ 577.5
Mortgage facilities	$ 117.6	116.0

2. Inventories

Inventories consisted of the following:

	March 31, 2014	December 31, 2013
New vehicles	$ 1,693.8	$ 1,709.4
Used vehicles	600.1	589.2
Commercial vehicles	124.0	98.9
Parts, accessories and other	129.4	120.8
Total inventories	$ 2,547.3	$ 2,518.3

We receive credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $8.4 million and $7.7 million during the three months ended March 31, 2014 and 2013, respectively.

3. Business Combinations

We acquired one automotive retail franchise during the three months ended March 31, 2014 and one Hertz car rental franchise market area during the three months ended March 31, 2013. During the three months ended March 31, 2014 we also made an additional investment in an entity previously accounted under the equity method. 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 three months ended March 31, 2014 and 2013 follows:

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	March 31,	
	2014	2013
Accounts receivable	$ 0.7	$
Inventory	27.2	0.1
Other current assets	1.1	0.1
Property and equipment	3.8	20.0
Indefinite-lived intangibles	54.5	7.0
Current liabilities	(2.0)	
Non-current liabilities	(2.2)	
Total consideration	83.1	27.2
Seller financed/assumed debt	(1.3)	
Cash used in dealership acquisitions	$ 81.8	$ 27.2

The following unaudited consolidated pro forma results of operations of PAG for the three months ended March 31, 2014 and 2013 give effect to acquisitions consummated during 2014 and 2013 as if they had occurred on January 1, 2013:

	Three Months Ended March 31,	
	2014	2013
Revenues	$ 4,080.9	$ 3,809.9
Income from continuing operations	66.0	69.2
Net income	67.4	69.6
Income from continuing operations per diluted common share	$ 0.73	$ 0.76
Net income per diluted common share	$ 0.74	$ 0.77

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, 2014:

	Goodwill	Franchise Value
Balance, January 1, 2014	$ 1,144.5	$ 295.4
Additions	54.5	
Disposals		
Foreign currency translation	6.6	0.9
Balance, March 31, 2014	$ 1,205.6	$ 296.3

All additions were within our Retail reportable segment. As of March 31, 2014, the goodwill balance within our Retail and Other reportable segments was $1,077.5 million and $128.1 million, respectively.

5. 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 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 typically 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 increase or decrease based on changes in the prime rate, defined London Interbank Offered Rate (LIBOR), the Finance House Bank Rate, the Euro Interbank Offered Rate or Australian or New Zealand Bank Bill Swap Rate (BBSW). The weighted average interest rate on floor plan borrowings, including the effect of the interest rate swap

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discussed in Note 8, was 1.9% and 2.2% for the three months ended March 31, 2014 and 2013, respectively. 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 balance sheets and classify related cash flows as a financing activity on our consolidated 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 months ended March 31, 2014 and 2013 follows:

	Three Months Ended March 31,	
	2014	**2013**
Weighted average number of common shares outstanding	90,437,732	90,420,509
Effect of non-participatory equity compensation	36,000	36,000
Weighted average number of common shares outstanding, including effect of dilutive securities	90,473,732	90,456,509

7. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2014	**December 31, 2013**
U.S. credit agreement - revolving credit line	$ 100.0	$ 90.0
U.S. credit agreement - term loan	98.0	98.0
U.K. credit agreement - revolving credit line	73.3	106.0
U.K. credit agreement - term loan	27.5	29.8
U.K. credit agreement - overdraft line of credit		
5.75% senior subordinated notes due 2022	550.0	550.0
Rental car revolver	101.2	86.9
Mortgage facilities	117.6	118.6
Other	7.8	3.9
Total long-term debt	1,075.4	1,083.2
Less: current portion	(65.1)	(50.0)
Net long-term debt	$ 1,010.3	$ 1,033.2

U.S. Credit Agreement

On April 1, 2014, we amended and restated our U. S. credit agreement (the U.S. credit agreement) with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, principally to increase the revolving borrowing capacity from $375 million to $450 million and reduce the rate on collateralized borrowings to defined LIBOR plus 200 basis points (from defined LIBOR plus 225).

As amended, the U. S. credit agreement provides for up to $450 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes and a non-amortizing term loan with a balance of $98 million. The loans mature on the termination date of the facility which is September 30, 2016. The revolving loans now bear interest at LIBOR plus 2.00%, subject to an incremental 1.50% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.00%, 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.

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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, 2014, $100.0 million of revolver borrowings and $98.0 million of term loans were outstanding under the U.S. credit agreement.

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 March 31, 2014, outstanding loans under the U.K. credit agreement amounted to £44.0 million ($73.3 million).

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.

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 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 March 31, 2014, the amount outstanding under the U.K. term loan was £16.5 million ($27.5 million).

5.75% Senior Subordinated Notes

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

Interest on the 5.75% Notes is payable semi-annually on April 1 and October 1 of each year. 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.

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.

Car Rental Revolver

We are party to a credit agreement with Toyota Motor Credit Corporation that currently provides us with up to $200.0 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 2015. As of March 31, 2014, outstanding loans under the rental car revolver amounted to $101.2 million.

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Working Capital Loan Agreement

In December 2013 we entered into a working capital loan agreement with Mercedes-Benz Financial Services Australia Pty Ltd that provides us with up to AU $28.0 million ($25.9 million) of working capital availability. This agreement provides the lender with a secured interest in certain inventory and receivables of our commercial vehicle business. The loan bears interest at the Australian BBSW 30-day Bill Rate plus 2.35%. As of March 31, 2014, no loans were outstanding under the working capital loan agreement.

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, 2014, we owed $117.6 million 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 $300.0 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%. 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, 2014 and December 31, 2013, the fair value of the swaps designated as hedging instruments was estimated to be a liability of $6.2 million and $7.7 million, respectively. During 2014 and 2013, there was no hedge ineffectiveness recorded in our income statement. During the three months ended March 31, 2014, the swaps increased the weighted average interest rate on our floor plan borrowings by approximately 28 basis points.

Our commercial vehicle business sells vehicles and parts purchased from manufacturers in the U.S., Germany, and the U.K. 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 a liability of $1.2 million as of March 31, 2014.

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, 2014, 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, 2014, 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.

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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 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 (the Holdings Bonds). 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 $63.1 million) 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 $15.1 million of letters of credit outstanding as of March 31, 2014, and have posted $12.8 million of surety bonds in the ordinary course of business.

10. Accumulated Other Comprehensive Income / (Loss)

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, 2014 and 2013, respectively, attributable to Penske Automotive Group common stockholders follows:

	Foreign Currency Translation	Interest Rate Swaps	Other	Total
Balance at December 31, 2013	$ 11.4	$ (2.1)	$ 2.3	$ 11.6
Other comprehensive income before reclassifications	9.5	(0.2)	(4.0)	5.3
Amounts reclassified from accumulated other comprehensive income - net of tax		1.1		1.1
Net current-period other comprehensive income	9.5	0.9	(4.0)	6.4
Balance at March 31, 2014	$ 20.9	$ (1.2)	$ (1.7)	$ 18.0

	Interest Rate Swaps	Foreign Currency Translation	Other	Total
Balance at December 31, 2012	$ (8.7)	$ (1.2)	$ 3.0	$ (6.9)
Other comprehensive income before reclassifications	(0.1)	(36.6)	(1.5)	(38.2)
Amounts reclassified from accumulated other comprehensive income - net of tax	1.1	(0.9)	0.0	0.2

Net current-period other comprehensive income		1.0		(37.5)		(1.5)		(38.0)
Balance at March 31, 2013	$	(7.7)	$	(38.7)	$	1.5	$	(44.9)

Within the amounts reclassified from accumulated other comprehensive income, amounts associated with interest rate swaps are included in floor plan interest expense.

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11. 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 commercial vehicle operating segment, our car rental 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				
2014	$ 3,953.7	$ 109.8	$ (15.5)	$ 4,048.0
2013	3,355.1	6.9	(12.7)	3,349.3
Segment income				
2014	93.3	7.5	(0.2)	100.6
2013	84.7	1.3	(0.1)	85.9

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12. Condensed Consolidating Financial Information

The following tables include condensed consolidating financial information as of March 31, 2014 and December 31, 2013 and for the three month periods ended March 31, 2014 and 2013 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, 2014

	Total Company	Eliminations	Penske Automotive Group (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 54.9	$	$	$ 7.7	$ 47.2
Accounts receivable, net	677.7	(396.2)	396.2	354.3	323.4
Inventories	2,547.3			1,400.5	1,146.8
Other current assets	101.8		2.5	31.9	67.4
Assets held for sale	55.6			11.8	43.8
Total current assets	3,437.3	(396.2)	398.7	1,806.2	1,628.6
Property and equipment, net	1,301.2		4.0	835.3	461.9
Intangible assets	1,501.9			826.4	675.5
Equity method investments	352.0		298.5		53.5
Other long-term assets	19.8	(1,747.7)	1,759.0	5.1	3.4
Total assets	$ 6,612.2	$ (2,143.9)	$ 2,460.2	$ 3,473.0	$ 2,822.9
Floor plan notes payable	$ 1,721.6	$	$	$ 979.5	$ 742.1
Floor plan notes payable non-trade	908.7		125.0	416.6	367.1
Accounts payable	411.7		4.0	143.2	264.5
Accrued expenses	319.1	(396.2)		150.1	565.2
Current portion of long-term debt	65.1			52.3	12.8
Liabilities held for sale	36.9			7.8	29.1
Total current liabilities	3,463.1	(396.2)	129.0	1,749.5	1,980.8
Long-term debt	1,010.3	(126.9)	748.0	158.9	230.3
Deferred tax liabilities	364.8			340.4	24.4
Other long-term liabilities	190.8			64.0	126.8
Total liabilities	5,029.0	(523.1)	877.0	2,312.8	2,362.3
Total equity	1,583.2	(1,620.8)	1,583.2	1,160.2	460.6
Total liabilities and equity	$ 6,612.2	$ (2,143.9)	$ 2,460.2	$ 3,473.0	$ 2,822.9

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CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2013

	Total Company	Eliminations	Penske Automotive Group (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 49.8	$	$	$ 12.6	$ 37.2
Accounts receivable, net	600.8	(392.5)	392.5	382.1	218.7
Inventories	2,518.3			1,416.2	1,102.1
Other current assets	88.4		2.9	43.4	42.1
Assets held for sale	107.3			61.0	46.3
Total current assets	3,364.6	(392.5)	395.4	1,915.3	1,446.4
Property and equipment, net	1,232.2		4.0	800.0	428.2
Intangible assets	1,439.9			771.6	668.3
Equity method investments	346.9		294.9		52.0
Other long-term assets	31.9	(1,686.0)	1,697.5	5.2	15.2
Total assets	$ 6,415.5	$ (2,078.5)	$ 2,391.8	$ 3,492.1	$ 2,610.1
Floor plan notes payable	$ 1,685.1	$	$	$ 1,009.5	$ 675.6
Floor plan notes payable non-trade	901.6		128.1	445.7	327.8
Accounts payable	373.3		3.5	141.7	228.1
Accrued expenses	262.6	(392.5)	0.1	122.2	532.8
Current portion of long-term debt	50.0			39.5	10.5
Liabilities held for sale	59.7			31.0	28.7
Total current liabilities	3,332.3	(392.5)	131.7	1,789.6	1,803.5
Long-term debt	1,033.2	(123.6)	738.0	158.4	260.4
Deferred tax liabilities	361.4			337.6	23.8
Other long-term liabilities	166.5			68.8	97.7
Total liabilities	4,893.4	(516.1)	869.7	2,354.4	2,185.4
Total equity	1,522.1	(1,562.4)	1,522.1	1,137.7	424.7
Total liabilities and equity	$ 6,415.5	$ (2,078.5)	$ 2,391.8	$ 3,492.1	$ 2,610.1

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2014

	Total Company	Eliminations	Penske Automotive Group (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	$ 4,048.0	$	$	$ 2,180.5	$ 1,867.5
Cost of sales	3,424.0			1,825.3	1,598.7
Gross profit	624.0			355.2	268.8
Selling, general and administrative expenses	487.8		5.8	286.6	195.4
Depreciation	16.5		0.3	9.3	6.9
Operating income (loss)	119.7		(6.1)	59.3	66.5
Floor plan interest expense	(11.1)		(2.4)	(5.0)	(3.7)
Other interest expense	(13.1)		(7.1)	(1.2)	(4.8)
Equity in earnings of affiliates	5.1		4.2		0.9
Equity in earnings of subsidiaries		(111.6)	111.6		
Income (loss) from continuing operations before income taxes	100.6	(111.6)	100.2	53.1	58.9
Income taxes	(34.1)	37.9	(34.1)	(23.9)	(14.0)
Income (loss) from continuing operations	66.5	(73.7)	66.1	29.2	44.9
(Loss) income from discontinued operations, net of tax	1.4	(1.4)	1.4	7.0	(5.6)
Net income (loss)	67.9	(75.1)	67.5	36.2	39.3
Other comprehensive income (loss), net of tax	6.2	(6.8)	6.2	(2.4)	9.2
Comprehensive income	74.1	(81.9)	73.7	33.8	48.5
Less: Comprehensive income attributable to the non-controlling interests	0.2	0.2	(0.2)		0.2
Comprehensive income attributable to Penske Automotive Group common stockholders	$ 73.9	$ (82.1)	$ 73.9	$ 33.8	$ 48.3

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2013

	Total Company	Eliminations	Penske Automotive Group (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	$ 3,349.3	$	$	$ 1,960.9	$ 1,388.4
Cost of sales	2,822.7			1,636.1	1,186.6
Gross profit	526.6			324.8	201.8
Selling, general and administrative expenses	407.1		5.2	250.0	151.9
Depreciation	14.3		0.4	8.0	5.9
Operating income (loss)	105.2		(5.6)	66.8	44.0
Floor plan interest expense	(10.1)		(2.3)	(4.7)	(3.1)
Other interest expense	(11.5)		(6.3)	(1.1)	(4.1)
Equity in earnings of affiliates	2.3		1.9		0.4
Equity in earnings of subsidiaries		(97.9)	97.9		
Income (loss) from continuing operations before income taxes	85.9	(97.9)	85.6	61.0	37.2
Income taxes	(28.3)	32.2	(28.3)	(23.8)	(8.4)
Income (loss) from continuing operations	57.6	(65.7)	57.3	37.2	28.8
(Loss) income from discontinued operations, net of tax	0.4	(0.4)	0.4	0.8	(0.4)
Net income (loss)	58.0	(66.1)	57.7	38.0	28.4
Other comprehensive income (loss), net of tax	(37.1)	36.8	(37.1)	1.0	(37.8)
Comprehensive income	20.9	(29.3)	20.6	39.0	(9.4)
Less: Comprehensive income attributable to non-controlling interests	0.9	(0.5)	0.5		0.9
Comprehensive income attributable to Penske Automotive Group common stockholders	$ 20.0	$ (28.8)	$ 20.1	$ 39.0	$ (10.3)

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2014

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In millions)		
Net cash from continuing operating activities	$ 132.5	$ 9.7	$ 112.2	$ 10.6
Investing activities:				
Purchase of equipment and improvements	(34.5)	(0.3)	(22.7)	(11.5)
Purchase of car rental vehicles	(28.5)		(28.5)	
Acquisitions, net	(81.8)		(80.0)	(1.8)
Other	8.3		8.3	
Net cash from continuing investing activities	(136.5)	(0.3)	(122.9)	(13.3)
Financing activities:				
Net borrowings (repayments) of long-term debt	(12.0)	10.0	9.0	(31.0)
Net borrowings (repayments) of floor plan notes payable non-trade	7.1	(3.2)	(29.1)	39.4
Dividends	(16.2)	(16.2)		
Distributions from (to) parent			0.5	(0.5)
Net cash from continuing financing activities	(21.1)	(9.4)	(19.6)	7.9
Net cash from discontinued operations	30.2		25.4	4.8
Net change in cash and cash equivalents	5.1		(4.9)	10.0
Cash and cash equivalents, beginning of period	49.8		12.6	37.2
Cash and cash equivalents, end of period	$ 54.9	$	$ 7.7	$ 47.2

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2013

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In millions)		
Net cash from continuing operating activities	$ 97.9	$ 68.4	$ 26.6	$ 2.9
Investing activities:				
Purchase of equipment and improvements	(32.8)	(0.3)	(21.6)	(10.9)
Purchase of car rental vehicles	(35.9)		(35.9)	
Acquisitions, net	(27.2)		(27.2)	
Other	5.7			5.7
Net cash from continuing investing activities	(90.2)	(0.3)	(84.7)	(5.2)
Financing activities:				
Net borrowings (repayments) of long-term debt	(39.5)	(40.0)	52.3	(51.8)
Net borrowings (repayments) of floor plan notes payable non-trade	41.7	(2.8)	(12.7)	57.2
Repurchase of common stock	(12.7)	(12.7)		
Dividends	(12.6)	(12.6)		
Distributions from (to) parent			0.4	(0.4)
Other				
Net cash from continuing financing activities	(23.1)	(68.1)	40.0	5.0
Net cash from discontinued operations	3.6		0.4	3.2
Net change in cash and cash equivalents	(11.8)	0.0	(17.7)	5.9
Cash and cash equivalents, beginning of period	43.8		34.7	9.1
Cash and cash equivalents, end of period	$ 32.0	$ 0.0	$ 17.0	$ 15.0

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in Forward Looking Statements. We have acquired and initiated a number of businesses during the periods presented and addressed in this Management s Discussion and Analysis of Financial Condition and Results of Operations. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management s Discussion and Analysis of Financial Condition and Results of Operations has been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through March 31, 2014.

Overview

We are an international transportation services company, operating automotive retail dealerships, commercial vehicle distribution and car rental franchises principally in the United States, Western Europe, Australia and New Zealand, and employing approximately 18,000 people worldwide.

Automotive Dealership. We are the second largest automotive retailer headquartered in the U.S. as measured by the $14.7 billion in total revenue we generated in 2013. As of March 31, 2014, we operated 323 automotive retail franchises, of which 175 franchises are located in the U.S. and 148 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. In the three months ended March 31, 2014, we retailed and wholesaled more than 115,000 vehicles. We are diversified geographically, with 59% of our total automotive dealership revenues in the three months ended March 31, 2014 generated in the U.S. and Puerto Rico and 41% generated outside the U.S. We offer over 35 vehicle brands, with 72% of our automotive dealership revenue in the three months ended March 31, 2013 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 third-party finance and insurance products, third-party extended service and maintenance contracts and replacement and aftermarket automotive products. Automotive dealerships represented 97.3% of our total revenues and 96.2% of our total gross profit in the three months ended March 31, 2014.

Commercial Vehicle. On August 30, 2013, we completed the acquisition of Western Star Trucks Australia, the exclusive importer and distributor of Western Star heavy duty trucks (a Daimler brand), MAN heavy and medium duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles, together with associated parts across Australia, New Zealand and portions of Southeast Asia. The business distributes vehicles and parts to a network of more than 70 dealership locations, including three company-owned retail commercial vehicle dealerships. This business represented 2.3% of our total revenues and 2.6% of our total gross profit in the three months ended March 31, 2014.

Car Rental. We are the Hertz car rental franchisee in the Memphis, Tennessee market and certain Indiana markets. We currently manage more than fifty on- and off-airport Hertz car rental locations with approximately 5,900 vehicles in the fleet. Our Hertz car rental operations represented 0.3% of our total revenues and 1.2% of our total gross profit in the three months ended March 31, 2014 and complement our existing U.S. automotive dealership operations.

Penske Truck Leasing. 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 approximately 205,000 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. PTL is owned 41.1% by Penske Corporation, 9.0% by us and the remaining 49.9% of PTL is owned by direct and indirect subsidiaries of 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 operations under the caption Equity in Earnings of Affiliates, which also includes the results of our other investments.

Outlook

The level of new automotive unit sales in our markets affects 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 in 2014. For the three months ended March 31, 2014, the U.S. automotive unit sales increased 1.4% to 3.75 million vehicles despite challenging weather conditions that affected much of the Central/Midwest and Northeastern markets during the quarter. We believe the U.S. automotive market will continue to improve based upon industry forecast from companies such as IHS Automotive, Edmunds and Kelley Blue Book, 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.

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During the first three months of 2014, U.K. vehicle registrations increased 13.7% from 2013 to 0.7 million registrations. We believe the U.K. market will continue to be resilient as a result of U.K. motorists responding positively to new products and the latest technologically advanced vehicles, particularly in the area of premium brand sales and attractive financing offers.

Our commercial vehicle distribution and retail operations business operates in the Australian and New Zealand heavy and medium duty truck markets, the bus market and the refuse collection vehicle market. In 2013, the Australia heavy duty truck market reported sales of 11,119 units, representing a decrease of 2.3% from 2012. The brands we represent in Australia maintained an 11.7% share of that market in 2013. We expect the Australian/New Zealand commercial vehicle market to be relatively stable in 2014 and look for positive results to impact our business as we integrate those operations.

We expect our car rental operations and PTL to also benefit from the improving economic conditions in the United States. As described in Forward Looking Statements, there are a number of factors that could cause actual results to differ materially from our expectations.

Operating Overview

Automotive dealerships represent the majority of our results of operations. 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 third-party extended service contracts, sales of third-party 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 by customers for repair, maintenance and collision services, and the sale of replacement parts and other aftermarket accessories as well as warranty repairs which are reimbursed directly by various OEM s.

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 $97.4 million, or 18.5%, during the three months ended 2014 compared to the same period in 2013. The increase in gross profit is largely attributable to same-store increases in new and used vehicle, finance and insurance and service and parts gross profit. Our retail gross margin percentage decreased from 16.3% during 2013 to 15.9% during 2014, due primarily to lower gross margin on new and used vehicle retail sales as well as an increase in the percentage of our revenues generated by vehicle sales, which carry a lower gross margin than other parts of our business.

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.

The results of our commercial distribution and retail business are principally driven by the number and types of vehicles ordered by our customers. The results of our car rental operations are principally driven by the volume and pricing of vehicle rentals in our markets.

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 and includes interest relating to our commercial vehicle and car rental vehicle acquisitions. The cost of our variable rate indebtedness is based on the prime rate, defined London Interbank Offered Rate (LIBOR), the Bank of England Base Rate, the Finance House Base Rate, or the Euro Interbank Offered Rate or the Australian or New Zealand Bank Bill Swap Rate (BBSW). Our floor plan interest expense has increased during 2014 as a result of an increase in the amounts outstanding under floor plan arrangements. Our other interest expense has increased during 2014 due to an increased level of borrowing in 2013 relating to our acquisition of the commercial vehicle business.

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 below.

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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

Automotive Dealership Vehicle, Parts and Service Sales. We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is completed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. Taxes collected from customers and remitted to governmental authorities are recorded on a net basis (excluded from revenue). During the three months ended March 31, 2014 and 2013, we earned $134.2 million, and $110.9 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $130.9 million, and $108.2 million, respectively, was recorded as a reduction of cost of sales. The remaining $3.3 million and $2.7 million was recorded as a reduction of selling, general and administrative expenses.

Automotive Dealership 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 auto 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 $23.9 million and $21.1 million as of March 31, 2014 and December 31, 2013, respectively.

Commercial Vehicle Revenue. Revenue from the distribution of vehicles and parts is recognized at the time of delivery of goods to the retailer.

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

Impairment Testing

Franchise value impairment is assessed 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 the 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 commercial vehicle operating segment, our car rental business operating segment, and our investments in non-automotive retail operations. 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 simila