

PENSKE AUTOMOTIVE GROUP, INC.
Form DEF 14A
March 11, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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Penske Automotive Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Penske Automotive Group

2015 Proxy Statement

Annual Meeting of Stockholders

The Annual Meeting of Stockholders of
Penske Automotive Group, Inc. will be held May 5, 2015
2555 Telegraph Road
Bloomfield Hills, Michigan 48302

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Dear Fellow Stockholder:

You are invited to attend the annual meeting of stockholders of Penske Automotive Group, Inc. to be held at 8:00 a.m., Eastern Daylight Time on May 5, 2015, at our corporate headquarters, 2555 Telegraph Rd., Bloomfield Hills, Michigan.

The agenda for this year's annual meeting includes the annual election of directors, approval of our 2015 Equity Incentive Plan, ratification of the selection of our independent auditing firm and an advisory vote regarding our executive officer compensation. The Board of Directors recommends that you vote FOR the director nominees, FOR approval of our 2015 Equity Incentive Plan, FOR the ratification of our independent auditors and FOR approval of our executive officer compensation. Please refer to the detailed information on each of these proposals and our annual meeting of stockholders in the accompanying materials.

We have elected to deliver our proxy materials to our stockholders over the Internet. This delivery process provides stockholders with the information they need, while at the same time conserving natural resources and lowering the cost of printing and delivery. On or about March 20, 2015, we will mail to our stockholders a notice of internet availability of proxy materials containing instructions on how to access our 2015 proxy statement and 2014 annual report to stockholders. This notice also provides instructions on how to vote online or by telephone and includes information on how to request a paper copy of the proxy materials by mail.

The annual meeting provides an excellent opportunity for stockholders to become better acquainted with the Company and its directors and officers, and I hope that you will attend. Whether or not you plan to attend, we ask that you cast your vote as soon as possible. This will assure your shares are represented at the meeting. Thank you for your continued support of Penske Automotive Group.

Sincerely,

/s/ Roger S. Penske

Roger S. Penske
*Chairman of the Board and
Chief Executive Officer*

Bloomfield Hills, Michigan
March 11, 2015

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Penske Automotive Group, Inc.

Notice of 2015 Annual Meeting of Stockholders

Date: May 5, 2015

Time: 8:00 a.m. Eastern Time

Place: 2555 Telegraph Road
Bloomfield Hills, Michigan 48302

Record date: March 10, 2015. Only stockholders of record at the close of business on the record date are entitled to receive notice of, and to vote at, the Annual Meeting.

Items of business:

To elect twelve directors to serve until the next annual meeting

Approval of our 2015 Equity Incentive Plan

To ratify the selection of Deloitte & Touche LLP as our independent auditor for 2015

To approve, on a non-binding advisory basis, the compensation paid to our Named Executive Officers

To transact other business that may properly come before the Annual Meeting

Important notice regarding the availability of proxy materials for the stockholder meeting to be held on May 5, 2015. Our Proxy Statement, Proxy Card and Annual Report to Stockholders are available at www.envisionreports.com/pag.

By order of the Board of Directors

/s/ Shane M. Spradlin

Shane M. Spradlin

Executive Vice President, General Counsel and Secretary

Bloomfield Hills, Michigan

March 11, 2015

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Proxy summary

This summary highlights information contained elsewhere in this Proxy Statement. This summary does not contain all of the information you should consider, and you should read the entire Proxy Statement carefully before voting.

Annual Meeting of Stockholders

Date: May 5, 2015

Time: 8:00 a.m. Eastern Time

Place: 2555 Telegraph Road
Bloomfield Hills, Michigan 48302

Record date: March 10, 2015

Voting: Stockholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on.

Admission to meeting: **Proof of share ownership will be required to enter the Penske Automotive Annual Meeting** see "Information about Attending the meeting" on page 44 for details.

Meeting agenda

Election of twelve directors

Approval of our 2015 Equity Incentive Plan

Ratification of Deloitte & Touche LLP as our independent auditor for 2015

Advisory vote on executive compensation

Transact other business that may properly come before the meeting

Voting matters and vote recommendation

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Ratification of Deloitte & Touche LLP as our independent auditor for 2015	For	Page 19
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The following table provides summary information about each director nominee. Each director is elected annually by a majority of votes cast.

John D. Barr	67	2002	Chairman Papa Murphy's Holdings, Inc.	•	F		
Michael R. Eisenson	59	1993	Managing Director & CEO Charlesbank Capital Partners	•	C, F		M
Robert H. Kurnick, Jr.	53	2006	President, Penske Automotive Group				M
William J. Lovejoy	74	2004	General Manager Lovejoy & Associates	•		M	
Kimberly J. McWaters	50	2004	Chairman and CEO, Universal Technical Institute	•	M		C
Lucio A. Noto	76	2001	Retired Vice Chairman ExxonMobil Corporation				M
Greg Penske	52	2014	Chairman and CEO Penske Motor Group				
Roger S. Penske	78	1999	Chairman and CEO Penske Automotive Group				C
Sandra E. Pierce	56	2012	Vice-Chairman FirstMerit Corporation	•		M	M
Kanji Sasaki	45	2014	Sr. Vice President International Business Development Penske Automotive Group				
Ronald G. Steinhart	74	2001	Retired Chairman and CEO Commercial Banking Group Bank One Corporation	•	F		

H. Brian Thompson	75	2002	Executive Chairman GTT Communications, Inc.	•	C	M	M
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AC Audit Committee

CC Compensation and Management Development Committee

NCG Nominating and Corporate Governance Committee

EC Executive Committee

C Chair

F Financial expert

M Member

2015 Equity Incentive Plan

In light of the expiration of the company's existing 2012 equity incentive plan later this year, our stockholders are being asked to approve a new 2015 Equity Incentive Plan. This plan provides up to 4.0 million shares for equity awards, including awards that are intended to satisfy the requirements of Section 162(m) of the Internal Revenue Code, and terminates in 2020. In the last three years, we have granted a gross amount of 1,337,274 incentive equity awards, which represents an average annual rate of shares issued as compared to shares outstanding of approximately 0.5%.

Table of Contents**Auditors**

As a matter of good corporate governance, we ask that our stockholders ratify the selection of Deloitte & Touche LLP as our independent auditor for 2015. Set forth below is summary information with respect to 2014 auditor fees.

Audit Fees	\$	1,320,500	\$	1,253,265
Audit Related Fees		188,500		46,175
Tax Fees				
Tax Compliance		128,359		
Other Tax Fees		490,618		23,000
All Other Fees				9,600
Total Fees	\$	2,127,977	\$	1,332,040

Executive Compensation

We ask that our stockholders annually approve on an advisory basis our named executive officer compensation. The Board recommends a FOR vote because it believes that our compensation policies and practices are effective in achieving the Company's goals of rewarding sustained financial and operating performance and leadership excellence, aligning the executives' long-term interest with those of our stockholders and motivating the executives to remain with the Company for long and productive careers. In 2014, over 99% of the votes cast by our stockholders approved our 2013 executive compensation and there have not been significant changes to the elements of our executive compensation in 2014.

2014 Compensation Summary

Set forth below is the 2014 compensation for each named executive officer as determined under SEC rules.

Roger S. Penske Chief Executive Officer	1,200,000		3,600,000(2)	380,298(3)	5,180,298
Robert H. Kurnick, Jr. President	700,000		700,000(4)	128,649(5)	1,528,649
David K. Jones Executive Vice President & Chief Financial Officer	466,058	235,000	357,175	69,483(6)	1,127,716
Calvin C. Sharp Executive Vice President Human Resources	459,327	130,000	153,860	64,705(7)	807,892
Shane M. Spradlin Executive Vice President, General Counsel & Sec.	474,327	235,000	322,720	59,273(8)	1,091,320

Please see the footnote references beginning on page 32 for further information regarding our named executive officer compensation.

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Questions about the Meeting

Q. *What am I voting on?*

- A. **Proposal 1:**** Election of twelve directors to serve until the next annual meeting of stockholders, or until their successors are duly elected and qualified
- Proposal 2:** Approval of our 2015 Equity Incentive Plan
- Proposal 3:** Ratification of the selection of Deloitte & Touche LLP as our independent auditing firm for 2015
- Proposal 4:** Advisory vote regarding executive compensation

Q. *Who can vote?*

- A.** Our stockholders as of the close of business on the record date, March 10, 2015, can vote at the annual meeting. Each share of our common stock gets one vote. Votes may not be cumulated. As of March 10, 2015, there were 90,324,351 shares of our common stock outstanding.

Q. *Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?*

- A.** As permitted by the Securities and Exchange Commission ("SEC"), we have elected to provide access to our proxy materials primarily over the Internet rather than mailing paper copies of those materials to each stockholder. On or about March 20, 2015, we will mail a Notice of Internet Availability of Proxy Materials (the "Notice") to our stockholders, which provides website and other information for the purpose of accessing our proxy materials. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request a printed or electronic set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. We encourage you to take advantage of the availability of the proxy materials on the Internet to help reduce the cost and environmental impact of the annual meeting.

Q. *How can I get electronic access to the proxy materials?*

- A.** The Notice provides you with instructions regarding how to view our proxy materials for the annual meeting on the Internet and instruct us to send proxy materials to you by email. Choosing to receive proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual meeting on the environment. If you choose to receive future proxy materials by email, you will receive an email message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by email will remain in effect unless and until you rescind it.

Q. *What is the difference between a stockholder of record and a beneficial owner of shares held in street name?*

- A. *Stockholder of Record.*** If your shares are registered directly in your name with our transfer agent, Computershare, you are the stockholder of record with respect to those shares and we sent the Notice directly to you. If you request copies of the proxy materials by mail, you will receive a proxy card.

Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are the beneficial owner of shares held in "street name," and the Notice was forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct

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that organization on how to vote the shares held in your account. If you request copies of the proxy materials by mail, you will receive a voting instruction form.

Q. How do I vote my shares?

A. If you are a stockholder of record or a participant in the Company's stock fund within our Company 401(k) plan (the "401(k) plan"), you may vote in any of the following ways:

By Internet. You may vote online by accessing www.envisionreports.com/pag and following the on-screen instructions. You will need the Control Number included on the Notice or on your proxy card, as applicable. You may vote online 24 hours a day. If you vote online, you do not need to return a proxy card.

By Telephone. In the U.S., you may vote by calling toll free 1-800-652-VOTE (1-800-652-8683) and following the instructions. You will need the Control Number included on the Notice or on your proxy card, as applicable. You may vote by telephone 24 hours a day. If you vote by telephone, you do not need to return a proxy card.

By Mail. If you requested printed copies of the proxy materials, you will receive a proxy card, and you may vote by signing, dating and mailing the proxy card in the envelope provided. Votes submitted by mail must be received at our headquarters on or before May 4, 2015.

In Person. You may vote in person at the annual meeting by requesting a ballot from the inspector of election at the meeting.

A. *If you are a beneficial owner of shares held in street name, you may vote in any of the following ways:*

By Internet. You may vote online by following the instructions provided in the Notice. You will need the Control Number included on the Notice or on your voting instruction form, as applicable. You may vote online 24 hours a day. If you vote online, you do not need to return a voting instruction form.

By Telephone. You may vote by telephone by following the instructions provided in the Notice. You will need the Control Number included on the Notice or on your voting instruction form, as applicable. You may vote by telephone 24 hours a day. If you vote by telephone, you do not need to return a voting instruction form.

By Mail. If you requested printed copies of the proxy materials, you will receive a voting instruction form, and you may vote by signing, dating and mailing it in the envelope provided. Votes submitted by mail must be received at our headquarters on or before May 4, 2015.

In Person. You must obtain a legal proxy from the organization that holds your shares in order to vote your shares in person at the annual meeting. Follow the instructions on the Notice to obtain this legal proxy.

For both stockholders of record and beneficial owners of shares held in street name (other than stockholders within our Company 401(k) plan), online and telephone voting is available through 11:59 p.m. ET on Monday, May 4, 2015. For shares held by the stock fund within the Company's 401(k) plan, online and telephone voting is available through 11:59 p.m. ET on Friday, May 1, 2015.

Q. Can I change my mind after I vote?

A. You may change your vote at any time before the meeting by (1) signing and returning another proxy card with a later date (or voting through the Internet or telephone again), (2) voting at the meeting if you are a registered stockholder or have obtained a legal proxy from your bank or broker or (3) sending a notice to our Corporate Secretary prior to the meeting stating that you are revoking your proxy.

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Q. What if I return my proxy card but do not provide voting instructions?

A. Proxies that are signed and returned but do not contain instructions will be voted (1) FOR the election of the twelve nominees for director, (2) FOR the approval of the 2015 Equity Incentive Plan, (3) FOR the ratification of our independent auditors, (4) FOR approval of our executive officer compensation and (5) in accordance with the best judgment of the named proxies on any other matters properly brought before the meeting.

Q. Will my shares be voted if I do not provide my proxy instruction form?

A. If you are a stockholder of record and do not provide a proxy, you must attend the meeting in order to vote your shares. If you are a beneficial holder of shares held in street name, your shares may be voted even if you do not provide voting instructions on your instruction form. Brokers have the authority under New York Stock Exchange rules to vote shares for which their customers do not provide voting instructions on certain "routine" matters. Under these rules, only the proposal to ratify our independent auditing firm is a "routine matter" being voted on by our stockholders this year.

Q. May stockholders ask questions at the meeting?

A. Yes. Our representatives will answer stockholders' questions of general interest at the end of the meeting. In order to give a greater number of stockholders an opportunity to ask questions, individuals or groups may be allowed to ask only one question and repetitive or follow-up questions may not be permitted.

Q. How many votes must be present to hold the meeting?

A. Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy card or vote via the Internet or telephone. In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of March 10, 2015 must be present in person or by proxy at the meeting (45,162,176 shares). This is referred to as a quorum. Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the meeting.

Q. How many votes are needed to approve the proposals?

A. Regarding proposal 1, the twelve nominees receiving the highest number of "For" votes will be elected as directors. This number is called a plurality. Shares not voted, whether by marking "Abstain" on the proxy card or otherwise, will have no impact on the election of directors. Regarding proposals 2, 3 and 4, the measures will pass if each receives the affirmative vote of a majority of shares present and entitled to vote at the meeting. On these items, abstentions will count as votes against the proposal and broker non-votes will not be counted.

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Proposal 1 Election of Directors

The first proposal to be voted on at the annual meeting will be the election of twelve director nominees. Our Nominating and Corporate Governance Committee and Board of Directors recommend approval of each of the nominees outlined below. If elected, each will serve a one-year term. Pursuant to a stockholders agreement, certain of our stockholders affiliated with Roger S. Penske and Mitsui & Co., Ltd. have agreed to vote together to elect members of our Board of Directors. See "Related Party Transactions" for a description of this stockholders agreement.

Penske Corporation recommended Greg Penske (Roger S. Penske's son) to our Nominating and Corporate Governance Committee as a candidate for election to our Board of Directors at the 2014 annual meeting. Penske Corporation has also informed us that it intends to recommend Greg Penske for re-election to our Board at the 2016 annual meeting. Beginning in 2017, in lieu of Greg Penske, Penske Corporation presently intends to recommend one of Mr. Penske's other sons, Roger Penske, Jr., to the Nominating and Corporate Governance Committee for nomination as a candidate for election to our Board at the 2017, 2018 and 2019 annual meetings. It is expected that Mr. Penske, Jr. will serve as an advisory committee member of Penske Truck Leasing (PTL) for 2015 and 2016 and it is expected that Greg Penske will step down from our Board at the 2017 annual meeting and will serve as an advisory committee member of PTL beginning in 2017.

Director Nominees. Our Nominating and Corporate Governance Committee has established minimum qualifications for director nominees, including having personal integrity, loyalty to Penske Automotive Group and concern for its success and welfare, willingness to apply sound and independent business judgment and having sufficient time available for Penske Automotive Group matters. Experience in at least one of the following is also desired: high level of leadership experience in business or administration, breadth of knowledge concerning issues affecting Penske Automotive Group, willingness to contribute special competence to board activities, accomplishments within the director's respective field, and experience reading and understanding financial statements.

The Nominating and Corporate Governance Committee and Board of Directors reviewed the qualities of the Board members as a group, including the diversity of the Board's career experiences, viewpoints, company affiliations, expertise with respect to the various facets of our business operations, and business experiences. The Board did not employ any particular benchmarks with respect to these qualities, but was mindful of achieving an appropriate balance of these qualities with respect to the Board of Directors as a whole. Moreover, the Board of Directors and Nominating and Corporate Governance Committee considered each nominee's overall service to Penske Automotive Group during the previous term, each nominee's personal integrity and adherence to the standards noted above, as well as the individual experience of each director noted within their biographies below.

Our Board of Directors Recommends a Vote "FOR" Each of the Following Nominees:

John D. Barr Chairman, Papa Murphy's Holdings, Inc.

Mr. Barr, 67, has served as a director since December 2002. Mr. Barr has been the Chairman of Papa Murphy's Holdings, Inc., a take-and-bake pizza chain, since September 2009 and was its Chief Executive Officer from April 2005 to January 1, 2012. From 1999 until April 2004, Mr. Barr served as President and Chief Executive Officer of Automotive Performance Industries, a vehicle transportation service provider. Prior thereto, Mr. Barr was President and Chief Operating Officer, as well as a member of the Board of Directors, of the Quaker State Corporation from June 1995 to 1999. Prior to joining Quaker State, Mr. Barr

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spent 25 years with The Valvoline Company, a subsidiary of Ashland, Inc., where he was President and Chief Executive Officer from 1987 to 1995. *Individual experience:* Extensive oil industry experience from serving ultimately as COO and director of Quaker State Corporation; breadth of knowledge concerning issues affecting our Company; experience with franchise business model as CEO of Papa Murphy's Holdings.

Michael R. Eisenson Managing Director and CEO of Charlesbank Capital Partners LLC

Mr. Eisenson, 59, has served as a director since December 1993. He is a Managing Director and CEO of Charlesbank Capital Partners LLC, a private investment firm and the successor to Harvard Private Capital Group, Inc., which he joined in 1986. Mr. Eisenson is also a director of Blueknight Energy Partners, L.P., Montpelier RE Holdings Ltd. and a number of private companies. In the previous five years, Mr. Eisenson was formerly a director of Animal Health International, Inc. and CIFIC Corp. Individual experience: Familiarity with all of the Company's key operations from serving as our director since 1993; experience managing Charlesbank and affiliates and their portfolio companies; experience in commercial finance, private equity and leveraged finance; demonstrated success serving as our audit committee chairman.

Robert H. Kurnick, Jr. President of Penske Automotive Group

Mr. Kurnick, Jr., 53, has served as our President since April 2008 and has been a director since May 2006. He also serves as President and a director of Penske Corporation, which he joined in 1995. Penske Corporation is a privately owned diversified transportation services company that holds, through its subsidiaries, interests in a number of businesses. Individual experience: Familiarity with all of the Company's key operations; breadth of knowledge concerning issues affecting our Company; extensive automotive industry experience; experience as President of Penske Corporation.

William J. Lovejoy General Manager of Lovejoy & Associates

Mr. Lovejoy, 74, has served as a director since March 2004. Since September 2003, Mr. Lovejoy has served as General Manager of Lovejoy & Associates, an automotive consulting firm. From January 2000 until December 2002, Mr. Lovejoy served as Group Vice President, North American vehicle sales, service and marketing for General Motors Corporation. From 1994 until December 1999, Mr. Lovejoy served as Vice President of General Motors service and parts operation. From 1962 until 1992, Mr. Lovejoy served in various capacities for General Motors Acceptance Corporation ("GMAC") and ultimately President of GMAC in 1990. Mr. Lovejoy also serves on the Advisory Board of On My Own of Michigan. Individual experience: Extensive automotive industry experience with General Motors, including its sales and service and parts operations; automotive finance experience culminating with experience as President of GMAC; breadth of knowledge concerning issues affecting our Company.

Kimberly J. McWaters Chairman and CEO of Universal Technical Institute, Inc.

Ms. McWaters, 50, has served as a director since December 2004. Ms. McWaters has served as CEO of Universal Technical Institute, Inc. ("UTI"), a nationwide provider of technical educational training for individuals seeking careers as professional automotive technicians, since October 2003, as Chairman of the Board of UTI since December 9, 2013 and as a director on UTI's board since February 2005. From February 2000 to February 2011, Ms. McWaters served as President of UTI. From 1984 until 2000, Ms. McWaters held several positions at UTI including Vice President of Marketing and Vice President of Sales and Marketing. Ms. McWaters is also a director of Mobile Mini, Inc. Individual experience: Automotive industry experience with Universal Technical Institute; accomplishment within her field culminating with leadership experience as Chief Executive Officer of UTI; expertise relating to service and parts operations and particularly service technicians.

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Lucio A. Noto Retired Vice Chairman of ExxonMobil Corporation

Mr. Noto, 76, has served as a director since March 2001. Mr. Noto retired as Vice Chairman of ExxonMobil Corporation in January 2001, a position he had held since the merger of Exxon and Mobil companies in November 1999. Before the merger, Mr. Noto was Chairman and CEO of Mobil Corporation, where he had been employed since 1962. Mr. Noto is a managing partner of Midstream Partners LLC, an investment company specializing in energy and transportation projects. He is also a director of Philip Morris International and an Emeritus member of Temasek's International Advisory Panel. In the last five years, he has been a director of RHJ International SA. *Individual experience*: Extensive oil industry experience culminating with appointments as CEO of Mobil Corporation and Vice Chairman of ExxonMobil Corporation; breadth of knowledge concerning issues affecting our Company; experience as an executive and a director of some of the world's leading global corporations.

Greg Penske Chairman of the Board and CEO of Penske Motor Group

Mr. Penske, 52, has been the Chairman and Chief Executive Officer of Penske Motor Group, LLC, an automotive group that includes Longo Toyota, the largest automotive retail dealership in the United States by volume, since 1993. From 1997 to 1999 he was the President and CEO of Penske Motorsports, a publicly traded company which operated racetracks in the U.S. Mr. Penske currently serves as a director of Penske Corporation. In the last five years, he has been a director of Ares Capital Corporation. Mr. Penske is the son of our Chief Executive Officer, Roger S. Penske. *Individual experience*: Extensive automotive retail industry experience; relationships with key automotive partners; familiarity with all of the Company's key operations through Penske Corporation directorship.

Roger S. Penske Chairman of the Board and CEO of Penske Automotive Group

Mr. Penske, 78, has served as our Chairman and CEO since May 1999. Mr. Penske has also been Chairman of the Board and CEO of Penske Corporation since 1969. Mr. Penske has also been Chairman of the Board of Penske Truck Leasing Corporation since 1982. Mr. Penske serves as a member of the Board of Directors of Universal Technical Institute, and was formerly a director of General Electric Company in the previous five years. Mr. Penske also is Vice Chairman of the Downtown Detroit Partnership and a director of Business Leaders for Michigan. *Individual experience*: Extensive automotive industry experience; relationships with our key automotive partners; familiarity with all of the Company's key operations; experience as an executive and a director of some of the world's leading companies; significant ownership position of our stock through Penske Corporation and other affiliates.

Sandra E. Pierce Vice Chairman of FirstMerit Corporation and Chairman and CEO of FirstMerit Michigan

Ms. Pierce, 56, has served as a director since December 2012. Since February 1, 2013, Ms. Pierce has served as Vice Chairman of FirstMerit Corporation, and Chairman and CEO of FirstMerit Michigan. From 2005 until June 2012, Ms. Pierce served as the Chief Executive Officer and President at Charter One Bank Michigan, a division of Royal Bank of Scotland ("RBS"). In that role, she was responsible for the bank's commercial banking business, overseeing all state bank activities and was involved in local marketing and community giving. From July through December 2012, Ms. Pierce was a consultant for RBS. In addition, Ms. Pierce was the Regional Executive for the Midwest, overseeing activities in Illinois and Ohio. From 1978 through 2004, Ms. Pierce served as Regional Executive of Midwest Retail Operations for JPMorgan Chase, with responsibilities for Michigan and Indiana, and she held a number of management positions in the retail, commercial lending, and private banking businesses at JPMorgan Chase and its predecessor companies, Bank One, First Chicago NBD Corp. and NBD Bancorp. Ms. Pierce has performed leadership duties with numerous civic organizations, including Chairman and Trustee of Henry Ford Health System, Inc. since January 2012. *Individual*

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Experience: Extensive retail and commercial banking experience; accomplished within her field culminating in CEO experience; extensive experience on private company boards and demonstrated commitment to civic works.

Kanji Sasaki Senior Vice President, International Business Development of Penske Automotive Group

Mr. Sasaki, 45, has served as a director since July 2014 and our Senior Vice President International Business Development since October 2014. Mr. Sasaki is currently an employee of Mitsui & Co., Ltd. (Japan) and has held several positions with Mitsui since April, 1992. Mr. Sasaki served as the General Manager of Mitsui's First Motor Vehicles Division, Second Business Department from July 2013 to June 2014. From August 2011 to June 2013, he served as a General Manager in Mitsui's Motor Vehicles Americas Division, Penske & Logistics Business Department. From June 2007 to June 2011, Mr. Sasaki was on secondment to Hino Motors Sales U.S.A., serving as a Senior Vice President, Secretary and Treasurer. Mr. Sasaki began his career at Mitsui in April 1992 and served in various capacities with Mitsui, including secondment to Toyota Motor Corporation and Hino Motors Ltd. *Individual Experience:* Global automotive industry experience; breadth of knowledge concerning international opportunities; affiliation with Mitsui, which is the Company's second largest stockholder.

Ronald G. Steinhart Retired Chairman and CEO, Commercial Banking Group, Bank One Corporation

Mr. Steinhart, 74, has served as a director since March 2001. Mr. Steinhart served as Chairman and CEO, Commercial Banking Group, of Bank One Corporation from December 1996 until his retirement in January 2000. From January 1995 to December 1996, Mr. Steinhart was Chairman and CEO of Bank One, Texas, N.A. Mr. Steinhart joined Bank One in connection with its merger with Team Bank, which he founded in 1988. Mr. Steinhart also serves as a director of Southcross Energy Partners, L.P. In the previous five years, Mr. Steinhart formerly served as a director of Texas Industries, Inc., Susser Holdings Corporation, Animal Health International, Inc. and as a Trustee of the MFS/Compass Group of mutual funds. *Individual experience:* Extensive experience in banking and commercial lending industries; experience with respect to automotive retail finance and insurance operations; extensive public company audit committee experience.

H. Brian Thompson Executive Chairman of GTT Communications, Inc.

Mr. Thompson, 75, has served as a director since March 2002. Mr. Thompson is Executive Chairman of GTT Communications, Inc., a leading global cloud network provider to multinational clients. Mr. Thompson continues to head his own private equity investment and advisory firm, Universal Telecommunications, Inc. From December 2002 to June 2007, Mr. Thompson was Chairman of Comsat International and also served as Chairman and Chief Executive Officer of Global TeleSystems Group, Inc. from March 1999 through September of 2000. Mr. Thompson was Chairman and CEO of LCI International from 1991 until its merger with Qwest Communications International Inc. in June 1998. Mr. Thompson became Vice Chairman of the board for Qwest until his resignation in December 1998. Mr. Thompson previously served as Executive Vice President of MCI Communications Corporation from 1981 to 1990, and prior to MCI, was a management consultant with the Washington, DC offices of McKinsey & Company for nine years, where he specialized in the management of telecommunications. He currently serves as a member of the board of directors of Axcelis Technologies, Inc., Pendrell Corporation, and Sonus Networks, Inc. Mr. Thompson received his MBA from Harvard's Graduate School of Business, and holds an undergraduate degree in chemical engineering from the University of Massachusetts. *Individual experience:* Extensive experience as an executive and director of numerous public companies; experience in a leadership role directing international corporations; perspective gained from leadership role in communications industry; demonstrated success serving as our lead independent director.

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Our Corporate Governance

John D. Barr	M	F			
Michael R. Eisenson	M	C, F			M
Robert H. Kurnick, Jr.	M				M
William J. Lovejoy	M		M		
Kimberly J. McWaters	M	M		C	
Lucio A. Noto	M				M
Greg Penske	M				
Roger S. Penske	C				C
Sandra E. Pierce	M		M	M	
Kanji Sasaki	M				
Ronald G. Steinhart	M	F			
H. Brian Thompson	M		C	M	M
No. of Meetings 2014	6	8	5	3	0

C

Chair

F

Financial expert

M

Member

Board Committees

Our Board of Directors has four standing committees: the Audit Committee, the Compensation and Management Development Committee, the Nominating and Corporate Governance Committee and the Executive Committee. Charters for the Audit, Compensation and Management Development, and Nominating and Corporate Governance committees are available on our website, www.penskeautomotive.com, under the tab "Corporate Governance." The principal responsibilities of each committee are described below. Collectively, our directors attended over 93% of our board and committee meetings in 2014, and each director attended at least 83% of their meetings, other than Mr. Greg Penske who joined our Board in May 2014 and, due to business commitments prior to joining our Board, attended 60% of the meetings including three of four regularly scheduled meetings. All of our directors are encouraged to attend the annual meeting of stockholders and 11 of 12 directors serving at that time attended the annual meeting in 2014.

Committee Member Qualifications. Each of the members of our Audit, Compensation and Management Development, and Nominating and Corporate Governance Committees are independent under New York Stock Exchange guidelines and our guidelines for director independence. The Board of Directors has determined that all members of the Audit Committee are "independent" and "financially literate" under New York Stock Exchange rules and applicable law, and three of the four are "audit committee financial experts," as that term is defined in Securities and Exchange Commission rules.

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibility relating to the:

financial statements, financial reporting and financial controls

internal audit function

engagement and evaluation of the independent auditing firms

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significant business risks or exposures and the steps taken to assess, monitor and mitigate these risks or exposures

The Compensation and Management Development Committee assists the Board of Directors in discharging its responsibility relating to:

executive officers' compensation

compensation and benefits of other employees

administration of our equity incentive plans

recommendations to the Board of Directors with respect to director compensation

management progression and succession plans

The Nominating and Corporate Governance Committee:

identifies prospective candidates for our Board of Directors

recommends director nominees for each annual meeting of stockholders and any interim vacancies the Board of Directors determines to fill

recommends to the Board of Directors corporate governance principles

annually reviews our corporate governance policies

oversees the Board self-evaluation

oversees our compliance with legal and regulatory requirements

Executive Committee. Our Executive Committee's primary function is to act upon matters when the Board of Directors is not in session. The Executive Committee has the full power and authority of the Board of Directors, except to the extent limited by law or our certificate of incorporation or bylaws or other governance documents.

Board Structure and Lead Director. Roger S. Penske is the Chairman of our Board of Directors and our Chief Executive Officer. We believe the combination of these two offices represents the most appropriate approach for our company due to Mr. Penske's significant ownership position through Penske Corporation, his extensive automotive industry experience, his relationships with our key automotive partners and his experience as an executive and a director of some of the world's leading companies. In light of the combination of these positions, one of our governance principles is to have an independent "Lead Director." Our Lead Director is responsible for:

coordinating and leading the activities of the outside directors

establishing the agenda for executive sessions of the outside directors

presiding at the executive sessions of the outside directors which generally occur as part of each Board meeting

facilitating communication between the outside directors as a group and our management team

Our Lead Director is H. Brian Thompson. He may be contacted by leaving a message at the following telephone number: 800-469-1634. All messages will be reviewed by our Corporate Secretary's office and all (other than frivolous messages) will be forwarded to the Lead Director. Any written communications to the independent directors as a group or the entire Board of Directors may be sent care of the Corporate Secretary to our principal executive office. These communications (other than frivolous messages) will also be forwarded to the Lead Director.

Director Independence. A majority of our Board of Directors is independent and each of the members of our audit, compensation and nominating committees is independent. The Board of Directors has determined that Ms. McWaters and Pierce and Messrs. Barr, Eisenson, Lovejoy, Steinhart and Thompson are each independent in accordance with the listing requirements of the New York Stock Exchange and our guidelines for independent directors which can be found in our corporate governance guidelines on our website www.penskeautomotive.com and as set forth below. As required by New York Stock Exchange rules, our Board of Directors determined that no material relationship exists which would interfere with the exercise of independent judgment in carrying out the responsibilities of the independent directors.

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For a director to be considered independent under our corporate governance guidelines, the Board of Directors must determine that the director does not have any direct or indirect material relationship with us. In addition to applying these guidelines, the Board of Directors considers relevant facts and circumstances in making the determination of independence, and not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. The Board considers the transactions, relationships and arrangements between the Company and affiliates of the director, including those described under "Related Party Transactions" and elsewhere in the proxy statement, in its independence determination. The Board also considers ownership of our or our affiliates' securities by the directors and their affiliates, ownership by our management team of any securities of affiliates of directors, and any direct or indirect investments in affiliates of Charlesbank Capital Partners, an affiliate of Michael Eisenson, or Transportation Resource Partners, an affiliate of Penske Corporation.

Under our guidelines, which are more stringent than the New York Stock Exchange guidelines, a director will not be independent if:

1. The director is employed by us, or an immediate family member is one of our executive officers.*
2. The director receives more than \$60,000 of direct compensation from us, other than director fees and deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).*
3. The director is affiliated with or employed by one of our independent auditing firms, or an immediate family member is affiliated with or employed in a professional capacity by one of our independent auditing firms.
4. An executive officer of ours serves on the compensation committee of the board of directors of a company that employs the director or an immediate family member as an executive officer.
5. The director is an executive officer or employee, or if an immediate family member is an executive officer, of another company that does business with us and the sales by that company to us or purchases by that company from us, in any single fiscal year during the evaluation period, are more than the greater of two percent of the annual revenues of that company or \$1 million.
6. The director serves as an officer, director or trustee of a charitable organization, and our charitable contributions to the organization are more than the greater of \$250,000 or one percent of that organization's total annual charitable receipts during its last completed fiscal year.

*

Employment as an Interim Chairman, Interim CEO or other executive officer on an interim basis, and related compensation, shall not disqualify a director from being considered independent following that employment.

Risk Management. We have designed and implemented processes to manage risk in our operations. The Board of Director's role in risk management is primarily one of oversight. Management is responsible for the implementation and execution of our risk management initiatives. Our Board of Directors executes its oversight role directly and also through its various committees as set forth below.

Audit Committee

principally responsible for implementing the Board's risk management oversight role

reviews management's assessment of the key risks facing our Company, including the key controls we rely on to mitigate those risks

monitors certain key risks at each of its regularly scheduled meetings, such as liquidity risk, risk relating to compliance with credit covenants, and related party transaction risk

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Nominating and Corporate Governance Committee

oversees compliance with legal and regulatory requirements

reviews risks relating to our governance structure

Compensation and Management Development Committee

reviews risks inherent in our compensation policies

reviews the Company's succession planning

Full Board of Directors

reviews strategic and operational risk in the context of reports from corporate management, regional executives and other officers

receives reports on all significant committee activities at each regular meeting

reviews the risks inherent in any significant Company transactions

Securities Trading Policy/Anti-Hedging. Our securities trading policy applies to all of our directors, officers and employees and restricts trading in our securities while in possession of material nonpublic information. The policy prohibits our directors, officers, employees and their designees from engaging in hedging, short sales and other trading techniques that offset any decrease in market value of our equity securities without the approval of our General Counsel. No such approvals were requested in 2014.

Stock Ownership Guidelines/Pledging. Our stock ownership guidelines, discussed in the CD&A below, require threshold levels of our stock to be held by executive officers, other senior officers and directors. These guidelines exclude any shares that are pledged by our directors and officers.

Controlled Company. Under the New York Stock Exchange rules, if a company is "controlled" it need not have a majority of independent directors or solely independent compensation or nominating committees. We are a "controlled company" because more than 50% of the voting power for the election of directors is held by Penske Corporation through its voting agreement with Mitsui & Co. and their affiliates. These entities are considered a group due to the provisions of the stockholders agreement between these parties described under "Related Party Transactions." Even though we are a "controlled company," we are fully compliant with the New York Stock Exchange rules for non-controlled companies.

Director Candidates. When considering new candidates for our Board of Directors, the Nominating and Corporate Governance Committee uses the network of contacts of the Board of Directors to compile potential candidates, but may also engage, if it deems appropriate, a professional search firm. The committee considers whether the nominee would be independent and meets with each candidate to discuss and consider his or her qualifications. The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders pursuant to procedures outlined below. Stockholder proposals for nominees should be addressed to our Corporate Secretary, Penske Automotive Group, 2555 Telegraph Road, Bloomfield Hills, MI 48302. The committee's evaluation of stockholder-proposed candidates will be the same as for any other candidates.

Director candidate submissions are to include:

sufficient biographical information concerning the recommended individual, including age, employment history with employer names and description of the employer's business

whether such individual can read and understand basic financial statements

a list of board memberships and other affiliations of the nominee

a written consent of the individual to stand for election and serve if elected by the stockholders

a statement of any relationships between the person recommended and the person submitting the recommendation

a statement of any relationships between the candidate and any automotive retailer, manufacturer or supplier

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proof of ownership by the person submitting the recommendation of at least 500 shares of our common stock for at least one year

Recommendations received by November 21, 2015, will be considered for nomination at the 2016 annual meeting of stockholders.

Recommendations received after November 21, 2015 will be considered for nomination at the 2017 annual meeting of stockholders.

Location of Corporate Governance Documents. Our corporate governance guidelines and the other documents referenced in this section are posted on our website, www.penskeautomotive.com, under the tab "Corporate Governance." We have also adopted a Code of Business Conduct and Ethics that applies to all of our employees and directors. We intend to disclose waivers, if any, for our executive officers or directors from the code, and changes to the code, on our website.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors and persons who beneficially own more than 10% of our stock to file reports of ownership with the SEC. Our employees prepare these reports using information obtained from them and our records. We believe all Section 16(a) reports were timely filed in 2014.

Stockholder Nominations and Proposals for 2016. We must receive any proposals submitted pursuant to Rule 14(a)-8 of the SEC proxy rules intended to be presented to stockholders at our 2016 annual meeting of stockholders at our principal executive offices at 2555 Telegraph Road, Bloomfield Hills, Michigan 48302-0954 for inclusion in the proxy statement by November 21, 2015. These proposals must also meet other requirements of the rules of the SEC relating to stockholder proposals. Stockholders who intend to present an item of business at the annual meeting of stockholders in 2016 (other than a proposal submitted for inclusion in our proxy statement) must follow the procedures set forth in our bylaws and provide us notice of the business no later than February 5, 2016.

Proposal 2 Approval of our 2015 Equity Incentive Plan

Summary

In light of the expiration of our 2012 Equity Incentive Plan later this year, our stockholders are being asked to approve the 2015 Equity Incentive Plan (the "Equity Incentive Plan") which will be used to award incentive cash and equity compensation to our management and board of directors. We are implementing a new equity incentive plan due to the expiration of our prior equity incentive plan on November 1, 2015. Both our Compensation and Management Development Committee and Board of Directors have approved the Equity Incentive Plan, subject to stockholder approval at the annual meeting.

This plan provides up to 4.0 million shares for equity awards, including awards that are intended to satisfy the requirements of Section 162(m) of the Internal Revenue Code, and terminates in 2020. In the last three years, we have granted a gross amount of 1,337,274 incentive equity awards, which represents an average annual rate of shares issued as compared to shares outstanding of approximately 0.5%.

General

Upon adoption by stockholders at the annual meeting, the Equity Incentive Plan will authorize 4.0 million shares of our common stock for issuance as incentive awards. Incentive awards under the Equity Incentive Plan may be in the form of cash, stock options, stock appreciation rights, restricted stock, restricted stock units, performance compensation awards or common

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stock. The number of shares available for incentive awards under the Equity Incentive Plan will be increased in an amount equal to incentive awards that are forfeited or terminated without issuance of shares and shares withheld by or tendered to us in connection with satisfaction of tax withholding obligations of an award. Adjustments will be made in the aggregate number of shares that may be issued under the Equity Incentive Plan in the event of a change affecting shares of our common stock, such as a stock dividend or split, recapitalization, reorganization, or merger. No more than 1,000,000 shares may be allocated for incentive awards to any one participant during any single calendar year and the maximum dollar amount payable to any employee in any one year for a cash incentive award is the lesser of \$10.0 million or ten times their base salary.

Administration and Term

Our Compensation and Management Development Committee will administer the Equity Incentive Plan, including the power to determine when to grant incentive awards; which eligible participants will receive incentive awards; whether the award will be an option, stock appreciation right, restricted stock, restricted stock unit, performance compensation award or company common stock; whether stock appreciation rights will be attached to options; and the number of shares or units to be allocated to each incentive award. The committee may impose conditions on the exercise of options and stock appreciation rights and upon the transfer of restricted stock or restricted stock units under the Equity Incentive Plan and may impose such other restrictions and requirements as it may deem appropriate, including reserving the right for us to reacquire shares issued pursuant to an incentive award.

The committee has delegated limited authority to the company's CEO to grant equity awards to the company's non-executive officer employees. The committee delegated this authority in order to permit the CEO to award limited equity grants without the specific action of the committee. Pursuant to this delegation, the CEO has had the discretion to make a maximum of 50,000 awards, which authority has been reviewed from time to time.

The Equity Incentive Plan will terminate on May 5, 2020, unless our Board of Directors terminates it prior to that date. Incentive awards existing after the termination date will continue to be governed by the terms and conditions of the Equity Incentive Plan.

Eligibility

All present and future employees, directors and any company contributors are eligible to receive incentive awards under the Equity Incentive Plan.

Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock units issued pursuant to the Equity Incentive Plan are subject to the following general restrictions: (1) no such shares or units may be sold, transferred, pledged, or otherwise encumbered or disposed of until the restrictions on such shares or units have lapsed or been removed under the provisions of the Equity Incentive Plan and (2) if a holder of restricted stock or restricted stock units ceases to be employed by us or one of our affiliates or ceases to be a company contributor, any shares of restricted stock, or restricted stock units, on which the restrictions have not lapsed or been otherwise removed will be forfeited. The committee is also authorized to impose further restrictions on restricted stock or restricted stock units, including additional events of forfeiture. The committee will establish the terms and conditions upon which the restrictions on those shares or units will lapse; provided that, unless otherwise specified in an award, the period of restriction must be at least one year from the date of grant. The terms and conditions may include, without limitation, the lapsing of those restrictions at the end of a specified period of time as a result of the disability or death of the participant, or as a result of the occurrence of a change-in-control. In addition, the committee may at any time, in its sole discretion, accelerate the time at which any or all restrictions will lapse or remove any and all restrictions.

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Participants holding shares of restricted stock may exercise full voting rights with respect to those shares and are entitled to receive all dividends and other distributions paid with respect to those shares. Participants holding restricted stock units do not possess any voting rights with respect to those units, but are entitled to receive all dividends and other distributions paid with respect to those units if and as so provided in the related award agreement. Restricted stock units may be settled by the company in the form of shares of company common stock, cash, or a fixed combination of both, as determined by the committee.

Stock Options

Options granted under the Equity Incentive Plan may be incentive stock options (qualifying for favorable income tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended) or non-statutory stock options. The option price for any option awarded under the plan may not be less than 100% (or, in the case of an incentive stock option granted to a 10% stockholder, 110%) of the fair market value of the our common stock on the date of the grant. The committee determines any vesting requirement for option awards. Payment of the option exercise price may be made in cash or as otherwise provided in an option award or by separate action of the committee. The maximum term of any option granted under the plan is ten years. To date, no stock options have been issued pursuant to the Equity Incentive Plan.

Stock Appreciation Rights

The committee may award stock appreciation rights under the Equity Incentive Plan either with or without related options, or the committee may subsequently award and attach stock appreciation rights to a previously awarded nonstatutory option, and impose such conditions upon their exercise as it deems appropriate. When the stock appreciation right is exercisable, the holder may surrender to us all or a portion of the unexercised stock appreciation right and receive in exchange an amount equal to the difference between (i) the fair market value on the date of exercise of the common stock covered by the surrendered portion of the stock appreciation right and (ii) the exercise price of the common stock under the related option or, if the stock appreciation right is not related to an option, the fair market value of the common stock on the date the stock appreciation right was awarded. The committee may limit the amount that can be received when a stock appreciation right is exercised. When a stock appreciation right related to an option is exercised, the underlying option, to the extent of the stock appreciation right's surrender, will no longer be exercisable. Similarly, when an option is exercised, any stock appreciation rights attached to the option will no longer be exercisable. Our obligation arising upon exercise of a stock appreciation right may be paid in the company's common stock or in cash, or in any combination of the two, as the committee may determine. Stock appreciation rights may only be exercised when the underlying option is exercisable or, if there is no underlying option, at the times specified by the committee.

Performance Compensation Awards

At the time of grant, the committee may designate any incentive award (other than stock options and stock appreciation rights) as a performance compensation award as part of its intention to qualify the award as performance-based compensation under Section 162(m) of the Internal Revenue Code. For incentive awards designated as performance compensation awards, the committee shall determine, among other items, the performance goals and performance period applicable to the awards. After the end of the performance period, the committee will certify in writing the level of performance goal that was attained for the performance period. The maximum performance award for a participant for a calendar year is 1,000,000 shares of company stock and the maximum dollar amount payable to any employee in any one year for a cash incentive award is the lesser of \$10.0 million or ten times their base salary.

The committee may develop applicable performance goals using the following measurements: specified levels of or increases or decreases in revenue, return on equity,

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earnings per share, total earnings, earnings growth, earnings from continuing operations, EBITDA, EBITDAR, return on capital/equity, return on assets, gross profit, earnings before interest and taxes, sales, sales growth, gross or operating margin, cost reduction goals, fixed cost coverage measurements (including the ratio of service and parts revenues to operating costs), return on investment, increase in the fair market value of our common stock, share price (including growth measures and total stockholder return), market capitalization, operating profit, profit margin, net income, cash flow (including operating cash flow and free cash flow), financial return ratios, expense ratios, total return to stockholders, market share, earnings measures/ratios, balance sheet measurements (including debt to equity ratios, maintenance of specified credit availability levels, compliance with credit covenants, inventory measurements and receivables/payables metrics), human resources measurements (including measurements of employee turnover, workers' compensation costs and employee satisfaction), internal rate of return, unit sales, same store sales, specified levels of acquisitions/acquired revenue, customer satisfaction and productivity and compliance objectives (including lack of material weakness in internal controls, each as determined in accordance with the relevant AICPA or PCAOB principles), or where applicable, as adjusted to the extent permitted under Section 162(m) of the Code, to omit the effects of extraordinary items, acquisitions or dispositions, the gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions, accruals for incentive awards under the Equity Incentive Plan and/or cumulative effects of changes in accounting principles. These criteria may relate to the Company, one or more of its subsidiaries or one or more of its or their divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the committee shall determine.

Change-in-Control

The committee may, in its discretion, include provisions in award agreements that will make the incentive awards vested and/or fully exercisable upon a change in control of our Company. A change of control will be deemed to have taken place if any individual, entity or group other than the specified holders of common stock affiliated with Penske Corporation become the beneficial owner of Company securities that constitute more than 50% of the combined voting power of the then outstanding securities of the Company that may be cast for the election of directors to the Board of the Company (other than as a result of an issuance of securities initiated by the Company in the ordinary course of business).

Transferability of Incentive Awards

No options or stock appreciation rights granted under the Equity Incentive Plan, and, during the applicable period of restriction, no shares of restricted stock, may be sold, transferred, pledged, or otherwise disposed of, other than by will or by the laws of descent and distribution. Restricted stock units are not transferable by means of sale, assignment, exchange, pledge or otherwise. All rights granted to a participant under the plan will be exercisable during the participant's lifetime only by such participant or, if permissible under applicable law, by the participant's guardians or legal representatives. Upon the death of a participant, the participant's personal representative or beneficiary may exercise the participant's rights under the plan. No incentive awards may be transferred for value or consideration without the prior approval of our stockholders.

Re-pricing Prior Awards

Except in connection with certain corporate transactions, the terms of outstanding incentive awards may not be amended to reduce the exercise price of outstanding options or stock appreciation rights or cancel outstanding options or stock appreciation rights in exchange for cash, other incentive awards or options or stock appreciation rights with an exercise price that is less than the exercise price of the original

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options or stock appreciation rights without stockholder approval.

Federal Income Tax Information

The following is a general summary of the current federal income tax treatment of incentive awards that would be authorized to be granted under the Equity Incentive Plan, based upon the current provisions of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. As the rules governing the tax treatment of such awards are technical in nature, the following discussion of tax consequences is necessarily general in nature and does not purport to be complete. In addition, statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. This discussion does not address the tax consequences under applicable state and local law.

Incentive Stock Options. A participant generally will not recognize income on the grant or exercise of an incentive stock option. However, the difference between the exercise price and the fair market value of the stock on the date of exercise is an adjustment item for purposes of the alternative minimum tax. If a participant disposes of the stock received upon the exercise of an incentive stock option within certain specified periods (a "disqualifying disposition"), the participant will recognize ordinary income on the exercise of such incentive stock option in the same manner as on the exercise of a nonqualified stock option, as described below.

Non-qualified Stock Options and Stock Appreciation Rights. A participant generally is not required to recognize income on the grant of a nonqualified stock option or a stock appreciation right. Instead, ordinary income generally is required to be recognized on the date the nonqualified stock option or stock appreciation right is exercised. In general, the amount of ordinary income required to be recognized is (i) in the case of a nonqualified stock option an amount equal to the excess, if any, of the fair market value of the shares on the exercise date over the exercise price and (ii) in the case of a stock appreciation right, the amount of cash and/or the fair market value of any shares received upon exercise.

Restricted Stock. Unless a participant who receives an award of restricted stock makes an election under Section 83(b) of the Internal Revenue Code of 1986, as amended, as described below, the participant generally is not required to recognize ordinary income on the award of restricted stock. Instead, on the date the restrictions lapse and the shares vest (that is, become transferable and no longer subject to forfeiture), the participant will be required to recognize ordinary income in an amount equal to the excess, if any, of the fair market value of the shares on that date over the amount paid, if any for those shares. If a participant makes a Section 83(b) election to recognize ordinary income on the date the shares are awarded, the amount of ordinary income required to be recognized is an amount equal to the excess, if any, of the fair market value of the shares on the date of award over the amount paid, if any for those shares. In that case, the participant will not be required to recognize additional ordinary income when the restrictions lapse and the shares vest.

Restricted Stock Units. A participant generally is not required to recognize income on the grant of a restricted stock unit. In general, on the date the units are paid, the participant will be required to recognize ordinary income in an amount equal to the fair market value of the units on that date.

Company Common Stock. A participant generally is required to recognize income on the date of grant of company common stock in the amount of the fair market value of the stock received.

Gain or Loss on Sale or Exchange of Shares. In general, gain or loss from the sale or exchange of shares granted under the Equity Incentive Plan will be treated as capital gain or loss, provided that the shares are held as capital assets at the time of the sale or exchange.

Deductibility by Us. We generally are not allowed a deduction in connection with the grant

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or exercise of an incentive stock option. However, if a participant is required to recognize income as a result of a disqualifying disposition, we will be entitled to a deduction equal to the amount of ordinary income so recognized. In the case of a nonqualified stock option (including an incentive stock option that is treated as a nonqualified stock option, as described above), a stock appreciation right, or restricted stock or restricted stock unit, in general, we will be allowed a deduction in an amount equal to the amount of ordinary income recognized by a participant, provided that certain income tax reporting requirements are satisfied.

Performance-Based Compensation. Subject to certain exceptions, Section 162(m) of the Internal Revenue Code of 1986, as amended, disallows federal income tax deductions for compensation paid by a publicly-held corporation to certain executives to the extent the amount paid to an executive exceeds \$1 million for the taxable year. The Equity Incentive Plan has been designed to allow the committee to grant cash awards, stock options, stock appreciation rights and performance compensation awards that are intended to qualify under an exception to the deduction limit of Section 162(m) for "performance-based compensation."

Modification of Equity Incentive Plan

Our board of directors may amend, alter, or terminate the Equity Incentive Plan as it deems advisable, provided that our stockholders must approve any amendment that would (i) materially increase the benefits accruing to participants under the Equity Incentive Plan, (ii) materially increase the number of shares of our common stock that may be issued under the Equity Incentive Plan or (iii) materially modify the requirements of eligibility for participation in the Equity Incentive Plan. Incentive awards granted under the Equity Incentive Plan may be amended with the consent of the participant so long as the amended award is consistent with the terms of the plan.

New Plan Benefits

Because awards under the Equity Incentive Plan are subject to the discretion of the Compensation and Management Development Committee, the benefits and amounts that will be received or allocated in the future under the Equity Incentive Plan, as well as amounts that would have been received in the last fiscal year had the Equity Incentive Plan been in effect, are not determinable.

Vote Required

In order to be adopted, the Equity Incentive Plan must be approved by the affirmative vote of a majority of shares present and entitled to vote at the meeting. Abstentions will have the same effect as votes cast against the proposal. If our stockholders do not approve the Equity Incentive Plan, we will be unable to make any incentive awards to our management team or board of directors upon the expiration of our 2012 Equity Incentive Plan later this year.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2