PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
August 03, 2012
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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 June 30, 2012**

**or**

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

**For the transition period from to**

**Commission file number 1-12297**

# Penske Automotive Group, Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **22-3086739**<br>**(I.R.S. Employer Identification No.)** |
| **2555 Telegraph Road,**<br>**Bloomfield Hills, Michigan**<br>**(Address of principal executive offices)** | **48302-0954**<br>**(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 ¨

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 ¨

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 | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

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

As of July 22, 2012, there were 90,266,664 shares of voting common stock outstanding.

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**PENSKE AUTOMOTIVE GROUP, INC.**

**CONSOLIDATED CONDENSED BALANCE SHEETS**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 37,219 | $ 28,676 |
| Accounts receivable, net of allowance for doubtful accounts of $2,227 and $2,159 | 464,424 | 438,769 |
| Inventories | 1,830,841 | 1,572,568 |
| Other current assets | 91,963 | 80,179 |
| Assets held for sale | 39,059 | 81,122 |
| Total current assets | 2,463,506 | 2,201,314 |
| Property and equipment, net | 925,054 | 856,674 |
| Goodwill | 940,596 | 903,721 |
| Franchise value | 252,813 | 228,460 |
| Equity method investments | 296,627 | 298,640 |
| Other long-term assets | 14,269 | 13,490 |
| Total assets | $ 4,892,865 | $ 4,502,299 |
| **LIABILITIES AND EQUITY** | | |
| Floor plan notes payable | $ 1,158,252 | $ 977,548 |
| Floor plan notes payable non-trade | 724,687 | 691,888 |
| Accounts payable | 310,686 | 220,538 |
| Accrued expenses | 258,726 | 201,179 |
| Current portion of long-term debt | 13,139 | 3,414 |
| Liabilities held for sale | 34,149 | 55,820 |
| Total current liabilities | 2,499,639 | 2,150,387 |
| Long-term debt | 793,603 | 846,777 |
| Deferred tax liabilities | 223,485 | 217,902 |
| Other long-term liabilities | 164,893 | 146,820 |
| Total liabilities | 3,681,620 | 3,361,886 |
| 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; 90,267 shares issued and outstanding at June 30, 2012; 90,277 shares issued and outstanding at December 31, 2011 | 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 | 696,694 | 702,335 |
| Retained earnings | 536,367 | 459,375 |
| Accumulated other comprehensive loss | (25,929) | (25,734) |
| Total Penske Automotive Group stockholders equity | 1,207,141 | 1,135,985 |
| Non-controlling interest | 4,104 | 4,428 |

| | | |
|---|---|---|
| Total equity | 1,211,245 | 1,140,413 |
| Total liabilities and equity | $ 4,892,865 | $ 4,502,299 |

See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**

**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| | (Unaudited) (In thousands, except per share amounts) | | | |
| Revenue: | | | | |
| New vehicle | $ 1,729,167 | $ 1,399,456 | $ 3,303,367 | $ 2,778,015 |
| Used vehicle | 964,511 | 855,598 | 1,931,147 | 1,643,604 |
| Finance and insurance, net | 82,682 | 69,004 | 162,486 | 135,349 |
| Service and parts | 368,797 | 339,636 | 737,090 | 679,688 |
| Fleet and wholesale vehicle | 227,322 | 166,292 | 471,132 | 331,463 |
| Total revenues | 3,372,479 | 2,829,986 | 6,605,222 | 5,568,119 |
| Cost of sales: | | | | |
| New vehicle | 1,590,303 | 1,280,297 | 3,032,731 | 2,549,647 |
| Used vehicle | 890,411 | 784,366 | 1,778,942 | 1,507,605 |
| Service and parts | 152,846 | 145,038 | 308,678 | 290,963 |
| Fleet and wholesale | 225,515 | 164,325 | 466,293 | 326,483 |
| Total cost of sales | 2,859,075 | 2,374,026 | 5,586,644 | 4,674,698 |
| Gross profit | 513,404 | 455,960 | 1,018,578 | 893,421 |
| Selling, general and administrative expenses | 409,452 | 374,325 | 806,799 | 728,349 |
| Depreciation | 13,651 | 11,926 | 26,976 | 23,705 |
| Operating income | 90,301 | 69,709 | 184,803 | 141,367 |
| Floor plan interest expense | (9,971) | (6,921) | (19,620) | (13,780) |
| Other interest expense | (11,575) | (10,451) | (23,785) | (21,736) |
| Debt discount amortization | | | | (1,718) |
| Equity in earnings of affiliates | 8,168 | 7,882 | 12,578 | 7,904 |
| Income from continuing operations before income taxes | 76,923 | 60,219 | 153,976 | 112,037 |
| Income taxes | (26,854) | (20,505) | (53,744) | (36,043) |
| Income from continuing operations | 50,069 | 39,714 | 100,232 | 75,994 |
| Income (Loss) from discontinued operations, net of tax | (457) | 345 | (3,614) | (1,938) |
| Net income | 49,612 | 40,059 | 96,618 | 74,056 |
| Less: Income attributable to non-controlling interests | 520 | 499 | 708 | 569 |
| Net income attributable to Penske Automotive Group common stockholders | $ 49,092 | $ 39,560 | $ 95,910 | $ 73,487 |
| **Basic earnings per share attributable to Penske Automotive Group common stockholders:** | | | | |
| Continuing operations | $ 0.55 | $ 0.42 | $ 1.10 | $ 0.82 |
| Discontinued operations | (0.01) | 0.00 | (0.04) | (0.02) |
| Net income attributable to Penske Automotive Group common stockholders | $ 0.54 | $ 0.43 | $ 1.06 | $ 0.79 |

| | | | | |
|---|---|---|---|---|
| Shares used in determining basic earnings per share | 90,305 | 92,514 | 90,363 | 92,444 |
| **Diluted earnings per share attributable to Penske Automotive Group common stockholders:** | | | | |
| Continuing operations | $ 0.55 | $ 0.42 | $ 1.10 | $ 0.82 |
| Discontinued operations | (0.01) | 0.00 | (0.04) | (0.02) |
| Net income attributable to Penske Automotive Group common stockholders | $ 0.54 | $ 0.43 | $ 1.06 | $ 0.79 |
| Shares used in determining diluted earnings per share | 90,337 | 92,570 | 90,395 | 92,514 |
| **Amounts attributable to Penske Automotive Group common stockholders:** | | | | |
| Income from continuing operations | $ 50,069 | $ 39,714 | $ 100,232 | $ 75,994 |
| Less: Income attributable to non-controlling interests | 520 | 499 | 708 | 569 |
| Income from continuing operations, net of tax | 49,549 | 39,215 | 99,524 | 75,425 |
| Income (Loss) from discontinued operations, net of tax | (457) | 345 | (3,614) | (1,938) |
| Net income attributable to Penske Automotive Group common stockholders | $ 49,092 | $ 39,560 | $ 95,910 | $ 73,487 |

See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| | (Unaudited) (In thousands, except per share amounts) | | | |
| Net Income | $ 49,612 | $ 40,059 | $ 96,618 | $ 74,056 |
| Other Comprehensive Income: | | | | |
| Foreign currency translation adjustment | (11,415) | 2,882 | (1,489) | 19,734 |
| Unrealized gain (loss) on interest rate swaps: | | | | |
| Unrealized gain(loss) arising during the period, net of tax benefit(provision) of $701, $2,614, $1,524, and $2,476, respectively | (1,072) | (3,996) | (2,329) | (3,784) |
| Reclassification adjustment for loss included in floor plan interest expense, net of tax provision of $692, $0, $1,361, and $46, respectively | 1,057 | | 2,080 | 70 |
| Unrealized gain (loss) on interest rate swaps, net of tax | (15) | (3,996) | (249) | (3,714) |
| Other adjustments to Comprehensive Income, net | 534 | (363) | 1,543 | (975) |
| Other Comprehensive Income (loss), Net of Taxes | (10,896) | (1,477) | (195) | 15,045 |
| Comprehensive Income | 38,716 | 38,582 | 96,423 | 89,101 |
| Less: Net income attributable to non-controlling interest | 520 | 499 | 708 | 569 |
| Comprehensive income attributable to Penske Automotive Group common stockholders | $ 38,196 | $ 38,083 | $ 95,715 | $ 88,532 |

See Notes to Consolidated Condensed Financial Statements

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**PENSKE AUTOMOTIVE GROUP, INC.**

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| **Operating Activities:** | | |
| Net income | $ 96,618 | $ 74,056 |
| Adjustments to reconcile net income to net cash from continuing operating activities: | | |
| Depreciation | 26,976 | 23,705 |
| Debt discount amortization | | 1,718 |
| Earnings of equity method investments | (12,578) | (7,904) |
| Loss from discontinued operations, net of tax | 3,614 | 1,938 |
| Deferred income taxes | 7,793 | 12,888 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (8,893) | 20,147 |
| Inventories | (178,269) | 10,196 |
| Floor plan notes payable | 180,651 | (73,075) |
| Accounts payable and accrued expenses | 96,256 | (10,209) |
| Other | (7,982) | (11,799) |
| Net cash from continuing operating activities | 204,186 | 41,661 |
| **Investing Activities:** | | |
| Purchase of equipment and improvements | (57,092) | (51,435) |
| Dealership acquisitions net, including repayment of sellers floor plan notes payable of $37,779 and $5,862, respectively | (111,522) | (14,011) |
| Other | (3,653) | 2,865 |
| Net cash from continuing investing activities | (172,267) | (62,581) |
| **Financing Activities:** | | |
| Proceeds from borrowings under U.S. credit agreement revolving credit line | 396,800 | 156,000 |
| Repayments under U.S. credit agreement revolving credit line | (414,800) | (156,000) |
| Repurchase of 3.5% senior subordinated convertible notes | (37,778) | (87,278) |
| Net borrowings of other long-term debt | 11,573 | 13,602 |
| Net borrowings of floor plan notes payable non-trade | 32,799 | 70,084 |
| Repurchases of common stock | (9,829) | (12,413) |
| Dividends | (18,918) | (6,493) |
| Proceeds from exercises of options, including excess tax benefit | | 2,698 |
| Net cash from continuing financing activities | (40,153) | (19,800) |
| Discontinued operations: | | |
| Net cash from discontinued operating activities | (5,750) | (25,008) |
| Net cash from discontinued investing activities | 34,726 | 47,327 |
| Net cash from discontinued financing activities | (12,199) | 5,877 |
| Net cash from discontinued operations | 16,777 | 28,196 |
| Net change in cash and cash equivalents | 8,543 | (12,524) |

| | | |
|---|---|---|
| Cash and cash equivalents, beginning of period | 28,676 | 19,904 |
| Cash and cash equivalents, end of period | $ 37,219 | $ 7,380 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for: | | |
| Interest | $ 48,984 | $ 37,752 |
| Income taxes | 19,180 | 23,442 |
| Seller financed/assumed debt | | 4,865 |

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 Penske Automotive Group Stockholders' Equity | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | (Unaudited) (Dollars in thousands) | | | | | | | |
| Balance, January 1, 2012 | 90,277,356 | $ 9 | $ 702,335 | $ 459,375 | $ (25,734) | $ 1,135,985 | $ 4,428 | $ 1,140,413 |
| Equity compensation | 394,939 | | 3,307 | | | 3,307 | | 3,307 |
| Distributions to non-controlling interests | | | | | | | (1,154) | (1,154) |
| Sale of subsidiary shares to non-controlling interest | | | 317 | | | 317 | 122 | 439 |
| Foreign currency translation | | | | | (1,489) | (1,489) | | (1,489) |
| Repurchase of common stock | (405,631) | | (9,829) | | | (9,829) | | (9,829) |
| Dividends | | | | (18,918) | | (18,918) | | (18,918) |
| Convertible debt redemption | | | 564 | | | 564 | | 564 |
| Other | | | | | 1,294 | 1,294 | | 1,294 |
| Net income | | | | 95,910 | | 95,910 | 708 | 96,618 |
| Balance, June 30, 2012 | 90,266,664 | $ 9 | $ 696,694 | $ 536,367 | $ (25,929) | $ 1,207,141 | $ 4,104 | $ 1,211,245 |

See Notes to Consolidated Condensed Financial Statements

**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

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

## 1. Interim Financial Statements

### *Business Overview*

Penske Automotive Group, Inc. (the Company ) is the second largest automotive retailer headquartered in the U.S. as measured by total revenue. As of June 30, 2012, the Company operated 338 retail franchises, of which 170 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 the Company s dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, the Company generates higher-margin revenue at each of its 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. The Company also holds a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. ( PTL ), a leading transportation services provider.

During the six months ended June 30, 2012, the Company acquired the Agnew Group in the United Kingdom, representing fourteen franchises, and two other franchises. The Company also was awarded seven franchises representing seven different brands, including Mini of Marin (California) and Nissan and Infiniti San Francisco. The Company disposed of six franchises representing six different brands, including Jaguar and Land Rover in Gatwick (U.K.) and Scottsdale Lexus.

In the second quarter of 2012, the Company acquired a 7% interest in NPA Holdco, LLC, an auctioneer of powersport vehicles, for $3,000. During the second quarter of 2012, Transportation Resource Partners, a related party, acquired a controlling interest in this company on the same financial terms as our investment.

### *Basis of Presentation*

The following unaudited consolidated condensed financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and disclosures normally included in the Company s annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the SEC rules and regulations. The information presented as of June 30, 2012 and December 31, 2011 and for the three and six month periods ended June 30, 2012 and 2011 is unaudited, but includes all adjustments which the management of the Company believes to be necessary for the fair presentation of results for the periods presented. The consolidated condensed financial statements for prior periods have been revised for entities which have been treated as discontinued operations through June 30, 2012, and the results for interim periods are not necessarily indicative of results to be expected for the year. These consolidated condensed financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2011, which are included as part of the Company s Annual Report on Form 10-K.

### *Recent Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2011-04, Fair Value Measurements and Disclosures (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after December 15, 2011. The Company adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not affect the Company s consolidated financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income , which requires the presentation of components of other comprehensive income with the components of net income. The Company adopted the standard on January 1, 2012. Adoption of ASU No. 2011-05 did not affect the Company s consolidated financial position, results of operations, or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 will require disclosure of the effect or potential effect of offsetting arrangements on the Company s financial position as well as enhanced disclosure of the rights of setoff associated with the Company s recognized assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the Company s consolidated financial position, results of operations, or cash flows.

**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

***Discontinued Operations***

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

In evaluating whether the cash flows of a dealership in its Retail reportable segment will be eliminated from ongoing operations, the Company considers whether it is likely that customers will migrate to similar franchises that it owns in the same geographic market. The Company s consideration includes an evaluation of the brands sold at other dealerships it operates in the market and their proximity to the disposed dealership. When the Company disposes of franchises, it typically does not have continuing brand representation in that market. If the franchise being disposed of is located in a complex of Company owned dealerships, the Company does not treat the disposition as a discontinued operation if it believes that the cash flows previously generated by the disposed franchise will be replaced by expanded operations of the remaining or replacement franchises.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Revenues | $ 43,542 | $ 132,377 | $ 99,029 | $ 274,742 |
| Pre-tax income (loss) | (760) | 19 | (12,188) | (4,795) |
| Gain on disposal | | 695 | 10,160 | 1,765 |

| | **June 30, 2012** | **December 31, 2011** |
|---|---|---|
| Inventories | $ 27,053 | $ 48,203 |
| Other assets | 12,006 | 32,919 |
| Total assets | $ 39,059 | $ 81,122 |
| Floor plan notes payable (including non-trade) | $ 27,294 | $ 44,869 |
| Other liabilities | 6,855 | 10,951 |
| Total liabilities | $ 34,149 | $ 55,820 |

***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***

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, debt, floor plan notes payable, and interest rate swaps used to hedge future cash flows. Other than our subordinated notes, 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. The Company s 7.75% senior subordinated notes due in 2016 had a carrying value of $375,000 and a fair value of $388,125 as of June 30, 2012. The calculation of the senior subordinated notes fair value was based on quoted, level one market data.

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

### 2. Inventories

Inventories consisted of the following:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| New vehicles | $ 1,234,036 | $ 1,051,120 |
| Used vehicles | 513,331 | 441,655 |
| Parts, accessories and other | 83,474 | 79,793 |
| Total inventories | $ 1,830,841 | $ 1,572,568 |

The Company receives credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $15,326 and $14,474 during the six months ended June 30, 2012 and 2011, respectively.

### 3. Business Combinations

The Company acquired sixteen and three franchises during the six months ended June 30, 2012 and 2011, respectively, in its retail operations. The Company s 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 the Company s consolidated condensed financial statements, and may be subject to adjustment pending completion of final valuation. A summary of the aggregate consideration paid and the aggregate amounts of the assets acquired and liabilities assumed for the six months ended June 30, 2012 and 2011 follows:

| | June 30, | |
|---|---|---|
| | 2012 | 2011 |
| Accounts receivable | $ 17,025 | $ 953 |
| Inventory | 80,766 | 7,923 |
| Property and equipment | 32,599 | 1,671 |
| Goodwill | 33,884 | 7,038 |
| Franchise Value | 23,426 | |
| Other assets | | 628 |
| Current liabilities | (49,362) | (2,491) |
| Non-current liabilities | (26,816) | |
| Total consideration | 111,522 | 15,722 |
| Seller financed/assumed debt | | (1,711) |
| Cash used in dealership acquisitions | $ 111,522 | $ 14,011 |

The following unaudited consolidated pro forma results of operations of the Company for the three and six months ended June 30, 2012 and 2011 give effect to acquisitions consummated during 2012 and 2011 as if they had occurred on January 1, 2011:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (amounts in millions except per share data) | | | |
| Revenues | $ 3,373 | $ 2,984 | $ 6,621 | $ 5,879 |
| Income from continuing operations | 50 | 41 | 100 | 80 |
| Net income | 49 | 41 | 96 | 78 |
| Income from continuing operations per diluted common share | $ 0.55 | $ 0.44 | $ 1.10 | $ 0.86 |
| Net income per diluted common share | $ 0.54 | $ 0.44 | $ 1.06 | $ 0.84 |

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**4. Intangible Assets**

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the six months ended June 30, 2012:

| | Goodwill | Franchise Value |
|---|---|---|
| Balance, January 1, 2012 | $ 903,721 | $ 228,460 |
| Additions | 33,854 | 23,426 |
| Foreign currency translation | 3,021 | 927 |
| Balance, June 30, 2012 | $ 940,596 | $ 252,813 |

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

The Company finances substantially all of its new and a portion of its 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, the Company has not historically been required to repay floor plan advances prior to the sale of the vehicles that have been financed. The Company typically makes 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 the Company is 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 the Company s dealership subsidiaries, and in the U.S. are guaranteed by the Company. 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. The Company classifies 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 its consolidated condensed balance sheets and classifies related cash flows as a financing activity on its consolidated condensed statements of cash flows.

**6. Earnings Per Share**

Basic earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, including outstanding unvested restricted stock awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed using net income attributable to Penske Automotive Group common stockholders and the number of weighted average shares of voting common stock outstanding, adjusted for any dilutive effects. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2012 and 2011 follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Weighted average number of common shares outstanding | 90,305 | 92,514 | 90,363 | 92,444 |
| Effect of non-participatory equity compensation | 32 | 56 | 32 | 70 |
| Weighted average number of common shares outstanding, including effect of dilutive securities | 90,337 | 92,570 | 90,395 | 92,514 |

PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**7. Long-Term Debt**

Long-term debt consisted of the following:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| U.S. credit agreement revolving credit line | $ 114,000 | $ 132,000 |
| U.S. credit agreement term loan | 127,000 | 127,000 |
| U.K. credit agreement revolving credit line | 42,401 | 59,060 |
| U.K. credit agreement term loan | 42,401 | |
| U.K. credit agreement overdraft line of credit | | 13,333 |
| 7.75% senior subordinated notes due 2016 | 375,000 | 375,000 |
| 3.5% senior subordinated convertible notes due 2026, net of debt discount | 25,546 | 63,324 |
| Mortgage facilities | 74,131 | 75,684 |
| Other | 6,263 | 4,790 |
| Total long-term debt | 806,742 | 850,191 |
| Less: current portion | (13,139) | (3,414) |
| Net long-term debt | $ 793,603 | $ 846,777 |

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

The Company is 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 $127,000, and for an additional $10,000 of availability for letters of credit, through September 2014. The revolving loans bear interest at a defined LIBOR plus 2.50%, subject to an incremental 1.00% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, 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 the Company s domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company s 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. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of June 30, 2012, the Company was 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 the Company s other material indebtedness. Substantially all of the Company s domestic assets are subject to security interests granted to lenders under the U.S. Credit Agreement. As of June 30, 2012, $127,000 of term loans, $500 of letters of credit and $114,000 of revolver borrowings were outstanding under the U.S. Credit Agreement.

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

The Company s subsidiaries in the U.K. (the U.K. subsidiaries ) are party to a £100,000 revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10,000 demand overdraft line of credit with RBS (collectively, the U.K. credit agreement ) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of June 30, 2012, outstanding loans under the U.K. credit agreement amounted to £27,000 ($42,401).

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments ( EBITAR ) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of June 30, 2012, the Company s U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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 the Company s U.K. subsidiaries assets are subject to security interests granted to lenders under the U.K. credit agreement.

In January 2012, the Company s U.K. subsidiaries entered into a separate agreement with RBS, as agent for National Westminster Bank plc, providing for a £30,000 term loan which was used for working capital and an acquisition. The term loan is repayable in £1,500 quarterly installments through 2015 with a final payment of £7,500 due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined). As of June 30, 2012, the amount outstanding under the U.K. term loan was £27,000 ($42,401).

***7.75% Senior Subordinated Notes***

In December 2006, the Company issued $375,000 aggregate principal amount of 7.75% senior subordinated notes (the 7.75% Notes ) due 2016. The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under the Company s credit agreements, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of the Company s wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. The Company can redeem all or some of the 7.75% Notes at its option at specified redemption prices (currently 103.875% of the principal amount of the notes). Upon certain sales of assets or specific kinds of changes of control the Company is required to make an offer to purchase the 7.75% Notes. The 7.75% Notes also contain customary negative covenants and events of default. As of June 30, 2012, the Company was in compliance with all negative covenants and there were no events of default.

***Senior Subordinated Convertible Notes***

On May 25, 2012, the Company provided notice to holders of the Notes that the Company was exercising the Company s right to redeem the Notes at a price of 100% of the principal amount outstanding plus accrued and unpaid interest to, but excluding June 25, 2012. In lieu of surrendering the notes for redemption, Note holders could elect to convert the Notes at any time prior to the close of business on June 21, 2012 based on a conversion rate of 42.7796 shares of the Company s common stock per $1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately $23.38 per share).

Upon conversion of the Convertible Notes, for each $1,000 Note, a holder was entitled to receive an amount in cash, equal to the lesser of (i) $1,000 or (ii) the conversion value, determined in the manner set forth in the indenture covering the Convertible Notes. To the extent the conversion value exceeded $1,000, the Company was required to also deliver, cash, common stock or a combination of cash and common stock with respect to the value in excess of $1,000.

Holders of $25,546 outstanding principal amount of Convertible Notes elected to convert their Notes. The Company settled the principal and interest due on the remaining $37,778 on June 25, 2012. In July, the Company paid the converting holders the conversion balance due of $24,909 in cash. Following this payment, the Company had fulfilled all of its obligations under the Convertible Notes.

***Mortgage Facilities***

The Company is 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 the Company s other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of June 30, 2012, the Company owed $74,131 of principal under our mortgage facilities.

**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**8. Interest Rate Swaps**

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

Through January 2011, the Company was party to interest rate swap agreements pursuant to which the LIBOR portion of $300,000 of the Company s floating rate floor plan debt was fixed at 3.67%.

The Company used Level 2 inputs to estimate the fair value of the interest rate swap agreements. As of June 30, 2012 and December 31, 2011, the fair value of the swaps designated as hedging instruments was estimated to be a liability of $16,346 and $15,952, respectively.

During the three and six months ended June 30, 2012 and 2011, there was no hedge ineffectiveness recorded on the Company s income statement. During the three and six months ended June 30, 2012, the swaps increased the weighted average interest rate on the Company s floor plan borrowings by approximately 39 and 40 basis points, respectively. The impact of the swaps on the weighted average interest rate of the Company s floor plan borrowings during the three and six months ended June 30, 2011, was insignificant.

**9. Commitments and Contingent Liabilities**

The Company is involved in litigation which may relate to claims brought by governmental authorities, issues with customers, and employment related matters, including class action claims and purported class action claims. As of June 30, 2012, the Company is 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 the Company s 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 the Company s results of operations, financial condition or cash flows.

The Company has historically structured its operations so as to minimize ownership of real property. As a result, the Company leases or subleases substantially all of its facilities. These leases are generally for a period between five and 20 years, and are typically structured to include renewal options at the Company s election. Pursuant to the leases for some of the Company s larger facilities, the Company is 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 the Company to post collateral in the form of a letter of credit. A breach of the other lease covenants gives rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease. As of June 30, 2012, the Company was in compliance with all covenants under these leases.

The Company has sold a number of dealerships to third parties and, as a condition to certain of those sales, remains liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. The Company is also party to lease agreements on properties that it no longer uses in its retail operations that it has sublet to third parties. The Company relies on subtenants to pay the rent and maintain the property at these locations. In the event the subtenant does not perform as expected, the Company may not be able to recover amounts owed to it and the Company could be required to fulfill these obligations.

The Company holds a 9.0% limited partnership interest in PTL. During 2012, PTL has refinanced a significant amount of its indebtedness. As part of that refinancing, the Company and the other PTL partners created a new company ( Holdings ), which, together with General Electric Capital Corporation ( 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, the Company has 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 the Company s potential obligations to GECC under this agreement are 9% of the required principal repayment due in 2019 (which is expected to be $63,100) and 9% of interest payments under the Holdings Bonds, plus fees and default interest, if any.

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

The Company has $18,997 of letters of credit outstanding as of June 30, 2012, and has posted $13,699 of surety bonds in the ordinary course of business.

**10. Equity**

***Share Repurchase***

During the six months ended June 30, 2012, the Company repurchased 350,000 shares of its outstanding common stock for $8,522, or an average of $24.35 per share, under a program approved by the Company s Board of Directors. During the second quarter of 2012, the Company acquired an additional 55,631 shares of its common stock for $1,307, or an average of $23.49 per share, from employees in connection with vesting of employee restricted stock awards.

**11. Segment Information**

The Company s operations are organized by management into operating segments by line of business and geography. The Company has determined it has two reportable segments as defined in generally accepted accounting principles for segment reporting, including: (i) Retail, consisting of the Company s automotive retail operations and (ii) PAG Investments, consisting of the Company s investments in businesses other than automotive retail operations. 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, which 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 June 30

| | Retail | PAG Investments | Total |
|---|---|---|---|
| Revenues | | | |
| 2012 | $ 3,372,479 | $ | $ 3,372,479 |
| 2011 | 2,829,986 | | 2,829,986 |
| Segment income | | | |
| 2012 | 69,722 | 7,201 | 76,923 |
| 2011 | 53,951 | 6,268 | 60,219 |

Six Months Ended June 30

| | Retail | PAG Investments | Total |
|---|---|---|---|
| Revenues | | | |
| 2012 | $ 6,605,222 | $ | $ 6,605,222 |
| 2011 | 5,568,119 | | 5,568,119 |
| Segment income | | | |
| 2012 | 142,941 | 11,035 | 153,976 |
| 2011 | 104,645 | 7,392 | 112,037 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**12. Consolidating Condensed Financial Information**

The following tables include condensed consolidating financial information as of June 30, 2012 and December 31, 2011 and for the three and six month periods ended June 30, 2012 and 2011 for Penske Automotive Group, Inc. (as the issuer of the 7.75% Notes), guarantor subsidiaries and non-guarantor subsidiaries (primarily representing foreign entities). The condensed consolidating financial information includes certain allocations of balance sheet, income statement and cash flow items which are not necessarily indicative of the financial position, results of operations and cash flows of these entities on a stand-alone basis.

**CONDENSED CONSOLIDATING BALANCE SHEET**

**June 30, 2012**

| | Total Company | Eliminations | Penske Automotive Group (In thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 37,219 | $ | $ | $ 18,029 | $ 19,190 |
| Accounts receivable, net | 464,424 | (324,158) | 324,158 | 261,705 | 202,719 |
| Inventories | 1,830,841 | | | 1,063,722 | 767,119 |
| Other current assets | 91,963 | | 4,248 | 41,075 | 46,640 |
| Assets held for sale | 39,059 | | | 12,966 | 26,093 |
| Total current assets | 2,463,506 | (324,158) | 328,406 | 1,397,497 | 1,061,761 |
| Property and equipment, net | 925,054 | | 4,843 | 576,715 | 343,496 |
| Intangible assets | 1,193,409 | | | 705,851 | 487,558 |
| Equity method investments | 296,627 | | 247,401 | | 49,226 |
| Other long-term assets | 14,269 | (1,384,066) | 1,394,431 | 2,205 | 1,699 |
| Total assets | $ 4,892,865 | $ (1,708,224) | $ 1,975,081 | $ 2,682,268 | $ 1,943,740 |
| Floor plan notes payable | $ 1,158,252 | $ | $ | $ 664,954 | $ 493,298 |
| Floor plan notes payable non-trade | 724,687 | | 119,600 | 355,127 | 249,960 |
| Accounts payable | 310,686 | | 2,224 | 105,852 | 202,610 |
| Accrued expenses | 258,726 | (324,158) | 466 | 154,353 | 428,065 |
| Current portion of long-term debt | 13,139 | | | 3,717 | 9,422 |
| Liabilities held for sale | 34,149 | | | 9,551 | 24,598 |
| Total current liabilities | 2,499,639 | (324,158) | 122,290 | 1,293,554 | 1,407,953 |
| Long-term debt | 793,603 | (40,683) | 641,546 | 75,791 | 116,949 |
| Deferred tax liabilities | 223,485 | | | 196,834 | 26,651 |
| Other long-term liabilities | 164,893 | | | 94,720 | 70,173 |
| Total liabilities | 3,681,620 | (364,841) | 763,836 | 1,660,899 | 1,621,726 |
| Total equity | 1,211,245 | (1,343,383) | 1,211,245 | 1,021,369 | 322,014 |
| Total liabilities and equity | $ 4,892,865 | $ (1,708,224) | $ 1,975,081 | $ 2,682,268 | $ 1,943,740 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING BALANCE SHEET**

**December 31, 2011**

| | Total Company | Eliminations | Penske Automotive Group (In thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 28,676 | $ | $ | $ 27,249 | $ 1,427 |
| Accounts receivable, net | 438,769 | (297,782) | 305,386 | 281,689 | 149,476 |
| Inventories | 1,572,568 | | | 894,246 | 678,322 |
| Other current assets | 80,179 | | 2,306 | 40,321 | 37,552 |
| Assets held for sale | 81,122 | | | 36,642 | 44,480 |
| Total current assets | 2,201,314 | (297,782) | 307,692 | 1,280,147 | 911,257 |
| Property and equipment, net | 856,674 | | 6,730 | 547,731 | 302,213 |
| Intangible assets | 1,132,181 | | | 699,453 | 432,728 |
| Equity method investments | 298,640 | | 246,658 | | 51,982 |
| Other long-term assets | 13,490 | (1,360,808) | 1,369,182 | 3,381 | 1,735 |
| Total assets | $ 4,502,299 | $ (1,658,590) | $ 1,930,262 | $ 2,530,712 | $ 1,699,915 |
| Floor plan notes payable | $ 977,548 | $ | $ | $ 560,999 | $ 416,549 |
| Floor plan notes payable non-trade | 691,888 | | 90,892 | 335,621 | 265,375 |
| Accounts payable | 220,538 | | 1,633 | 112,805 | 106,100 |
| Accrued expenses | 201,179 | (297,782) | | 99,092 | 399,869 |
| Current portion of long-term debt | 3,414 | | | 3,414 | |
| Liabilities held for sale | 55,820 | | | 17,818 | 38,002 |
| Total current liabilities | 2,150,387 | (297,782) | 92,525 | 1,129,749 | 1,225,895 |
| Long-term debt | 846,777 | (38,073) | 697,324 | 77,060 | 110,466 |
| Deferred tax liabilities | 217,902 | | | 198,348 | 19,554 |
| Other long-term liabilities | 146,820 | | | 92,613 | 54,207 |
| Total liabilities | 3,361,886 | (335,855) | 789,849 | 1,497,770 | 1,410,122 |
| Total equity | 1,140,413 | (1,322,735) | 1,140,413 | 1,032,942 | 289,793 |
| Total liabilities and equity | $ 4,502,299 | $ (1,658,590) | $ 1,930,262 | $ 2,530,712 | $ 1,699,915 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**Three Months Ended June 30, 2012**

| | Total Company | Eliminations | Penske Automotive Group (In thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|---|
| Revenues | $ 3,372,479 | $ | $ | $ 2,011,105 | $ 1,361,374 |
| Cost of sales | 2,859,075 | | | 1,689,639 | 1,169,436 |
| Gross profit | 513,404 | | | 321,466 | 191,938 |
| Selling, general and administrative expenses | 409,452 | | 4,740 | 248,711 | 156,001 |
| Depreciation | 13,651 | | 246 | 7,475 | 5,930 |
| Operating income (loss) | 90,301 | | (4,986) | 65,280 | 30,007 |
| Floor plan interest expense | (9,971) | | (2,254) | (4,199) | (3,518) |
| Other interest expense | (11,575) | | (7,079) | (603) | (3,893) |
| Equity in earnings of affiliates | 8,168 | | 6,994 | (40) | 1,214 |
| Equity in earnings of subsidiaries | | (83,728) | 83,728 | | |
| Income (loss) from continuing operations before income taxes | 76,923 | (83,728) | 76,403 | 60,438 | 23,810 |
| Income taxes | (26,854) | 29,429 | (26,854) | (23,231) | (6,198) |
| Income (loss) from continuing operations | 50,069 | (54,299) | 49,549 | 37,207 | 17,612 |
| (Loss) income from discontinued operations, net of tax | (457) | 457 | (457) | (392) | (65) |
| Net income (loss) | 49,612 | (53,842) | 49,092 | 36,815 | 17,547 |
| Less: Income attributable to the non-controlling interests | 520 | | | | 520 |
| Net income (loss) attributable to Penske Automotive Group common stockholders | 49,092 | (53,842) | 49,092 | 36,815 | 17,027 |
| Other comprehensive income (loss), net of tax | (10,896) | | 534 | (15) | (11,415) |
| Comprehensive income attributable to Penske Automotive Group common stockholders | $ 38,196 | $ (53,842) | $ 49,626 | $ 36,800 | $ 5,612 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**Three Months Ended June 30, 2011**

| | Total Company | Eliminations | Penske Automotive Group (In thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|---|
| Revenues | $ 2,829,986 | $ | $ | $ 1,645,845 | $ 1,184,141 |
| Cost of sales | 2,374,026 | | | 1,359,571 | 1,014,455 |
| Gross profit | 455,960 | | | 286,274 | 169,686 |
| Selling, general and administrative expenses | 374,325 | | 4,790 | 232,576 | 136,959 |
| Depreciation | 11,926 | | 257 | 6,572 | 5,097 |
| Operating income (loss) | 69,709 | | (5,047) | 47,126 | 27,630 |
| Floor plan interest expense | (6,921) | | (329) | (3,348) | (3,244) |
| Other interest expense | (10,451) | | (5,818) | (598) | (4,035) |
| Equity in earnings (losses) of affiliates | 7,882 | | 6,121 | | 1,761 |
| Equity in earnings of subsidiaries | | (64,793) | 64,793 | | |
| Income (loss) from continuing operations before income taxes | 60,219 | (64,793) | 59,720 | 43,180 | 22,112 |
| Income taxes | (20,505) | 22,247 | (20,505) | (15,851) | (6,396) |
| Income (loss) from continuing operations | 39,714 | (42,546) | 39,215 | 27,329 | 15,716 |
| (Loss) income from discontinued operations, net of tax | 345 | (345) | 345 | 380 | (35) |
| Net income (loss) | 40,059 | (42,891) | 39,560 | 27,709 | 15,681 |
| Less: Income attributable to the non-controlling interests | 499 | | | | 499 |
| Net income (loss) attributable to Penske Automotive Group common stockholders | 39,560 | (42,891) | 39,560 | 27,709 | 15,182 |
| Other comprehensive income (loss), net of tax | (1,477) | | (318) | (3,996) | 2,837 |
| Comprehensive income attributable to Penske Automotive Group common stockholders | $ 38,083 | $ (42,891) | $ 39,242 | $ 23,713 | $ 18,019 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**Six Months Ended June 30, 2012**

| | Total Company | Eliminations | Penske Automotive Group (In thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|---|
| Revenues | $ 6,605,222 | $ | $ | $ 3,844,225 | $ 2,760,997 |
| Cost of sales | 5,586,644 | | | 3,226,744 | 2,359,900 |
| Gross profit | 1,018,578 | | | 617,481 | 401,097 |
| Selling, general and administrative expenses | 806,799 | | 9,335 | 487,120 | 310,344 |
| Depreciation | 26,976 | | 608 | 14,597 | 11,771 |
| Operating income (loss) | 184,803 | | (9,943) | 115,764 | 78,982 |
| Floor plan interest expense | (19,620) | | (4,452) | (7,989) | (7,179) |
| Other interest expense | (23,785) | | (14,642) | (1,513) | (7,630) |
| Equity in earnings (losses) of affiliates | 12,578 | | 10,754 | (40) | 1,864 |
| Equity in earnings of subsidiaries | | (171,551) | 171,551 | | |
| Income (loss) from continuing operations before income taxes | 153,976 | (171,551) | 153,268 | 106,222 | 66,037 |
| Income taxes | (53,744) | 60,155 | (53,744) | (43,778) | (16,377) |
| Income (loss) from continuing operations | 100,232 | (111,396) | 99,524 | 62,444 | 49,660 |
| (Loss) income from discontinued operations, net of tax | (3,614) | 3,614 | (3,614) | (1,997) | (1,617) |
| Net income (loss) | 96,618 | (107,782) | 95,910 | 60,447 | 48,043 |
| Less: Income attributable to the non-controlling interests | 708 | | | | 708 |
| Net income (loss) attributable to Penske Automotive Group common stockholders | 95,910 | (107,782) | 95,910 | 60,447 | 47,335 |
| Other comprehensive income (loss), net of tax | (195) | | 1,543 | (249) | (1,489) |
| Comprehensive income attributable to Penske Automotive Group common stockholders | $ 95,715 | $ (107,782) | $ 97,453 | $ 60,198 | $ 45,846 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**Six Months Ended June 30, 2011**

| | Total Company | Eliminations | Penske Automotive Group (In thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|---|
| Revenues | $ 5,568,119 | $ | $ | $ 3,197,904 | $ 2,370,215 |
| Cost of sales | 4,674,698 | | | 2,653,800 | 2,020,898 |
| Gross profit | 893,421 | | | 544,104 | 349,317 |
| Selling, general and administrative expenses | 728,349 | | 9,739 | 445,788 | 272,822 |
| Depreciation | 23,705 | | 542 | 12,795 | 10,368 |
| Operating income (loss) | 141,367 | | (10,281) | 85,521 | 66,127 |
| Floor plan interest expense | (13,780) | | (462) | (7,220) | (6,098) |
| Other interest expense | (21,736) | | (12,234) | (1,249) | (8,253) |
| Debt discount amortization | (1,718) | | (1,718) | | |
| Equity in earnings (losses) of affiliates | 7,904 | | 7,352 | | 552 |
| Equity in earnings of subsidiaries | | (128,811) | 128,811 | | |
| Income (loss) from continuing operations before income taxes | 112,037 | (128,811) | 111,468 | 77,052 | 52,328 |
| Income taxes | (36,043) | 41,651 | (36,043) | (26,785) | (14,866) |
| Income (loss) from continuing operations | 75,994 | (87,160) | 75,425 | 50,267 | 37,462 |
| (Loss) income from discontinued operations, net of tax | (1,938) | 1,938 | (1,938) | (1,597) | (341) |
| Net income (loss) | 74,056 | (85,222) | 73,487 | 48,670 | 37,121 |
| Less: Income attributable to the non-controlling interests | 569 | | | | 569 |
| Net income (loss) attributable to Penske Automotive Group common stockholders | 73,487 | (85,222) | 73,487 | 48,670 | 36,552 |
| Other comprehensive income (loss), net of tax | 15,045 | | (981) | (3,714) | 19,740 |
| Comprehensive income attributable to Penske Automotive Group common stockholders | $ 88,532 | $ (85,222) | $ 72,506 | $ 44,956 | $ 56,292 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**Six Months Ended June 30, 2012**

| | Total Company | Penske Automotive Group | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net cash from continuing operating activities | $ 204,186 | $ 56,571 | $ 8,658 | $ 138,957 |
| Investing activities: | | | | |
| Purchase of equipment and improvements | (57,092) | (754) | (44,410) | (11,928) |
| Dealership acquisitions, net | (111,522) | | (3,416) | (108,106) |
| Other | (3,653) | | (970) | (2,683) |
| Net cash from continuing investing activities | (172,267) | (754) | (48,796) | (122,717) |
| Financing activities: | | | | |
| Repurchase of 3.5% senior subordinated convertible notes | (37,778) | (37,778) | | |
| Net borrowings (repayments) of other long-term debt | (6,427) | (18,000) | (967) | 12,540 |
| Net borrowings (repayments) of floor plan notes payable non-trade | 32,799 | 28,708 | 19,506 | (15,415) |
| Repurchase of common stock | (9,829) | (9,829) | | |
| Dividends | (18,918) | (18,918) | | |
| Distributions from (to) parent | | | 585 | (585) |
| Net cash from continuing financing activities | (40,153) | (55,817) | 19,124 | (3,460) |
| Net cash from discontinued operations | 16,777 | | 11,794 | 4,983 |
| Net change in cash and cash equivalents | 8,543 | | (9,220) | 17,763 |
| Cash and cash equivalents, beginning of period | 28,676 | | 27,249 | 1,427 |
| Cash and cash equivalents, end of period | $ 37,219 | $ | $ 18,029 | $ 19,190 |

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**PENSKE AUTOMOTIVE GROUP, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**Six Months Ended June 30, 2011**

| | Total Company | Penske Automotive Group | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net cash from continuing operating activities | $ 41,661 | $ 84,594 | $ 1,030 | $ (43,963) |
| Investing activities: | | | | |
| Purchase of equipment and improvements | (51,435) | (1,308) | (27,786) | (22,341) |
| Dealership acquisitions, net | (14,011) | | (12,331) | (1,680) |
| Other | 2,865 | | | 2,865 |
| Net cash from continuing investing activities | (62,581) | (1,308) | (40,117) | (21,156) |
| Financing activities: | | | | |
| Repurchase of 3.5% senior subordinated convertible notes | (87,278) | (87,278) | | |
| Net borrowings (repayments) of other long-term debt | 13,602 | | 23,541 | (9,939) |
| Net borrowings (repayments) of floor plan notes payable non-trade | 70,084 | 20,200 | (23,492) | 73,376 |
| Proceeds from exercises of options, including excess tax benefit | 2,698 | 2,698 | | |
| Repurchase of common stock | (12,413) | (12,413) | | |
| Dividends | (6,493) | (6,493) | | |
| Distributions from (to) parent | | | 4,245 | (4,245) |
| Net cash from continuing financing activities | (19,800) | (83,286) | 4,294 | 59,192 |
| Net cash from discontinued operations | 28,196 | | 20,011 | 8,185 |
| Net change in cash and cash equivalents | (12,524) | | (14,782) | 2,258 |
| Cash and cash equivalents, beginning of period | 19,904 | | 16,238 | 3,666 |
| Cash and cash equivalents, end of period | $ 7,380 | $ | $ 1,456 | $ 5,924 |

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

*This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those discussed in Forward Looking Statements. We have acquired and initiated a number of businesses during the periods presented and addressed in this Management s Discussion and Analysis of Financial Condition and Results of Operations. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management s Discussion and Analysis of Financial Condition and Results of Operations has also been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through June 30, 2012.*

**Overview**

We are the second largest automotive retailer headquartered in the U.S. as measured by the $11.6 billion in total revenue we generated in 2011. As of June 30, 2012, we operated 338 retail automotive franchises, of which 170 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. During the six months ended June 30, 2012, we retailed and wholesaled more than 207,000 vehicles. We are diversified geographically, with 62% of our total revenues during the six months ended June 30, 2012, generated in the U.S. and Puerto Rico and 38% generated outside the U.S. We offer approximately 40 brands with 96% of our total retail revenue during the six months ended June 30, 2012, generated from brands of non-U.S. based manufacturers, and 68% 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 also hold a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. ( PTL ), a leading transportation services provider. PTL leases, rents or maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia and is one of the largest purchasers of commercial trucks in North America through its approximately 1,000 corporate and 1,900 agent locations. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by General Electric Capital Corporation.

**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 the automotive market in the U.S. over the next several years. During the six months ended June 30, 2012, 7.3 million cars and light trucks were sold in the U.S., representing a 14.8% improvement over the 6.3 million cars and light trucks sold during the same period last year. We believe the U.S. automotive market will continue to recover based upon industry forecasts from companies such as JD Power, coupled with demand in the marketplace, an aging vehicle population, lower cost of credit for consumers, and the planned introduction of new models by many different vehicle brands.

Vehicle registrations in the U.K were 1.1 million during the six months ended June 30, 2012, compared to 1.0 million during the same period of 2011, representing an increase of 2.7%. Based on industry forecasts from entities such as the Society of Motor Manufacturers and Traders (www.smmt.co.uk), we believe despite domestic and international economic concerns, U.K. motorists are responding positively to new products and the latest fuel-efficient technology. We also expect continued resiliency in premium brand sales in the U.K. See Forward-Looking Statements.

**Operating Overview**

New and used vehicle revenues include sales to retail customers and to leasing companies providing consumer automobile leasing. We generate finance and insurance revenues from sales of 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 for repair, maintenance and collision services, and the sale of replacement parts and other aftermarket accessories.

Our gross profit tends to vary with the mix of revenues we derive from the sale of new vehicles, used vehicles, finance and insurance products, and service and parts transactions. Our gross profit varies across product lines, with vehicle sales usually resulting in lower gross profit margins and our other revenues resulting in higher gross profit margins. Factors such as inventory and vehicle availability, customer demand, consumer confidence, unemployment, general economic conditions, seasonality, weather, credit availability, fuel prices and manufacturers advertising and incentives also impact the mix of our revenues, and therefore influence our gross profit margin. Aggregate gross profit increased $57.4 million, or 12.6%, and $125.2 million, or 14.0%, during the three and six months ended June 30, 2012, compared to the same periods in prior year. The increase in gross profit is largely attributable to same-store increases in new and used unit sales and service and parts revenues. Our retail gross margin percentage declined from 17.0% during the three and six months ended June 30, 2011 to 16.3% and 16.5% during the three and six months ended June 30, 2012, respectively, due primarily to lower gross margin on new and used vehicle retail sales during the six months ended June 30, 2012, 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.

Floor plan interest expense relates to financing incurred in connection with the acquisition of new and used vehicle inventories that is secured by those vehicles. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing. The cost of our variable rate indebtedness is based on the prime rate, defined London Interbank Offered Rate ( LIBOR ), the Bank of England Base Rate, the Finance House Base Rate, or the Euro Interbank Offered Rate. Our floor plan interest expense has increased during the three and six months ended June 30, 2012, as a result of higher applicable interest rates due to the impact of interest rate swap transactions, as well as an increase in the amounts outstanding under floor plan arrangements. Our other interest expense has increased during the three and six months ended June 30, 2012, due to the increase in borrowings under our revolving credit agreements in the U.S. and U.K. following acquisitions in 2011 and during the six months ended June 30, 2012.

Equity in earnings of affiliates represents our share of the earnings from our investments in joint ventures and other non-consolidated investments, including PTL. It is our expectation that operating conditions as outlined above in the Outlook section will similarly impact these businesses throughout 2012. However, 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, and the return realized from our investments in various joint ventures and other non-consolidated investments. See Forward-Looking Statements.

**Critical Accounting Policies and Estimates**

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

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

***Revenue Recognition***

*Vehicle, Parts and Service Sales*

We record revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is completed and when parts are delivered to our customers. Sales promotions that we offer to customers are accounted for as a reduction of revenues at the time of sale. Rebates and other incentives offered directly to us by manufacturers are recognized as a reduction of cost of sales. Reimbursements of qualified advertising expenses are treated as a reduction of selling, general and administrative expenses. The amounts received under certain manufacturer rebate and incentive programs are based on the attainment of program objectives, and such earnings are recognized either upon the sale of the vehicle for which the award was received, or upon attainment of the particular program goals if not associated with individual vehicles. During the six months ended June 30, 2012 and 2011, we earned $226.1 million and $178.4 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $220.3 million and $174.0 million was recorded as a reduction of cost of sales.

*Finance and Insurance Sales*

Subsequent to the sale of a vehicle to a customer, we sell installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. We receive a commission from the lender equal to either the difference between the interest rate charged to the customer and the interest rate set by the financing institution or a flat fee. We also receive commissions for facilitating the sale of various third-party insurance products to customers, including credit and life insurance policies and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract.

***Impairment Testing***

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

Goodwill impairment is assessed at the reporting unit level as of October 1 every year and upon the occurrence of an indicator of impairment. Our operations are organized by management into operating segments by line of business and geography. We have determined we have two reportable segments as defined in generally accepted accounting principles for segment reporting, including: (i) Retail, consisting of our automotive retail operations and (ii) PAG Investments, consisting of our investments in businesses other than 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 similar distribution and marketing practices (all distribute products and services through dealership facilities that market to customers in similar fashions). There is no goodwill recorded in our PAG Investments reportable segment.

We prepare a qualitative assessment of the carrying value of goodwill in our reportable segments using the criteria in ASC 350-20-35-3 to determine whether it is more likely than not that a reporting unit s fair value is less than its carrying value. If it were determined through the qualitative assessment that a reporting unit s fair value is more likely than not greater than its carrying value, additional analysis would be unnecessary. During 2011, we concluded that it was not more likely than not that any of the four reporting unit s fair value was less than their carrying amount.

If the additional impairment testing was necessary, we would have estimated the fair value of our reporting units using an income valuation approach. The income valuation approach estimates our enterprise value using a net present value model, which discounts projected free cash flows of our business using our weighted average cost of capital as the discount rate. This consideration would also include a control premium that represents the estimated amount an investor would pay for our equity securities to obtain a controlling interest and other significant assumptions including revenue and profitability growth, franchise profit margins, residual values and our cost of capital.

***Investments***

We account for each of our investments under the equity method, pursuant to which we record our proportionate share of the investee s income each period. The net book value of our investments was $296.6 million and $298.6 million as of June 30, 2012 and December 31, 2011, respectively. Investments for which there is not a liquid, actively traded market are reviewed periodically by management for indicators of impairment. If an indicator of impairment is identified, management estimates the fair value of the investment using a discounted cash flow approach, which includes assumptions relating to revenue and profitability growth, profit margins, and our cost of capital. Declines in investment values that are deemed to be other than temporary may result in an impairment charge reducing the investments carrying value to fair value.

***Self-Insurance***

We retain risk relating to certain of our general liability insurance, workers compensation insurance, auto physical damage insurance, property insurance, employment practices liability insurance, directors and officers insurance and employee medical benefits in the U.S. As a result, we are likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk we retain varies by program, and, for certain exposures, we have pre-determined maximum loss limits for certain individual claims and/or insurance periods.

Losses, if any, above any such pre-determined loss limits are paid by third-party insurance carriers. Our estimate of future losses is prepared by management using our historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were $26.9 million and $25.9 million as of June 30, 2012 and December 31, 2011, respectively. Changes in the reserve estimate during 2012 relate primarily to our general liability and workers compensation programs.

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### *Income Taxes*

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

### *Classification in Continuing and Discontinued Operations*

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

### *New Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2011-04, Fair Value Measurements and Disclosures (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after December 15, 2011. We adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not affect our consolidated financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income , which requires the presentation of components of other comprehensive income with the components of net income. We adopted the standard on January 1, 2012. Adoption of ASU No. 2011-05 did not affect our consolidated financial position, results of operations, or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 will require disclosure of the effect or potential effect of offsetting arrangements on our financial position as well as enhanced disclosure of the rights of setoff associated with our recognized assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect our consolidated financial position, results of operations, or cash flows.

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**Results of Operations**

The following tables present comparative financial data relating to our operating performance in the aggregate and on a same-store basis. Dealership results are included in same-store comparisons when we have consolidated the acquired entity during the entirety of both periods being compared. As an example, if a dealership was acquired on January 15, 2010, the results of the acquired entity would be included in annual same store comparisons beginning with the year ended December 31, 2012 and in quarterly same store comparisons beginning with the quarter ended June 30, 2011.

***Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011***

**New Vehicle Data**

| Dollars in millions, except per unit amounts | | | 2012 vs. 2011 | |
|---|---|---|---|---|
| | **2012** | **2011** | **Change** | **% Change** |
| New retail unit sales | 46,766 | 37,484 | 9,282 | 24.8% |
| Same store new retail unit sales | 42,876 | 37,303 | 5,573 | 14.9% |
| New retail sales revenue | $ 1,729.2 | $ 1,399.5 | 329.7 | 23.6% |
| Same store new retail sales revenue | $ 1,586.6 | $ 1,394.6 | 192.0 | 13.8% |
| New retail sales revenue per unit | $ 36,975 | $ 37,335 | (360) | -1.0% |
| Same store new retail sales revenue per unit | $ 37,004 | $ 37,384 | (380) | -1.0% |
| Gross profit new | $ 138.9 | $ 119.2 | 19.7 | 16.5% |
| Same store gross profit new | $ 126.8 | $ 118.7 | 8.1 | 6.8% |
| Average gross profit per new vehicle retailed | $ 2,969 | $ 3,179 | (210) | -6.6% |
| Same store average gross profit per new vehicle retailed | $ 2,958 | $ 3,183 | (225) | -7.1% |
| Gross margin % new | 8.0% | 8.5% | -0.5% | -5.9% |
| Same store gross margin % new | 8.0% | 8.5% | -0.5% | -5.9% |

***Units***

Retail unit sales of new vehicles increased 9,282 units, or 24.8%, from 2011 to 2012. The increase is due to a 5,573 unit, or 14.9%, increase in same store retail unit sales during the period, coupled with a 3,709 unit increase from net dealership acquisitions. The same store increase was due primarily to unit sales increases in our premium and foreign volume brand stores in the U.S.

***Revenues***

New vehicle retail sales revenue increased $329.7 million, or 23.6%, from 2011 to 2012. The increase is due to a $192.0 million, or 13.8%, increase in same store revenues, coupled with a $137.7 million increase from net dealership acquisitions. The same store revenue increase is due primarily to the 14.9% increase in same store retail unit sales, which increased revenue by $206.2 million, somewhat offset by a $380, or 1%, decrease in comparative average selling prices per unit which decreased revenue by $14.2 million.

***Gross Profit***

Retail gross profit from new vehicle sales increased $19.7 million, or 16.5%, from 2011 to 2012. The increase is due to an $11.6 million increase from net dealership acquisitions coupled with an $8.1 million, or 6.8%, increase in same store gross profit. The same store increase is due primarily to the 14.9% increase in retail unit sales, which increased gross profit by $16.5 million, somewhat offset by a $225, or 7.1%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by $8.4 million.

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**Used Vehicle Data**

| Dollars in millions, except per unit amounts | 2012 | 2011 | 2012 vs. 2011 Change | % Change |
|---|---|---|---|---|
| Used retail unit sales | 37,580 | 32,290 | 5,290 | 16.4% |
| Same store used retail unit sales | 34,943 | 32,201 | 2,742 | 8.5% |
| Used retail sales revenue | $ 964.5 | $ 855.6 | 108.9 | 12.7% |
| Same store used retail sales revenue | $ 899.5 | $ 853.8 | 45.7 | 5.4% |
| Used retail sales revenue per unit | $ 25,666 | $ 26,497 | (831) | -3.1% |
| Same store used retail sales revenue per unit | $ 25,741 | $ 26,514 | (773) | -2.9% |
| Gross profit used | $ 74.1 | $ 71.2 | 2.9 | 4.1% |
| Same store gross profit used | $ 69.5 | $ 71.1 | (1.6) | -2.3% |
| Average gross profit per used vehicle retailed | $ 1,972 | $ 2,206 | (234) | -10.6% |
| Same store average gross profit per used vehicle retailed | $ 1,988 | $ 2,208 | (220) | -10.0% |
| Gross margin % used | 7.7% | 8.3% | -0.6% | -7.2% |
| Same store gross margin % used | 7.7% | 8.3% | -0.6% | -7.2% |

***Units***

Retail unit sales of used vehicles increased 5,290 units, or 16.4%, from 2011 to 2012. The increase is due to a 2,742 unit, or 8.5%, increase in same store retail unit sales, coupled with a 2,548 unit increase from net dealership acquisitions. The same store increase was due primarily to unit sales increases in premium and volume foreign brand stores in the U.S.

***Revenues***

Used vehicle retail sales revenue increased $108.9 million, or 12.7%, from 2011 to 2012. The increase is due to a $63.2 million increase from net dealership acquisitions coupled with a $45.7 million, or 5.4%, increase in same store revenues. The same store revenue increase is due to the 8.5% increase in same store retail unit sales which increased revenue by $70.6 million, somewhat offset by a $773, or 2.9%, decrease in comparative average selling prices per unit, which decreased revenue by $24.9 million.

***Gross Profit***

Retail gross profit from used vehicle sales increased $2.9 million, or 4.1%, from 2011 to 2012. The increase is due to a $4.5 million increase from net dealership acquisitions, somewhat offset by a $1.6 million, or 2.3%, decrease in same store gross profit. The decrease in same store gross profit is due to the $220 or 10%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by $7.1 million, somewhat offset by a 8.5% increase in used retail unit sales, which increased gross profit by $5.5 million.

**Finance and Insurance Data**

| Dollars in millions, except per unit amounts | 2012 | 2011 | 2012 vs. 2011 Change | % Change |
|---|---|---|---|---|
| Finance and insurance revenue | $ 82.7 | $ 69.0 | $ 13.7 | 19.9% |
| Same store finance and insurance revenue | $ 78.0 | $ 68.8 | $ 9.2 | 13.4% |
| Finance and insurance revenue per unit | $ 980 | $ 989 | $ (9) | -0.9% |
| Same store finance and insurance revenue per unit | $ 1,002 | $ 990 | $ 12 | 1.2% |

Finance and insurance revenue increased $13.7 million, or 19.9%, from 2011 to 2012. The increase is due to a $9.2 million, or 13.4%, increase in same store revenues during the period, coupled with a $4.5 million increase from net dealership acquisitions. The same store revenue increase is due to a 12% increase in same store retail unit sales, which increased revenue by $8.3 million, coupled with a $12, or 1.2%, increase in comparative average finance and insurance revenue per unit which increased revenue by $0.9 million.

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**Service and Parts Data**

| Dollars in millions, except per unit amounts | | | 2012 vs. 2011 | |
|---|---|---|---|---|
| | 2012 | 2011 | Change | % Change |
| Service and parts revenue | $ 368.8 | $ 339.6 | 29.2 | 8.6% |
| Same store service and parts revenue | $ 340.7 | $ 338.7 | 2.0 | 0.6% |
| Gross profit | $ 216.0 | $ 194.6 | 21.4 | 11.0% |
| Same store gross profit | $ 200.1 | $ 194.1 | 6.0 | 3.1% |
| Gross margin | 58.6% | 57.3% | 1.3% | 2.3% |
| Same store gross margin | 58.7% | 57.3% | 1.4% | 2.4% |

***Revenues***

Service and parts revenue increased $29.2 million, or 8.6%, from 2011 to 2012. The increase is due to a $27.2 million increase from net dealership acquisitions, coupled with a $2.0 million, or 0.6%, increase in same store revenues during the period. The increase in same store revenue is due to a $3.0 million, or 1.2%, increase in customer pay revenue, and a $1.8 million, or 55.2%, increase in vehicle preparation revenue. These same store revenue increases were somewhat offset by a $2.2 million, or 3.3%, decrease in warranty revenue, and a $0.6 million, of 2.4%, decrease in body shop revenue.

***Gross Profit***

Service and parts gross profit increased $21.4 million, or 11%, from 2011 to 2012. The increase is due to a $15.4 million increase from net dealership acquisitions, coupled with a $6.0 million, or 3.1%, increase in same store gross profit during the period. The same store gross profit increase is due to a $2.0 million, or 0.6%, increase in same store revenues, which increased gross profit by $1.2 million, coupled with a 2.4% increase in gross margin, which increased gross profit by $4.8 million. The same store gross profit increase is composed of a $5.5 million, or 20.4%, increase in vehicle preparation gross profit, and a $2.7 million, or 2.2%, increase in customer pay gross profit. These same store gross profit increases were somewhat offset by a $2.0 million, or 5.6%, decrease in warranty gross profit, and a $0.2 million, or 1.3%, decrease in body shop gross profit.

**Selling, General and Administrative**

Selling, general and administrative expenses ( SG&A ) increased $35.2 million, or 9.4%, from $374.3 million to $409.5 million. The aggregate increase is due to a $27.1 million increase from net dealership acquisitions, coupled with an $8.1 million, or 2.2%, increase in same store SG&A. The increase in same store SG&A is due to a net increase in variable selling expenses, including increases in variable compensation, as a result of a 4.8% increase in same store retail gross profit versus the prior year. SG&A expenses decreased as a percentage of gross profit from 82.1% to 79.8%.

**Floor Plan Interest Expense**

Floor plan interest expense, including the impact of swap transactions, increased $3.1 million, or 44.1%, from $6.9 million to $10.0 million, due primarily to a $2.7 million, or 38.7%, increase in same store floor plan interest expense. The same store increase is due primarily to increases in applicable interest rates due to the impact of swap transactions, as well as increased amounts outstanding under floor plan arrangements. The same store increase is coupled with a $0.4 million increase from net dealership acquisitions.

**Other Interest Expense**

Other interest expense increased $1.1 million, or 10.8%, from $10.5 million to $11.6 million. The increase is due primarily to incremental borrowings made during the latter part of 2011 in the U.S. and the first quarter of 2012 in the U.K. to finance acquisitions.

**Equity in Earnings of Affiliates**

Equity in earnings of affiliates increased $0.3 million. The increase is due to an increase in earnings at Penske Truck Leasing offset by a decline in the results at our foreign automotive joint ventures.

**Income Taxes**

Income taxes increased $6.4 million, or 31%, from $20.5 million to $26.9 million. The increase from 2011 to 2012 is due primarily to an increase in our pre-tax income versus the prior year.

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***Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011***

**New Vehicle Data**

| Dollars in millions, except per unit amounts | | | 2012 vs. 2011 | |
|---|---|---|---|---|
| | **2012** | **2011** | **Change** | **% Change** |
| New retail unit sales | 89,773 | 75,994 | 13,779 | 18.1% |
| Same store new retail unit sales | 81,994 | 75,337 | 6,657 | 8.8% |
| New retail sales revenue | $ 3,303.4 | $ 2,778.0 | 525.4 | 18.9% |
| Same store new retail sales revenue | $ 3,020.3 | $ 2,757.1 | 263.2 | 9.5% |
| New retail sales revenue per unit | $ 36,797 | $ 36,556 | 241 | 0.7% |
| Same store new retail sales revenue per unit | $ 36,836 | $ 36,597 | 239 | 0.7% |
| Gross profit new | $ 270.6 | $ 228.4 | 42.2 | 18.5% |
| Same store gross profit new | $ 245.9 | $ 226.4 | 19.5 | 8.6% |
| Average gross profit per new vehicle retailed | $ 3,015 | $ 3,005 | 10 | 0.3% |
| Same store average gross profit per new vehicle retailed | $ 2,999 | $ 3,005 | (6) | -0.2% |
| Gross margin % new | 8.2% | 8.2% | 0.0% | 0.0% |
| Same store gross margin % new | 8.1% | 8.2% | -0.1% | -1.2% |

***Units***

Retail unit sales of new vehicles increased 13,779 units, or 18.1%, from 2011 to 2012. The increase is due to a 7,122 unit increase from net dealership acquisitions, coupled with a 6,657 unit, or 8.8%, increase in same store retail unit sales during the period. The same store increase was due primarily to unit sales increases in our volume foreign brand stores in the U.S. and to a lesser extent unit sales increases at our premium brand stores in the U.S. and U.K.

***Revenues***

New vehicle retail sales revenue increased $525.4 million, or 18.9%, from 2011 to 2012. The increase is due to a $263.2 million, or 9.5%, increase in same store revenues, coupled with a $262.2 million increase from net dealership acquisitions. The same store revenue increase is due primarily to a $239, or 0.7%, increase in average selling prices per unit which increased revenue by $18.0 million, coupled with the 8.8% increase in retail unit sales, which increased revenue by $245.2 million.

***Gross Profit***

Retail gross profit from new vehicle sales increased $42.2 million, or 18.5%, from 2011 to 2012. The increase is due to a $22.7 million increase from net dealership acquisitions, coupled with a $19.5 million, or 8.6%, increase in same store gross profit. The same store increase is due primarily to a 8.8% increase in retail unit sales, which increased gross profit by $20.0 million, somewhat offset by a $6, or 0.2%, decrease in the average gross profit per new vehicle retailed, which decreased gross profit by $0.5 million.

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**Used Vehicle Data**

| Dollars in millions, except per unit amounts | | | 2012 vs. 2011 | |
|---|---|---|---|---|
| | 2012 | 2011 | Change | % Change |
| Used retail unit sales | 75,848 | 62,441 | 13,407 | 21.5% |
| Same store used retail unit sales | 70,041 | 61,888 | 8,153 | 13.2% |
| Used retail sales revenue | $ 1,931.1 | $ 1,643.6 | 287.5 | 17.5% |
| Same store used retail sales revenue | $ 1,784.8 | $ 1,629.7 | 155.1 | 9.5% |
| Used retail sales revenue per unit | $ 25,461 | $ 26,323 | (862) | -3.3% |
| Same store used retail sales revenue per unit | $ 25,482 | $ 26,333 | (851) | -3.2% |
| Gross profit used | $ 152.2 | $ 136.0 | 16.2 | 11.9% |
| Same store gross profit used | $ 141.9 | $ 135.0 | 6.9 | 5.1% |
| Average gross profit per used vehicle retailed | $ 2,007 | $ 2,178 | (171) | -7.9% |
| Same store average gross profit per used vehicle retailed | $ 2,026 | $ 2,181 | (155) | -7.1% |
| Gross margin % used | 7.9% | 8.3% | -0.4% | -4.8% |
| Same store gross margin % used | 8.0% | 8.3% | -0.3% | (3.6%) |

***Units***

Retail unit sales of used vehicles increased 13,407 units, or 21.5%, from 2011 to 2012. The increase is due to an 8,153 unit, or 13.2%, increase in same store retail unit sales, coupled with a 5,254 unit increase from net dealership acquisitions. The same store increase was due primarily to unit sales increases in premium and volume foreign brand stores in the U.S.

***Revenues***

Used vehicle retail sales revenue increased $287.5 million, or 17.5%, from 2011 to 2012. The increase is due to a $155.1 million, or 9.5%, increase in same store revenues, coupled with a $132.4 million increase from net dealership acquisitions. The same store revenue increase is due to the 13.2% increase in same store retail unit sales which increased revenue by $207.8 million, somewhat offset by an $851, or 3.2%, decrease in comparative average selling prices per unit, which decreased revenue by $52.7 million.

***Gross Profit***

Retail gross profit from used vehicle sales increased $16.2 million, or 11.9%, from 2011 to 2012. The increase is due to a $9.3 million increase from net dealership acquisitions, coupled with a $6.9 million, or 5.1%, increase in same store gross profit. The increase in same store gross profit is due to the 13.2% increase in used retail unit sales, which increased gross profit by $16.5 million, somewhat offset by a $155, or 7.1%, decrease in average gross profit per used vehicle retailed, which decreased retail gross profit by $9.6 million.

**Finance and Insurance Data**

| Dollars in millions, except per unit amounts | | | 2012 vs. 2011 | |
|---|---|---|---|---|
| | 2012 | 2011 | Change | % Change |
| Finance and insurance revenue | $ 162.5 | $ 135.3 | $ 27.2 | 20.1% |
| Same store finance and insurance revenue | $ 152.6 | $ 134.2 | $ 18.4 | 13.7% |
| Finance and insurance revenue per unit | $ 981 | $ 978 | $ 3 | 0.3% |
| Same store finance and insurance revenue per unit | $ 1,004 | $ 978 | $ 26 | 2.7% |

Finance and insurance revenue increased $27.2 million, or 20.1%, from 2011 to 2012. The increase is due to an $18.4 million, or 13.7%, increase in same store revenues during the period, coupled with an $8.8 million increase from net dealership acquisitions. The same store revenue increase is due to a 10.8% increase in total retail unit sales, which increased revenue by $14.9 million, coupled with a $26, or 2.7%, increase in comparative average finance and insurance revenue per unit which increased revenue by $3.5 million.

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**Service and Parts Data**

| Dollars in millions, except per unit amounts | | | 2012 vs. 2011 | |
|---|---|---|---|---|
| | **2012** | **2011** | **Change** | **% Change** |
| Service and parts revenue | $ 737.1 | $ 679.7 | 57.4 | 8.4% |
| Same store service and parts revenue | $ 679.2 | $ 674.5 | 4.7 | 0.7% |
| Gross profit | $ 428.4 | $ 388.7 | 39.7 | 10.2% |
| Same store gross profit | $ 395.2 | $ 386.0 | 9.2 | 2.4% |
| Gross margin | 58.1% | 57.2% | 0.9% | 1.6% |
| Same store gross margin | 58.2% | 57.2% | 1.0% | 1.7% |

***Revenues***

Service and parts revenue increased $57.4 million, or 8.4%, from 2011 to 2012. The increase is due to a $52.7 million increase from net dealership acquisitions, coupled with a $4.7 million, or 0.7%, increase in same store revenues during the period. The increase in same store revenue is due to a $9.2 million, or 1.9%, increase in customer pay revenue, and a $2.6 million, or 36.9%, increase in vehicle preparation revenue. These same store revenue increases were somewhat offset by a $5.9 million, or 4.2%, decrease in warranty revenue, and a $1.2 million, or 2.7%, decrease in body shop revenue.

***Gross Profit***

Service and parts gross profit increased $39.7 million, or 10.2%, from 2011 to 2012. The increase is due to a $30.5 million increase from net dealership acquisitions, coupled with a $9.2 million, or 2.4%, increase in same store gross profit during the period. The same store gross profit increase is due to the $4.7 million, or 0.7%, increase in same store revenues, which increased gross profit by $2.8 million, coupled with a 1.7% increase in gross margin, which increased gross profit by $6.4 million. The same store gross profit increase is composed of a $9.1 million, or 17.0%, increase in vehicle preparation gross profit, and a $5.7 million, or 2.5%, increase in customer pay gross profit. These same store gross profit increases were somewhat offset by a $5.2 million, or 7.2%, decrease in warranty gross profit, and a $0.4 million, or 1.5%, decrease in body shop gross profit.

**Selling, General and Administrative**

Selling, general and administrative expenses ( SG&A ) increased $78.4 million, or 10.8%, from $728.4 million to $806.8 million. The aggregate increase is due to a $53.1 million increase from net dealership acquisitions, coupled with a $25.3 million, or 3.5%, increase in same store SG&A. The increase in same store SG&A is due to a net increase in variable selling expenses, including increases in variable compensation, as a result of a 6.1% increase in same store retail gross profit versus the prior year. SG&A expenses decreased as a percentage of gross profit from 81.5% to 79.2%.

**Floor Plan Interest Expense**

Floor plan interest expense, including the impact of swap transactions, increased $5.8 million, or 42.4%, from $13.8 million to $19.6 million, due primarily to a $5.1 million, or 37.2%, increase in same store floor plan interest expense. The same store increase is due primarily to the impact of swap transactions, as well as increased amounts outstanding under floor plan arrangements. The same store increase is coupled with a $0.7 million increase from net dealership acquisitions.

**Other Interest Expense**

Other interest expense increased $2.1 million, or 9.4%, from $21.7 million to $23.8 million. The increase is due primarily to incremental borrowings made during the latter part of 2011 and first six months of 2012 to finance acquisitions.

**Equity in Earnings of Affiliates**

Equity in earnings of affiliates increased $4.7 million, or 59.1%, from $7.9 million to $12.6 million. The increase is due to an increase in earnings at Penske Truck Leasing offset by a decline in the results at our foreign automotive joint ventures.

**Income Taxes**

Income taxes increased $17.7 million, or 49.1%, from $36.0 million to $53.7 million. The increase from 2011 to 2012 is due to an increase in our pre-tax income versus the prior year combined with an increase in the effective tax rate from 32.2% to 34.9%.

**Liquidity and Capital Resources**

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

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

As of June 30, 2012, we had $226.9 million and £84.3 million ($131.6 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively.

***Securities Repurchases***

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

During the second quarter of 2012, we acquired 55,631 shares of our common stock for $1,307, or an average of $23.49 per share, from employees in connection with vesting of employee restricted stock awards. During the six months ended June 30, 2012, we repurchased 350,000 shares of our outstanding common stock for $8,522, or an average of $24.35 per share, under a program approved by our Board of Directors. As of June 30, 2012, we have $98.3 million in authorization under the existing securities repurchase program.

***Dividends***

We paid the following cash dividends on our common stock in 2011 and 2012:

| | Per Share Dividends |
|---|---|
| **2011** | |
| Second Quarter | $ 0.07 |
| Third Quarter | 0.08 |
| Fourth Quarter | 0.09 |
| **2012** | |
| First Quarter | $ 0.10 |
| Second Quarter | 0.11 |

We also have announced a cash dividend of $0.12 per share payable on September 4, 2012 to shareholders of record on August 10, 2012. Future quarterly or other cash dividends will depend upon a variety of factors considered relevant by our Board of Directors which may include our earnings, capital requirements, restrictions relating to any then-existing indebtedness, financial condition, and other factors.

***Inventory Financing***

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

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

**U.S. Credit Agreement**

We are party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. credit agreement ), which provides for up to $375 million in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate purposes, a non-amortizing term loan with a balance of $127 million, and for an additional $10.0 million of availability for letters of credit, through September 2014. The revolving loans bear interest at a defined LIBOR plus 2.50%, subject to an incremental 1.00% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, 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 any amounts owed. As of June 30, 2012, we were in compliance with all covenants under the U.S. credit agreement, and we believe we will remain in compliance with such covenants for the next twelve months. In making such determination, we considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments. See Forward Looking Statements.

The U.S. credit agreement also contains typical events of default, including change of control, non-payment of obligations and cross-defaults to our other material indebtedness. Substantially all of our domestic assets are subject to security interests granted to lenders under the U.S. credit agreement. As of June 30, 2012, $127 million of term loans, $0.5 million of letters of credit and $114 million of revolver borrowings 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 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10 million demand overdraft line of credit with RBS (collectively, the U.K. credit agreement ) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of June 30, 2012, outstanding loans under the U.K. credit agreement amounted to £27 million ($42.4 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. As of June 30, 2012, our U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement and we believe they will remain in compliance with such covenants for the next twelve months. In making such determination, we considered the current margin of compliance with the covenants and our expected future results of operations, working capital requirements, acquisitions, capital expenditures and investments in the U.K. See Forward Looking Statements .

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 million term loan which was used for working capital and an acquisition. The term loan is repayable in £1.5 million quarterly installments through 2015 with a final payment of £7.5 million due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined). As of June 30, 2012, the amount outstanding under the U.K. term loan was £27 million ($42.4 million).

***7.75% Senior Subordinated Notes***

In December 2006, we issued $375.0 million aggregate principal amount of 7.75% senior subordinated notes due 2016 (the 7.75% Notes ). The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under our credit agreements, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of our wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. We can redeem all or some of the 7.75% Notes at our option at specified redemption prices (currently 103.875% of the principal amount of the notes). Upon certain sales of assets or specific kinds of changes of control, we are required to make an offer to purchase the 7.75% Notes. The 7.75% Notes also contain customary negative covenants and events of default. As of June 30, 2012, we were in compliance with all negative covenants and there were no events of default. We expect to remain in compliance during the next twelve months.

***3.5% Senior Subordinated Convertible Notes***

On May 25, 2012, we provided notice to holders of the Notes that we were exercising our right to redeem the Notes at a price of 100% of the principal amount outstanding plus accrued and unpaid interest to, but excluding June 25, 2012. In lieu of surrendering the notes for redemption, Note holders could elect to convert the Notes at any time prior to the close of business on June 21, 2012 based on a conversion rate of 42.7796 shares of our common stock per $1,000 principal amount of the Convertible Notes (which is equal to a conversion price of approximately $23.38 per share).

Upon conversion of the Convertible Notes, for each $1,000 Note, a holder was entitled to receive an amount in cash, equal to the lesser of (i) $1,000 or (ii) the conversion value, determined in the manner set forth in the indenture covering the Convertible Notes. To the extent the conversion value exceeded $1,000, we were required to also deliver, cash, common stock or a combination of cash and common stock with respect to the value in excess of $1,000.

Holders of $25.6 million outstanding principal amount of Convertible Notes elected to convert their Notes. We settled the principal and interest due on the remaining $37.8 million on June 25, 2012. In July, we paid the converting holders the conversion balance due of $24.9 million in cash. Following this payment, we had fulfilled all of our obligations under the Convertible Notes.

***Mortgage Facilities***

We are party to several mortgages, which bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of June 30, 2012, we owed $74.1 million of principal under our mortgage facilities.

***Short-term Borrowings***

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

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During the six months ended June 30, 2012, outstanding revolving commitments varied between $102.5 and $188.5 million under the U.S. credit agreement and between £2.0 million and £92.0 million under the U.K. credit agreement s revolving credit line (excluding the overdraft facility), and the amounts outstanding under our floor plan agreements varied based on the timing of the receipt and expenditure of cash in our operations, driven principally by the levels of our vehicle inventories.

***Interest Rate Swaps***

We periodically use interest rate swaps to manage interest rate risk associated with our variable rate floor plan debt. We are party to interest rate swap agreements through December 2014 pursuant to which the LIBOR portion of $300.0 million of our floating rate floor plan debt is fixed at 2.135% and $100.0 million of our floating rate floor plan debt is fixed at1.55%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements. During the three and six months ended June 30, 2012, the swaps increased the weighted average interest rate on our floor plan borrowing by 39 and 40 basis points, respectively.

***PTL Dividends***

We own a 9.0% limited partnership interest in Penske Truck Leasing. During the six months ended June 30, 2012 and 2011, respectively, we received $12.5 million and $7.8 million of pro rata cash distributions relating to this investment. We currently expect to continue to receive future distributions from PTL quarterly, subject to its financial performance.

***Operating Leases***

We have historically structured our operations so as to minimize our ownership of real property. As a result, we lease or sublease 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 our other lease covenants give rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease. As of June 30, 2012, we were in compliance with all covenants under these leases, and we believe we will remain in compliance with such covenants for the next twelve months.

***Sale/Leaseback Arrangements***

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

***Off-Balance Sheet Arrangements***

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

We hold a 9.0% limited partnership interest in PTL. In April and May 2012, PTL has refinanced a significant amount of its indebtedness. As part of that refinancing, we and the other PTL partners created a new company ( Holdings ), which, together with General Electric Capital Corporation ( GECC ), co-issued $700 million 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 million derived from the net proceeds from the offering of the Holdings Bonds and a portion of its cash on hand to PTL in exchange for a 21.5% limited partner interest in PTL. PTL used the $700 million of funds to reduce its outstanding debt owed to GECC. GECC agreed to be a co-obligor of the Holdings Bonds in order to achieve lower interest rates on the Holdings Bonds.

Additional capital contributions from the members may be required to fund interest and principal payments on the Holdings Bonds. In addition, we have agreed to indemnify GECC for 9.0% of any principal or interest that GECC is required to pay as co-obligor, and pay GECC an annual fee of approximately $0.95 million for acting as co-obligor. The maximum amount of our potential obligations to GECC under this agreement are 9% of the required principal repayment due in 2019 (which is expected to be $63.1 million) and 9% of interest payments under the Holdings Bonds, plus fees and default interest, if any. Although we do not currently expect to make material payments to GECC under this agreement, this outcome cannot be predicted with certainty.

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**Cash Flows**

Cash and cash equivalents increased by $8.5 million during the six months ended June 30, 2012 and decreased by $12.5 million during the six months ended June 30, 2011. The major components of these changes are discussed below.

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

Cash provided by continuing operating activities was $204.2 million and $41.7 million during the six months ended June 30, 2012 and 2011, respectively. Cash flows from continuing operating activities includes net income, as adjusted for non-cash items and the effects of changes in working capital.

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

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| Dollars in millions | 2012 | 2011 |
| Net cash from continuing operating activities as reported | $ 204.2 | $ 41.7 |
| Floor plan notes payable non-trade as reported | 32.8 | 70.1 |
| Net cash from continuing operating activities including all floor plan notes payable | $ 237.0 | $ 111.8 |

***Cash Flows from Continuing Investing Activities***

Cash used in continuing investing activities was $172.3 million and $62.6 million during the six months ended June 30, 2012 and 2011, respectively. Cash flows from continuing investing activities consist primarily of cash used for capital expenditures and net expenditures for acquisitions and other investments. Capital expenditures were $57.1 million and $51.4 million during the six months ended June 30, 2012 and 2011, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. During the six months ended June 30, 2012, approximately $12 million of the capital expenditures was used to repurchase a dealership facility which was previously leased. We do not have material commitments related to our planned or ongoing capital projects. We currently expect to finance our capital expenditures with operating cash flows or borrowings under our U.S. or U.K. credit facilities. Cash used in acquisitions and other investments, net of cash acquired, was $111.5 million and $14.0 million during the six months ended June 30, 2012 and 2011, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of $37.8 million and $5.9 million, respectively. Additionally, cash used in other investing activities during the six months ended June 30, 2012 was $3.7 million. Cash provided by other investing activities during the six months ended June 30, 2011 was $2.9 million.

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

Cash used in continuing financing activities was $40.2 million and $19.8 million during the six months ended June 30, 2012 and 2011, respectively. Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, repurchases of securities, net borrowings or repayments of floor plan notes payable non-trade, proceeds from the issuance of common stock and the exercise of stock options, and dividends. We had net repayments of long-term debt of $6.4 million during the six months ended June 30, 2012, including net repayments under revolving credit facilities. We had net borrowings of long-term debt of $13.6 million during the six months ended June 30, 2011, including net borrowings under revolving credit facilities. We had net borrowings of floor plan notes payable non-trade of $32.8 million and $70.1 million during the six months ended June 30, 2012 and 2011, respectively. During the six months ended June 30, 2012, we acquired 405,631 shares of common stock for $9.8 million and paid cash dividends to our stockholders of $18.9 million. During the six months ended June 30, 2011, we acquired 618,209 shares of common stock for $12.4 million, and paid cash dividends to our stockholders of $6.5 million.

***Cash Flows from Discontinued Operations***

Cash flows relating to discontinued operations are not currently considered, nor are they expected to be, material to our liquidity or our capital resources. Management does not believe that the net impact of upcoming cash transactions relating to discontinued operations will be material.

**Related Party Transactions**

***Stockholders Agreement***

Several of our directors and officers are affiliated with Penske Corporation or related entities. Roger S. Penske, our Chairman of the Board and Chief Executive Officer, is also Chairman of the Board and Chief Executive Officer of Penske Corporation, and through entities affiliated with Penske Corporation, our largest stockholder owning approximately 35% of our outstanding common stock. Mitsui & Co., Ltd. and Mitsui & Co. (USA), Inc. (collectively, Mitsui ) own approximately 17% of our outstanding common stock. Mitsui, Penske Corporation and certain other affiliates of Penske Corporation are parties to a stockholders agreement pursuant to which the Penske affiliated companies agreed to vote their shares for one director who is a representative of Mitsui. In turn, Mitsui agreed to vote their shares for up to fourteen directors voted for by the Penske affiliated companies. This agreement terminates in March 2014, upon the mutual consent of the parties, or when either party no longer owns any of our common stock.

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

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

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

As discussed above, we are a 9.0% limited partner of PTL, a leading global transportation services provider. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by General Electric Capital Corporation. Among other things, the partnership agreement provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests.

In the second quarter of 2012, we acquired a 7% interest in NPA Holdco, LLC, an auctioneer of powersport vehicles for $3 million. During the second quarter of 2012, Transportation Resource Partners acquired a controlling interest in this company on the same financial terms as our investment.

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

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**Joint Venture Relationships**

We are party to a number of joint ventures pursuant to which we own and operate automotive dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of June 30, 2012, our automotive retail joint venture relationships included:

| Location | Dealerships | Ownership Interest |
|---|---|---|
| Fairfield, Connecticut | Audi, Mercedes-Benz, Porsche, smart | 84.95%(A) (B) |
| Las Vegas, Nevada | Ferrari, Maserati | 50.00%(C) |
| Frankfurt, Germany | Lexus, Toyota | 50.00%(C) |
| Aachen, Germany | Audi, Lexus, Skoda, Toyota, Volkswagen, Citroën | 50.00%(C) |
| Monza, Italy | BMW, Mini | 70.00%(B) |

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor ), owns a 15.05% interest in this joint venture which entitles the Investor to 20% of the joint venture s operating profits. In addition, the Investor has an option to purchase up to a 20% interest in the joint venture for specified amounts.

(B) Entity is consolidated in our financial statements.

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

**Cyclicality**

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

**Seasonality**

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

**Effects of Inflation**

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

**Forward Looking Statements**

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

our future financial and operating performance;

future acquisitions and dispositions;

future potential capital expenditures and securities repurchases;

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- our ability to realize cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy in the various countries in which we operate;
- our ability to access the remaining availability under our credit agreements;
- our liquidity;
- performance of joint ventures, including PTL;
- future foreign exchange rates;
- the outcome of various legal proceedings;
- trends affecting our future financial condition or results of operations; and
- our business strategy.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Actual results may differ materially from anticipated results due to a variety of factors, including the factors identified in our 2011 annual report on Form 10-K filed February 24, 2012. Important factors that could cause actual results to differ materially from our expectations include the following:

- our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in interest rates, foreign exchange rates, consumer demand, consumer confidence, fuel prices, unemployment rates and credit availability;
- the number of new and used vehicles sold in our markets;
- automobile manufacturers exercise significant control over our operations, and we depend on them and continuation of our franchise agreements in order to operate our business;
- we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more automobile manufacturers, including the adverse impact on the vehicle and parts supply chain due to natural disasters or other disruptions that interrupt the supply of vehicles and parts to us, may negatively impact our revenues and profitability;
- a restructuring of any significant automotive manufacturers or automotive suppliers;

our dealership operations may be affected by severe weather or other periodic business interruptions;

we may not be able to satisfy our capital requirements for acquisitions, dealership renovation projects, financing the purchase of our inventory, or refinancing of our debt when it becomes due;

our level of indebtedness may limit our ability to obtain financing generally and may require that a significant portion of our cash flow be used for debt service;

non-compliance with the financial ratios and other covenants under our credit agreements and operating leases;

our operations outside of the U.S. subject our profitability to fluctuations relating to changes in foreign currency valuations;

import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably;

with respect to PTL, changes in the financial health of its customers, labor strikes or work stoppages by its employees, a reduction in PTL s asset utilization rates and industry competition which could impact distributions to us;

we are dependent on continued availability of our information technology systems;

if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel;

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

In addition:

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

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

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

*Interest Rates.* We are exposed to market risk from changes in interest rates on a significant portion of our debt. Outstanding revolving balances under our credit agreements bear interest at variable rates based on a margin over defined LIBOR or the Bank of England Base Rate. Based on the amount outstanding under these facilities as of June 30, 2012, a 100 basis point change in interest rates would result in an approximate $3.0 million change to our annual other interest expense. Similarly, amounts outstanding under floor plan financing arrangements bear interest at a variable rate based on a margin over the prime rate, defined LIBOR, the Finance House Base Rate, or the Euro Interbank Offered Rate. In 2012, we are party to swap agreements pursuant to which a notional $400.0 million of our floating rate floor plan debt is exchanged for fixed rate debt through December 2014. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the trailing twelve months ended June 30, 2012, considering the swap agreements, a 100 basis point change in interest rates would result in an approximate $14.4 million change to our annual floor plan interest expense.

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

- the maintenance of our overall debt portfolio with targeted fixed and variable rate components;
- the use of authorized derivative instruments;

- the prohibition of using derivatives for trading or other speculative purposes; and

- the prohibition of highly leveraged derivatives or derivatives which we are unable to reliably value, or for which we are unable to obtain a market quotation.

Interest rate fluctuations affect the fair market value of our fixed rate debt, including our swaps, mortgages, the 7.75% Notes, and certain seller financed promissory notes, but, with respect to such fixed rate debt instruments, do not impact our earnings or cash flows.

*Foreign Currency Exchange Rates.* As of June 30, 2012, we had dealership operations in the U.K., Germany and Italy. In each of these markets, the local currency is the functional currency. Due to our intent to remain permanently invested in these foreign markets, we do not hedge against foreign currency fluctuations. In the event we change our intent with respect to the investment in any of our international operations, we would expect to implement strategies designed to manage those risks in an effort to mitigate the effect of foreign currency fluctuations on our earnings and cash flows. A ten percent change in average exchange rates versus the U.S. Dollar would have resulted in an approximate $251.1 million change to our revenues for the six months ended June 30, 2012.

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

**Item 4.** ***Controls and Procedures***

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

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

## PART II OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

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

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

In February 2010, our Board of Directors authorized the repurchase of up to $150.0 million of our outstanding common stock, debt or convertible debt on the open market, in privately negotiated transactions, via a tender offer, or through a pre-arranged trading plan. The program has an indefinite duration. During the second quarter of 2012, we did not repurchase any common stock under this program. As of June 30, 2012, our remaining authorization under the program was $98.3 million.

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During the second quarter of 2012, we acquired 55,631 shares of our common stock for $1.3 million from employees in connection with vesting of employee restricted stock awards.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |
|---|---|---|---|
| April 1 to April 30, 2012 | | | |
| May 1 to May 31, 2012 | | | |
| June 1 to June 30, 2012 | 55,631 | $ 23.49 | |
| | 55,631 | $ 23.49 | |

**Item 6.** ***Exhibits***

10.1 Amended and Restated Rights Agreement dated June 4, 2012 by and between Penske Automotive Group, Inc. and Penske Truck Leasing Corporation.

12 Computation of Ratio of Earnings to Fixed Charges

31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification.

31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification.

32 Section 1350 Certification.

101 The following materials from Penske Automotive Group s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Condensed Balance Sheets as of June 30, 2012 and December 31, 2011, (ii) the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2012 and 2011, (iii) the Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2012 and 2011, (iv) the Consolidated Condensed Statement of Equity for the six months ended June 30, 2012, and (v) the Notes to Consolidated Condensed Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

** Compensatory plan or contract

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## SIGNATURES

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

PENSKE AUTOMOTIVE GROUP, INC.

| | |
|---|---|
| | By: /s/ Roger S. Penske |
| | Roger S. Penske |
| Date: August 3, 2012 | *Chief Executive Officer* |
| | By: /s/ David K. Jones |
| | David K. Jones |
| Date: August 3, 2012 | *Chief Financial Officer* |

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**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
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| 31.2 | Rule 13(a)-14(a)/15(d)-14(a) Certification. |
| 32 | Section 1350 Certification. |
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** Compensatory plan or contract