PENSKE AUTOMOTIVE GROUP, INC.
Form 10-Q
May 03, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011
or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission file number 1-12297
Penske Automotive Group, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code:
(248) 648-2500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

As of May 1, 2011, there were 92,628,403 shares of voting common stock outstanding.

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2011	December 31, 2010
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 35,229	$ 17,544
Accounts receivable, net of allowance for doubtful accounts of $2,139 and $1,945	424,263	394,352
Inventories	1,536,379	1,489,169
Other current assets	84,367	69,116
Assets held for sale	37,342	49,544
Total current assets	2,117,580	2,019,725
Property and equipment, net	765,967	729,144
Goodwill	832,238	814,336
Franchise value	205,637	203,401
Equity method investments	280,591	288,406
Other long-term assets	17,823	14,820
Total assets	$ 4,219,836	$ 4,069,832
LIABILITIES AND EQUITY		
Floor plan notes payable	$ 981,992	$ 949,129
Floor plan notes payable non-trade	532,700	503,018
Accounts payable	235,469	256,834
Accrued expenses	231,824	205,006
Current portion of long-term debt	11,903	10,593
Liabilities held for sale	27,321	35,638
Total current liabilities	2,021,209	1,960,218
Long-term debt	784,271	769,285
Deferred tax liabilities	176,005	178,406
Other long-term liabilities	139,314	116,070
Total liabilities	3,120,799	3,023,979
Commitments and contingent liabilities		
Equity		
Penske Automotive Group stockholders equity:		
Preferred Stock, $0.0001 par value; 100 shares authorized; none issued and outstanding		
	9	9

Common Stock, $0.0001 par value, 240,000 shares authorized; 92,628 shares issued and outstanding at March 31, 2011; 92,100 shares issued and outstanding at December 31, 2010		
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	742,211	738,728
Retained earnings	338,413	304,486
Accumulated other comprehensive income (loss)	14,848	(1,673)
Total Penske Automotive Group stockholders equity	1,095,481	1,041,550
Non-controlling interest	3,556	4,303
Total equity	1,099,037	1,045,853
Total liabilities and equity	$ 4,219,836	$ 4,069,832

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2011	2010
	(Unaudited) (In thousands, except per share amounts)	
Revenue:		
New vehicle	$ 1,435,133	$ 1,232,070
Used vehicle	823,924	696,463
Finance and insurance, net	68,008	59,415
Service and parts	356,591	333,941
Fleet and wholesale vehicle	173,546	155,294
Total revenues	2,857,202	2,477,183
Cost of sales:		
New vehicle	1,321,847	1,130,588
Used vehicle	757,116	639,775
Service and parts	153,429	145,748
Fleet and wholesale	170,531	151,538
Total cost of sales	2,402,923	2,067,649
Gross profit	454,279	409,534
Selling, general and administrative expenses	369,519	335,328
Depreciation	12,265	12,190
Operating income	72,495	62,016
Floor plan interest expense	(7,163)	(8,288)
Other interest expense	(11,401)	(12,720)
Debt discount amortization	(1,718)	(2,915)
Equity in earnings of affiliates	22	(429)
Gain on debt repurchase		605
Income from continuing operations before income taxes	52,235	38,269
Income taxes	(15,728)	(14,265)
Income from continuing operations	36,507	24,004
Loss from discontinued operations, net of tax	(2,510)	(3,672)
Net income	33,997	20,332
Less: Income (loss) attributable to non-controlling interests	70	(22)
Net income attributable to Penske Automotive Group common stockholders	$ 33,927	$ 20,354

Basic earnings per share attributable to		
Penske Automotive Group common stockholders:		
Continuing operations	$ 0.39	$ 0.26
Discontinued operations	(0.03)	(0.04)
Net income attributable to		
Penske Automotive Group common stockholders	$ 0.37	$ 0.22
Shares used in determining basic earnings per share	92,472	91,890
Diluted earnings per share attributable to		
Penske Automotive Group common stockholders:		
Continuing operations	$ 0.39	$ 0.26
Discontinued operations	(0.03)	(0.04)
Net income attributable to		
Penske Automotive Group common stockholders	$ 0.37	$ 0.22
Shares used in determining diluted earnings per share	92,554	91,961
Amounts attributable to		
Penske Automotive Group common stockholders:		
Income from continuing operations	$ 36,507	$ 24,004
Less: Income (loss) attributable to non-controlling interests	70	(22)
Income from continuing operations, net of tax	36,437	24,026
Loss from discontinued operations, net of tax	(2,510)	(3,672)
Net income attributable to		
Penske Automotive Group common stockholders	$ 33,927	$ 20,354

See Notes to Consolidated Condensed Financial Statements

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PENSKE AUTOMOTIVE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2011	2010
	(Unaudited) (In thousands)	
Operating Activities:		
Net income	$ 33,997	$ 20,332
Adjustments to reconcile net income to net cash from continuing operating activities:		
Depreciation	12,265	12,190
Debt discount amortization	1,718	2,915
Earnings of equity method investments	(22)	429
Loss from discontinued operations, net of tax	2,510	3,672
Deferred income taxes	6,358	8,325
Gain on debt repurchase		(605)
Changes in operating assets and liabilities:		
Accounts receivable	(28,629)	(51,330)
Inventories	(39,286)	(42,296)
Floor plan notes payable	32,862	45,365
Accounts payable and accrued expenses	(1,699)	32,786
Other	(11,050)	3,037
Net cash from continuing operating activities	9,024	34,820
Investing Activities:		
Purchase of equipment and improvements	(21,111)	(18,427)
Dealership acquisitions net, including repayment of sellers floor plan notes payable of $5,862 and $5,683, respectively	(14,011)	(9,362)
Other	3,490	
Net cash from continuing investing activities	(31,632)	(27,789)
Financing Activities:		
Proceeds from borrowings under U.S. credit agreement revolving credit line	16,500	164,000
Repayments under U.S. credit agreement revolving credit line	(16,500)	(164,000)
Repurchase of 3.5% senior subordinated convertible notes		(71,744)
Net borrowings (repayments) of other long-term debt	7,591	(1,816)
Net borrowings of floor plan notes payable non-trade	29,682	62,576
Proceeds from exercises of options, including excess tax benefit	1,645	211
Net cash from continuing financing activities	38,918	(10,773)
Discontinued operations:		
Net cash from discontinued operating activities	1,205	17,215
Net cash from discontinued investing activities	2,593	(3,801)
Net cash from discontinued financing activities	(2,423)	205

Net cash from discontinued operations	1,375	13,619
Net change in cash and cash equivalents	17,685	9,877
Cash and cash equivalents, beginning of period	17,544	14,110
Cash and cash equivalents, end of period	$ 35,229	$ 23,987
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 11,079	$ 13,408
Income taxes	9,093	7,441
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 Stockholders Equity Attributable to Penske Automotive Group	Non-controlling Interest	Total Equity
	(Unaudited) (Dollars in thousands)							
Balance, January 1, 2011	92,099,552	$ 9	$ 738,728	$ 304,486	$ (1,673)	$ 1,041,550	$ 4,303	$ 1,045,853
Equity compensation	409,183		1,613			1,613		1,613
Exercise of options, including tax benefit of $533	119,668		1,645			1,645		1,645
Distributions to non-controlling interests							(974)	(974)
Purchase of subsidiary shares from non-controlling interest			225			225	157	382
Foreign currency translation					16,851	16,851		16,851
Other					(330)	(330)		(330)
Net income				33,927		33,927	70	33,997
Balance, March 31, 2011	92,628,403	$ 9	$ 742,211	$ 338,413	$ 14,848	$ 1,095,481	$ 3,556	$ 1,099,037

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 March 31, 2011, the Company operated 326 retail franchises, of which 172 franchises are located in the U.S. and 154 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 global transportation services provider.

During the three months ended March 31, 2011, we acquired three franchises, including Audi in Willoughby, Ohio and BMW and MINI in Maidenhead, England. We also disposed of two franchises, including Hyundai in Avondale, Arizona and Lincoln in Little Rock, AR.

The Company is also the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico through its wholly-owned subsidiary, smart USA Distributor, LLC (smart USA). In February 2011, the Company began discussions with Mercedes-Benz USA to transition distribution of the smart fortwo to Mercedes-Benz USA. This transaction, estimated to be completed in June 2011, is subject to completion of binding documentation, regulatory approvals, and other conditions outside our control. As a result, smart USA has been treated as a discontinued operation for all periods presented in the accompanying financial statements.

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 March 31, 2011 and December 31, 2010 and for the three month periods ended March 31, 2011 and 2010 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 March 31, 2011, 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, 2010, which are included as part of the Company s Annual Report on Form 10-K.

Results for three months ended March 31, 2010 include a $605 pre-tax gain relating to the repurchase of $71,110 aggregate principal amount of the Company s 3.5% senior subordinated convertible notes (Convertible Notes).

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 of will be eliminated from on-going operations and that the Company will not have any significant continuing involvement in its operations. As noted above, the Company is accounting for the pending disposition of its smart USA distribution operation as a discontinued operation.

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.

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The distribution segment has been presented as a discontinued operation as the Company believes it probable that the transition of the distribution rights of the smart fortwo from smart USA to Mercedes-Benz USA will be completed in June 2011. Additionally, after the transition is complete, the Company will not have any continuing role in the distribution of the smart fortwo, and as a result is not expected to realize any significant operations or cash flows relating to distribution activities.

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

	Three Months Ended March 31,	
	2011	2010
Revenues	$ 23,296	$ 20,589
Pre-tax (loss) income	(5,230)	(5,758)
Gain (loss) on disposal	1,071	

	March 31, 2011	December 31, 2010
Inventories	$ 24,432	$ 35,057
Other assets	12,909	14,487
Total assets	$ 37,341	$ 49,544
Floor plan notes payable (including non-trade)	$ 22,279	$ 26,568
Other liabilities	5,041	9,070
Total liabilities	$ 27,320	$ 35,638

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. A summary of the fair value of the subordinated notes, based on quoted, level one market data, follows:

	March 31, 2011	
	Carrying Value	Fair Value
7.75% senior subordinated notes due 2016	$ 375,000	$ 386,250
3.5% senior subordinated convertible notes due 2026	150,602	150,866

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

2. Inventories

Inventories consisted of the following:

	March 31, 2011	December 31, 2010
New vehicles	$ 1,039,579	$ 1,040,002
Used vehicles	419,125	372,653
Parts, accessories and other	77,675	76,514
Total inventories	$ 1,536,379	$ 1,489,169

The Company receives non-refundable credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to $8,589 and $5,333 during the three months ended March 31, 2011 and 2010, respectively.

3. Business Combinations

The Company acquired three and two franchises during the three months ended March 31, 2011 and 2010, respectively, in its retail operations (not including the German operations noted below). 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 three months ended March 31, 2011 and 2010 follows:

	March 31,	
	2011	2010
Accounts receivable	$ 953	$
Inventory	7,923	6,336
Other current assets		17
Property and equipment	1,671	
Goodwill	7,038	3,014
Other assets	628	
Current liabilities	(2,491)	(5)
Total consideration	15,722	9,362
Seller financed/assumed debt	(1,711)	
Cash used in dealership acquisitions	$ 14,011	$ 9,362

In the first quarter of 2010, the Company exited one of its German joint ventures by exchanging its 50% interest in the joint venture for 100% ownership in three BMW franchises previously held by the joint venture. The Company recorded $13,331 of intangible assets in connection with this transaction.

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 three months ended March 31, 2011:

	Goodwill	Franchise Value
Balance, January 1, 2011	$ 814,336	$ 203,401
Additions	7,120	
Foreign currency translation	10,782	2,236
Balance, March 31, 2011	$ 832,238	$ 205,637

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 the dilutive effect of stock options. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2011 and 2010 follows:

	Three Months Ended March 31,	
	2011	2010
Weighted average number of common shares outstanding	92,472	91,890
Effect of non-participatory equity compensation	82	71
Weighted average number of common shares outstanding, including effect of dilutive securities	92,554	91,961

There were no anti-dilutive stock options outstanding during the three months ended March 31, 2011 or 2010. In addition, the Company has senior subordinated convertible notes outstanding which, under certain circumstances discussed in Note 7, may be converted to voting common stock. As of March 31, 2011 and 2010, no shares related to the senior subordinated convertible notes were included in the calculation of diluted earnings per share because the effect of such securities was anti-dilutive.

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

7. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2011	December 31, 2010
U.S. credit agreement revolving credit line	$	$
U.S. credit agreement term loan	134,000	134,000
U.K. credit agreement revolving credit line	56,154	54,597
U.K. credit agreement term loan	2,832	5,505
U.K. credit agreement overdraft line of credit	17,408	7,116
7.75% senior subordinated notes due 2016	375,000	375,000
3.5% senior subordinated convertible notes due 2026, net of debt discount	150,602	148,884
Mortgage facilities	50,604	46,052
Other	9,574	8,724
Total long-term debt	796,174	779,878
Less: current portion	(11,903)	(10,593)
Net long-term debt	$ 784,271	$ 769,285

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 $300,000 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 $134,000, and for an additional $10,000 of availability for letters of credit, through September 30, 2013. The revolving loans bear interest at a defined LIBOR plus 2.75%, subject to an incremental 0.75% 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 defined financial and other tests and ratios, 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 EBITDA. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed. As of March 31, 2011, 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 March 31, 2011, $134,000 of term loans and $1,250 of letters of credit 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 an agreement with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a funded term loan, a revolving credit agreement and a demand overdraft line of credit (collectively, the U.K. Credit Agreement) to be used to finance acquisitions, and for working capital and general corporate purposes. The U.K. Credit Agreement provides for (1) up to £90,200 in revolving loans through August 31, 2013, which bear interest between a defined LIBOR plus 1.1% and

defined LIBOR plus 3.0%, (2) a term loan which bears interest between 6.39% and 8.29% and is payable ratably in quarterly intervals until fully repaid on June 30, 2011, and (3) a demand overdraft line of credit for up to £10,000 that bears interest at the Bank of England Base Rate plus 1.75%. The maximum permitted revolving loan balance will be increased in the future by amounts equal to any term loan principal repayments.

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the U.K. Subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of the 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, the U.K. Subsidiaries are required to comply with defined ratios and tests, including: a ratio of 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 the amounts owed. As of March 31, 2011, the U.K. Subsidiaries were in compliance with all covenants under the U.K. Credit Agreement.

The U.K. Credit Agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of the U.K. Subsidiaries. Substantially all of the U.K. Subsidiaries assets are subject to security interests granted to lenders under the U.K. Credit Agreement. As of March 31, 2011, outstanding loans under the U.K. Credit Agreement amounted to £47,615 ($76,394), including £1,765 ($2,832) under the term loan.

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 beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus a defined make-whole premium. 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 March 31, 2011, the Company was in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

As of March 31, 2011, the Company had $150,602 of 3.5% senior subordinated convertible notes (the Convertible Notes) outstanding. Holders of the Convertible Notes had the right to require the Company to purchase their Convertible Notes on April 1, 2011. Of the Convertible Notes outstanding on April 1, 2011, $87,278 were validly tendered to the Company. As a result, $63,324 of the Convertible Notes remain outstanding. Remaining holders of the Convertible Notes may require the Company to purchase all or a portion of their Convertible Notes for cash on each of April 1, 2016 or April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date. Based on the ability and intent to refinance the redemption of the Convertible Notes, the Company has classified them as long-term in the Consolidated Condensed Balance Sheet as of March 31, 2011.

The remaining Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by the Company, as discussed below. The Convertible Notes are unsecured senior subordinated obligations and are subordinate to all future and existing debt under the Company s credit agreements, mortgages and floor plan indebtedness. The Convertible Notes are guaranteed on an unsecured senior subordinated basis by substantially all of the Company s wholly-owned domestic subsidiaries. The guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of March 31, 2010, the Company was in compliance with all negative covenants and there were no events of default.

Holders of the Convertible Notes may convert them 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), subject to adjustment, only under the following circumstances: (1) in any quarterly period, if the closing price of our common stock for twenty of the last thirty trading days in the prior quarter exceeds $28.05 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below

specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of our common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or (6) during the ten trading days prior to, but excluding, the maturity date.

Upon conversion of the Convertible Notes, for each $1,000 principal amount of the Convertible Notes, a holder will 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, of the number of shares of common stock equal to the conversion rate. If the conversion value exceeds $1,000, the Company will also deliver, at its election, cash, common stock or a combination of cash and common stock with respect to the remaining value deliverable upon conversion. The Company will pay additional cash interest commencing with six-month periods beginning on April 1, 2011, if the average trading price of a Convertible Note for certain periods in the prior six-month period equals 120% or more of the principal amount of the Convertible Notes.

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The Company may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date.

On issuance of the Convertible Notes, the Company recorded a debt discount which was amortized as additional interest expense through March 31, 2011. The annual effective interest rate on the liability component was 8.25% through March 31, 2011. Beginning April 1, 2011, the annual effective interest rate will be 3.5%.

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 March 31, 2011, we owed $50,604 of principal under our mortgage facilities.

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 forward-starting interest rate swap agreements beginning January 2012 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%. 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 March 31, 2011, the fair value of the swaps designated as hedging instruments was estimated to be a net asset of $351.

During the three months ended March 31, 2010, the Company recognized a net gain in accumulated other comprehensive income (loss) of $924 related to the effective portion of the interest rate swap agreements designated as hedging instruments, and reclassified $2,306 of the existing derivative losses from accumulated other comprehensive income (loss) into floor plan interest expense. During the three months ended March 31, 2010, the swaps increased the weighted average interest rate on the Company s floor plan borrowings by approximately 0.8%. The impact of the swaps on the weighted average interest rate of the Company s floor plan borrowings during the three months ended March 31, 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 March 31, 2011, 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 defined financial ratios, including a rent coverage ratio and a debt to EBITDA ratio. 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 March 31, 2011, the Company was in compliance with all covenants under these leases.

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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 is potentially subject to additional purchase commitments relating to the smart distribution business as a result of its smart distribution agreement, smart franchise agreements and state franchise laws. These commitments have not historically had a material adverse effect on the Company s results of operations, financial condition or cash flows. The Company has announced that it intends to transition the smart distribution business to Mercedes-Benz USA. In connection with this transaction, the Company will be required to fulfill certain of these purchase commitments, though the Company does not expect fulfillment of the commitment to have a material adverse effect on its future results of operations, financial condition or cash flows in part because Mercedes-Benz USA has announced its intention to continue distribution of the smart fortwo after completion of the transaction.

The Company has $20,066 of letters of credit outstanding as of March 31, 2011, and has posted $14,270 of surety bonds in the ordinary course of business.

10. Equity

Comprehensive income (loss)

Other comprehensive income (loss) includes foreign currency translation gains and losses, as well as changes relating to other immaterial items, including certain defined benefit plans in the U.K. and changes in the fair value of interest rate swap agreements, each of which has been excluded from net income and reflected in equity. Total comprehensive income (loss) is summarized as follows:

	Three Months Ended March 31,	
	2011	**2010**
Attributable to Penske Automotive Group:		
Net income	$ 33,927	$ 20,354
Other comprehensive income (loss):		
Foreign currency translation	16,851	(27,708)
Other	(330)	3,186
Total attributable to Penske Automotive Group	50,448	(4,168)
Attributable to the non-controlling interest:		
Income (loss)	70	(22)
Total comprehensive income (loss)	$ 50,518	$ (4,190)

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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 our automotive retail operations and (ii) PAG Investments, consisting of our 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). The Company previously presented its smart USA distribution operation as a third reportable segment. That operation is currently held for sale and is presented in discontinued operations.

The following table summarizes revenues and income from continuing operations before certain non-recurring items and income taxes, which is the measure by which management allocates resources to its segments, and which we refer to as adjusted segment income, for each of our reportable segments. Adjusted segment income excludes the item in the table below in order to enhance the comparability of segment income from period to period.

Three Months Ended March 31

	Retail	PAG Investments	Total
Revenues			
2011	$ 2,857,202	$	$ 2,857,202
2010	2,477,183		2,477,183
Adjusted segment income			
2011	51,111	1,124	52,235
2010	38,169	(505)	37,664

The following table reconciles total adjusted segment income to consolidated income from continuing operations before income taxes.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Adjusted segment income	$ 52,235	$ 37,664
Gain on debt repurchase		605
Income from continuing operations before income taxes	$ 52,235	$ 38,269

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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 March 31, 2011 and December 31, 2010 and for the three month periods ended March 31, 2011 and 2010 for Penske Automotive Group, Inc. (as the issuer of the Convertible Notes and 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
March 31, 2011

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	$ 35,229	$	$	$ 33,720	$ 1,509
Accounts receivable, net	424,263	(280,726)	280,726	222,578	201,685
Inventories	1,536,379			875,858	660,521
Other current assets	84,367		1,755	37,997	44,615
Assets held for sale	37,342			37,342	
Total current assets	2,117,580	(280,726)	282,481	1,207,495	908,330
Property and equipment, net	765,967		20,955	462,680	282,332
Intangible assets	1,037,875			583,306	454,569
Equity method investments	280,591		227,031		53,560
Other long-term assets	17,823	(1,246,463)	1,256,483	5,794	2,009
Total assets	$ 4,219,836	$ (1,527,189)	$ 1,786,950	$ 2,259,275	$ 1,700,800
Floor plan notes payable	$ 981,992	$	$	$ 549,193	$ 432,799
Floor plan notes payable non-trade	532,700		25,000	267,771	239,929
Accounts payable	235,469		2,079	89,893	143,497
Accrued expenses	231,824	(280,726)	1,232	130,756	380,562
Current portion of long-term debt	11,903			4,369	7,534
Liabilities held for sale	27,321			27,321	
Total current liabilities	2,021,209	(280,726)	28,311	1,069,303	1,204,321
Long-term debt	784,271	(78,093)	659,602	51,107	151,655
Deferred tax liabilities	176,005			162,919	13,086
Other long-term liabilities	139,314			117,420	21,894

Total liabilities	3,120,799	(358,819)	687,913	1,400,749	1,390,956
Total equity	1,099,037	(1,168,370)	1,099,037	858,526	309,844
Total liabilities and equity	$ 4,219,836	$ (1,527,189)	$ 1,786,950	$ 2,259,275	$ 1,700,800

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2010

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Cash and cash equivalents	$ 17,544	$	$	$ 15,173	$ 2,371
Accounts receivable, net	394,352	(269,021)	269,021	238,951	155,401
Inventories	1,489,169			914,194	574,975
Other current assets	69,116		1,127	33,030	34,959
Assets held for sale	49,544			49,544	
Total current assets	2,019,725	(269,021)	270,148	1,250,892	767,706
Property and equipment, net	729,144		4,957	456,426	267,761
Intangible assets	1,017,737			495,149	522,588
Equity method investments	288,406		234,214		54,192
Other long-term assets	14,820	(1,212,538)	1,222,168	3,236	1,954
Total assets	$ 4,069,832	$ (1,481,559)	$ 1,731,487	$ 2,205,703	$ 1,614,201
Floor plan notes payable	$ 949,129	$	$	$ 597,116	$ 352,013
Floor plan notes payable non-trade	503,018		25,000	298,697	179,321
Accounts payable	256,834		2,186	89,336	165,312
Accrued expenses	205,006	(269,021)	564	98,332	375,131
Current portion of long-term debt	10,593			1,264	9,329
Liabilities held for sale	35,638			35,638	
Total current liabilities	1,960,218	(269,021)	27,750	1,120,383	1,081,106
Long-term debt	769,285	(77,593)	657,884	49,689	139,305
Deferred tax liabilities	178,406			165,666	12,740
Other long-term liabilities	116,070			100,026	16,044
Total liabilities	3,023,979	(346,614)	685,634	1,435,764	1,249,195
Total equity	1,045,853	(1,134,945)	1,045,853	769,939	365,006
Total liabilities and equity	$ 4,069,832	$ (1,481,559)	$ 1,731,487	$ 2,205,703	$ 1,614,201

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2011

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 2,857,202	$	$	$ 1,630,092	$ 1,227,110
Cost of sales	2,402,923			1,358,619	1,044,304
Gross profit	454,279			271,473	182,806
Selling, general and administrative expenses	369,519		4,949	225,340	139,230
Depreciation	12,265		285	6,682	5,298
Operating income (loss)	72,495		(5,234)	39,451	38,278
Floor plan interest expense	(7,163)		(133)	(4,057)	(2,973)
Other interest expense	(11,401)		(6,416)	(611)	(4,374)
Debt discount amortization	(1,718)		(1,718)		
Equity in earnings of affiliates	22		1,231		(1,209)
Equity in earnings of subsidiaries		(64,435)	64,435		
Income (loss) from continuing operations before income taxes	52,235	(64,435)	52,165	34,783	29,722
Income taxes	(15,728)	19,427	(15,728)	(11,144)	(8,283)
Income (loss) from continuing operations	36,507	(45,008)	36,437	23,639	21,439
(Loss) income from discontinued operations, net of tax	(2,510)	2,510	(2,510)	(2,510)	
Net income (loss)	33,997	(42,498)	33,927	21,129	21,439
Less: Loss attributable to the non- controlling interests	70				70
Net income (loss) attributable to Penske Automotive Group common stockholders	$ 33,927	$ (42,498)	$ 33,927	$ 21,129	$ 21,369

PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENT OF INCOME
Three Months Ended March 31, 2010

	Total Company	Eliminations	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
			(In thousands)		
Revenues	$ 2,477,183	$	$	$ 1,379,969	$ 1,097,214
Cost of sales	2,067,649			1,138,613	929,036
Gross profit	409,534			241,356	168,178
Selling, general and administrative expenses	335,328		4,593	202,506	128,229
Depreciation	12,190		290	6,776	5,124
Operating income (loss)	62,016		(4,883)	32,074	34,825
Floor plan interest expense	(8,288)			(5,828)	(2,460)
Other interest expense	(12,720)		(8,047)	(555)	(4,118)
Debt discount amortization	(2,915)		(2,915)		
Equity in earnings of affiliates	(429)		347		(776)
Gain on debt repurchase	605		605		
Equity in earnings of subsidiaries		(53,184)	53,184		
Income (loss) from continuing operations before income taxes	38,269	(53,184)	38,291	25,691	27,471
Income taxes	(14,265)	19,813	(14,265)	(12,307)	(7,506)
Income (loss) from continuing operations	24,004	(33,371)	24,026	13,384	19,965
(Loss) income from discontinued operations, net of tax	(3,672)	3,672	(3,672)	(3,672)	
Net income (loss)	20,332	(29,699)	20,354	9,712	19,965
Less: Loss attributable to the non- controlling interests	(22)				(22)
	$ 20,354	$ (29,699)	$ 20,354	$ 9,712	$ 19,987

Net income (loss) attributable to Penske Automotive Group common stockholders

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2011

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In thousands)		
Net cash from continuing operating activities	$ 9,024	$ (1,050)	$ 71,065	$ (60,991)
Investing activities:				
Purchase of equipment and improvements	(21,111)	(595)	(7,769)	(12,747)
Dealership acquisitions, net	(14,011)		(12,331)	(1,680)
Other	3,490			3,490
Net cash from continuing investing activities	(31,632)	(595)	(20,100)	(10,937)
Financing activities:				
Net borrowings (repayments) of other long-term debt	7,591		(6,766)	14,357
Net borrowings (repayments) of floor plan notes payable non-trade	29,682		(30,926)	60,608
Proceeds from exercises of options, including excess tax benefit	1,645	1,645		
Distributions from (to) parent			3,899	(3,899)
Net cash from continuing financing activities	38,918	1,645	(33,793)	71,066
Net cash from discontinued operations	1,375		1,375	
Net change in cash and cash equivalents	17,685		18,547	(862)
Cash and cash equivalents, beginning of period	17,544		15,173	2,371
Cash and cash equivalents, end of period	$ 35,229	$	$ 33,720	$ 1,509

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PENSKE AUTOMOTIVE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2010

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In thousands)		
Net cash from continuing operating activities	$ 34,820	$ 50,516	$ (29,298)	$ 13,602
Investing activities:				
Purchase of equipment and improvements	(18,427)	17	(14,130)	(4,314)
Dealership acquisitions, net	(9,362)		(9,362)	
Net cash from continuing investing activities	(27,789)	17	(23,492)	(4,314)
Financing activities:				
Repurchase of 3.5% senior subordinated convertible notes	(71,744)	(71,744)		
Net borrowings (repayments) of other long-term debt	(1,816)		1,296	(3,112)
Net borrowings (repayments) of floor plan notes payable non-trade	62,576	21,000	44,171	(2,595)
Proceeds from exercises of options, including excess tax benefit	211	211		
Distributions from (to) parent			283	(283)
Net cash from continuing financing activities	(10,773)	(50,533)	45,750	(5,990)
Net cash from discontinued operations	13,619		13,619	
Net change in cash and cash equivalents	9,877		6,579	3,298
Cash and cash equivalents, beginning of period	14,110		12,455	1,655
Cash and cash equivalents, end of period	$ 23,987	$	$ 19,034	$ 4,953

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 March 31, 2011.

Overview

We are the second largest automotive retailer headquartered in the U.S. as measured by total revenue. As of March 31, 2011, we operated 326 retail automotive franchises, of which 172 franchises are located in the U.S. and 154 franchises are located outside of the U.S. The franchises outside the U.S. are located primarily in the U.K. We are diversified geographically, with 62% of our total revenues in 2011 generated in the U.S. and Puerto Rico and 38% generated outside the U.S. We offer a full range of vehicle brands with 96% of our total retail revenue in 2011 generated from brands of non-U.S. based manufacturers, and 67% generated from premium brands, such as Audi, BMW, Cadillac, 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 global transportation services provider. PTL operates and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rental and logistics services, including, transportation and distribution center management and supply chain management. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by General Electric Capital Corporation.

We are also the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico through our wholly-owned subsidiary, smart USA Distributor, LLC (smart USA). In February 2011, we began discussions with Mercedes-Benz USA to transition distribution of the smart fortwo to Mercedes-Benz USA. This transaction, estimated to be completed in June 2011, is subject to completion of binding documentation, regulatory approvals, and other conditions outside our control. As a result, smart USA has been treated as a discontinued operation for all periods presented in the accompanying financial statements.

Outlook

The level of new automotive unit sales in our markets impacts our results. While the new vehicle market began to improve and the amount of customer traffic visiting our dealerships improved during 2010 and in the first quarter of 2011, the level of automotive sales in the U.S. remains at a low level compared to the last 10 years. There are market expectations for continued improvement in the automotive market in the U.S. over the next several years, although the level of such improvement is uncertain. The relatively low level of new retail automotive sales in the U.S. since 2009 has led to a decline in the number of 2009 and 2010 vehicles in operation, which may adversely impact availability and pricing in our used vehicle operations and may also negatively impact demand in our parts and service operations. In addition, worldwide production of vehicles is expected to be reduced for an indefinite period of time due to the earthquake and tsunami that struck Japan in March 2011. Any such continuing disruptions may reduce our ability to purchase vehicles, which may adversely impact our operations.

Many of the same economic factors, including potential product shortages resulting from the earthquake and tsunami that struck Japan, have and may continue to impact the German and U.K. automotive markets. There are market expectations that new vehicle sales in the U.K. will decline in 2011 compared to 2010, however, we believe the premium/luxury market will be more resilient than the retail market as a whole. The German market experienced a

sharp decline in new unit sales in 2010 as government sponsored incentive programs expired. There are market expectations that the German automotive market will recover somewhat in 2011, although the level of recovery is uncertain.

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 $44.7 million, or 10.9%, during the three months ended March 31, 2011 compared to the same period 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 17.5% during the three months ended March 31, 2010 to 16.8% during the three months ended March 31, 2011, due primarily to an increase in the percentage of our revenues generated by vehicle sales.

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. A significant portion of our selling expenses are variable, and we believe a significant portion of our general and administrative expenses are subject to our control, allowing us to adjust them 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 decreased during the three months ended March 31, 2011 as a result of lower applicable interest rates, including the impact of interest rate swap transactions. Our other interest expense has decreased during the three months ended March 31, 2011 due to term loan repayments and repurchases of our 3.5% senior subordinated convertible notes due 2026 (the Convertible Notes).

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 2011. 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 three months ended March 31, 2011 and 2010, we earned $138.4 million and $82.0 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which $136.0 million and $80.2 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. 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. An indicator of goodwill impairment exists if the carrying amount of the reporting unit, including goodwill, is determined to exceed its estimated fair value. The fair value of goodwill is determined using a discounted cash flow approach, which includes assumptions about revenue and profitability growth, franchise profit margins, and our cost of capital. If an indication of goodwill impairment exists, an analysis reflecting the allocation of the estimated fair value of the reporting unit to all assets and liabilities, including previously unrecognized intangible assets, is performed. The impairment is measured by comparing the implied fair value of the reporting unit goodwill with its carrying amount and an impairment loss may be recognized up to any excess of the carrying value over the implied fair value.

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 $280.6 million and $288.4 million as of March 31, 2011 and December 31, 2010, 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.

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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 $24.0 million and $22.8 million as of March 31, 2011 and December 31, 2010, respectively. Changes in the reserve estimate during 2011 relate primarily to our general liability and workers compensation programs.

Income Taxes

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

Classification in Continuing and Discontinued Operations

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

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, 2009, the results of the acquired entity would be included in annual same store comparisons beginning with the year ended December 31, 2011 and in quarterly same store comparisons beginning with the quarter ended June 30, 2010.

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Our results for the three months ended March 31, 2010 include a gain of $0.6 million ($0.4 million after-tax) relating to the repurchase of $71.1 million aggregate principal amount of our Convertible Notes.

New Vehicle Data

			2011 vs. 2010	
Dollars in millions, except per unit amounts	**2011**	**2010**	**Change**	**% Change**
New retail unit sales	40,030	36,132	3,898	10.8%
Same store new retail unit sales	38,609	35,980	2,629	7.3%
New retail sales revenue	$ 1,435.1	$ 1,232.1	203.0	16.5%
Same store new retail sales revenue	$ 1,382.1	$ 1,228.6	153.5	12.5%
New retail sales revenue per unit	$ 35,851	$ 34,099	1,752	5.1%
Same store new retail sales revenue per unit	$ 35,796	$ 34,147	1,649	4.8%
Gross profit new	$ 113.3	$ 101.5	11.8	11.6%
Same store gross profit new	$ 109.0	$ 101.1	7.9	7.8%

Average gross profit per new vehicle retailed	$ 2,830	$ 2,809	21	0.7%
Same store average gross profit per new vehicle retailed	$ 2,824	$ 2,810	14	0.5%
Gross margin % new	7.9%	8.2%	-0.3%	-3.7%
Same store gross margin % new	7.9%	8.2%	-0.3%	-3.7%

Units

Retail unit sales of new vehicles increased 3,898 units, or 10.8%, from 2010 to 2011. The increase is due to a 2,629 unit, or 7.3%, increase in same store retail unit sales during the period, coupled with a 1,269 unit increase from net dealership acquisitions. 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, increases in our premium brand stores in the U.S. and U.K.

Revenues

New vehicle retail sales revenue increased $203.0 million, or 16.5%, from 2010 to 2011. The increase is due to a $153.5 million, or 12.5%, increase in same store revenues, coupled with a $49.5 million increase from net dealership acquisitions. The same store revenue increase is due primarily to the 7.3% increase in retail unit sales, which increased revenue by $94.1 million, coupled with a $1,649, or 4.8%, increase in average selling prices per unit which increased revenue by $59.3 million.

Gross Profit

Retail gross profit from new vehicle sales increased $11.8 million, or 11.6%, from 2010 to 2011. The increase is due to a $7.9 million, or 7.8%, increase in same store gross profit, coupled with a $3.9 million increase from net dealership acquisitions. The same store increase is due primarily to the 7.3% increase in retail unit sales, which increased gross profit by $7.4 million, coupled with a $14, or 0.5%, increase in the average gross profit per new vehicle retailed, which increased gross profit by $0.5 million.

Used Vehicle Data

			2011 vs. 2010	
Dollars in millions, except per unit amounts	**2011**	**2010**	**Change**	**% Change**
Used retail unit sales	31,597	26,751	4,846	18.1%
Same store used retail unit sales	30,319	26,722	3,597	13.5%
Used retail sales revenue	$ 823.9	$ 696.5	127.4	18.3%
Same store used retail sales revenue	$ 793.9	$ 696.0	97.9	14.1%
Used retail sales revenue per unit	$ 26,076	$ 26,035	41	0.2%
Same store used retail sales revenue per unit	$ 26,184	$ 26,047	137	0.5%
Gross profit used	$ 66.8	$ 56.7	10.1	17.8%
Same store gross profit used	$ 65.1	$ 56.7	8.4	14.8%
Average gross profit per used vehicle retailed	$ 2,114	$ 2,119	(5)	-0.2%
Same store average gross profit per used vehicle retailed	$ 2,147	$ 2,121	26	1.2%
Gross margin % used	8.1%	8.1%	0.0%	0.0%
Same store gross margin % used	8.2%	8.1%	0.1%	1.2%

Units

Retail unit sales of used vehicles increased 4,846 units, or 18.1%, from 2010 to 2011. The increase is due to a 3,597 unit, or 13.5%, increase in same store retail unit sales, coupled with a 1,249 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 $127.4 million, or 18.3%, from 2010 to 2011. The increase is due to a $97.9 million, or 14.1%, increase in same store revenues, coupled with a $29.5 million increase from net dealership acquisitions. The same store revenue increase is due to the 13.5% increase in same store retail unit sales which increased revenue by $94.2 million, coupled with a $137, or 0.5%, increase in comparative average selling prices per unit, which increased revenue by $3.7 million.

Gross Profit

Retail gross profit from used vehicle sales increased $10.1 million, or 17.8%, from 2010 to 2011. The increase is due to an $8.4 million, or 14.8%, increase in same store gross profit, coupled with a $1.7 million increase from net

dealership acquisitions. The increase in same store gross profit is due to the 13.5% increase in used retail unit sales, which increased gross profit by $7.7 million, coupled with a $26, or 1.2%, increase in average gross profit per used vehicle retailed, which increased retail gross profit by $0.7 million.

Finance and Insurance Data

					2011 vs. 2010			
Dollars in millions, except per unit amounts		2011		2010		Change	% Change
Finance and insurance revenue	$	68.0	$	59.4	$	8.6	14.5%
Same store finance and insurance revenue	$	66.5	$	59.3	$	7.2	12.1%
Finance and insurance revenue per unit	$	949	$	945	$	4	0.4%
Same store finance and insurance revenue per unit	$	965	$	945	$	20	2.1%

Finance and insurance revenue increased $8.6 million, or 14.5%, from 2010 to 2011. The increase is due to a $7.2 million, or 12.1%, increase in same store revenues during the period, coupled with a $1.4 million increase from net dealership acquisitions. The same store revenue increase is due to a 9.9% increase in total retail unit sales, which increased revenue by $6.0 million, coupled with a $20, or 2.1%, increase in comparative average finance and insurance revenue per unit which increased revenue by $1.2 million.

Service and Parts Data

					2011 vs. 2010	
Dollars in millions, except per unit amounts		2011		2010	Change	% Change
Service and parts revenue	$	356.6	$	333.9	22.7	6.8%
Same store service and parts revenue	$	345.0	$	333.6	11.4	3.4%
Gross profit	$	203.2	$	188.2	15.0	8.0%
Same store gross profit	$	196.9	$	187.9	9.0	4.8%
Gross margin		57.0%		56.4%	0.6%	1.1%
Same store gross margin		57.1%		56.3%	0.8%	1.4%

Revenues

Service and parts revenue increased $22.7 million, or 6.8%, from 2010 to 2011. The increase is due to an $11.4 million, or 3.4%, increase in same store revenues during the period, coupled with an $11.3 million increase from net dealership acquisitions. The same store increase relates primarily to our U.S. operations. We believe the year over year increase is primarily due to increased consumer demand as a result of improving economic conditions.

Gross Profit

Service and parts gross profit increased $15.0 million, or 8.0%, from 2010 to 2011. The increase is due to a $9.0 million, or 4.8%, increase in same store gross profit during the period, coupled with a $6.0 million increase from net dealership acquisitions. The same store gross profit increase is due to the $11.4 million, or 3.4%, increase in same store revenues, which increased gross profit by $6.5 million, coupled with a 1.4% increase in gross margin, which increased gross profit by $2.5 million.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) increased $34.2 million, or 10.2%, from $335.3 million to $369.5 million. The aggregate increase is due to a $23.6 million, or 7.1%, increase in same store SG&A, coupled with a $10.6 million increase from net dealership acquisitions. 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 the 4.8% increase in same store retail gross profit versus the prior year. SG&A expenses decreased as a percentage of gross profit from 81.9% to 81.3%.

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, decreased $1.1 million, or 13.6%, from $8.3 million to $7.2 million due to a decrease in same store floor plan interest expense. The same store decrease is due primarily to decreases in applicable interest rates.

Other Interest Expense

Other interest expense decreased $1.3 million, or 10.4%, from $12.7 million to $11.4 million. The decrease is due primarily to repayments under our non-amortizing U.S. term loan and repurchases of our Convertible Notes.

Debt Discount Amortization

Debt discount amortization decreased $1.2 million, from $2.9 million to $1.7 million, due primarily to the repurchase of a portion of our outstanding Convertible Notes.

Equity in Earnings of Affiliates

Equity in earnings of affiliates increased $0.4 million, from a loss of $0.4 million. The increase is due primarily to improved operating performance by PTL compared to the same period a year ago.

Gain on Debt Repurchase

During the three months ended March 31, 2010, we repurchased $71.1 million principal amount of our outstanding Convertible Notes, which had a book value, net of debt discount, of $67.5 million for $71.7 million. We allocated $5.2 million of the total consideration to the reacquisition of the equity component of the Convertible Notes. In connection with the transactions, we wrote off $0.4 million of unamortized deferred financing costs. As a result, we recorded a $0.6 pre-tax gain in connection with the repurchases.

Income Taxes

Income taxes increased $1.5 million, or 10.3%, from $14.3 million to $15.7 million. The increase from 2010 to 2011 is due to an increase in our pre-tax income versus the prior year, offset by a decrease in our estimated effective income tax rate due to a reduction in the U.K. corporate tax rate and a benefit relating to expected realization of deferred tax assets, due in large part to our anticipated exit from the distribution business.

Discontinued Operations

Amounts reported as discontinued operations consist primarily of the operations of smart USA. During the quarter, smart USA wholesale unit sales increased 674 units, or 70.5%, from 956 in 2010 to 1,630 in 2011. smart USA revenue increased $15.7 million, or 112.1%, to $29.7 million in 2011 due largely to the increase in wholesale unit sales. As a result, smart USA gross profit increased $2.6 million to $3.0 million in 2011. In total, smart USA generated a loss of $5.5 million in the first quarter of 2011 compared with a loss of $5.0 million in the first quarter of 2010 due in part to costs relating to a terminated vehicle development project.

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 construction of new facilities, debt service and repayments, and potentially for dividends and 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 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 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 March 31, 2011, we had working capital of $96.4 million, including $35.2 million of cash, available to fund our operations and capital commitments. In addition, we had $300.0 million and £55.2 million ($88.6 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively.

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On April 2, 2011, we repurchased $83.3 million of our Convertible Notes at par using existing working capital and borrowings under our U.S. revolving credit agreement.

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. As of March 31, 2011, we have $150.0 million in authorization under the existing securities repurchase program.

Dividends

In February 2009, we announced the suspension of our quarterly cash dividend. 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 (formerly DCFS USA LLC) and Toyota Motor Credit Corporation, as amended (the U.S. credit agreement), which provides for up to $300.0 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 $134.0 million, and for an additional $10.0 million of availability for letters of credit, through September 30, 2013. The revolving loans bear interest at a defined LIBOR plus 2.75%, subject to an incremental 0.75% 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 defined financial and other tests and ratios, 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 March 31,

2011, 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 March 31, 2011, $134.0 million of term loans and $1.3 million of letters of credit 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 an agreement with the Royal Bank of Scotland plc, as agent for National Westminster Bank plc, which provides for a funded term loan, a revolving credit agreement, and a demand overdraft line of credit (collectively, the U.K. credit agreement) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes. The U.K. credit agreement provides for (1) up to £90.2 million in revolving loans through August 31, 2013, which bear interest between a defined LIBOR plus 1.1% and defined LIBOR plus 3.0%, (2) a term loan which bears interest between 6.39% and 8.29% and is payable ratably in quarterly intervals until fully repaid on June 30, 2011, and (3) a demand overdraft line of credit for up to £10.0 million that bears interest at the Bank of England Base Rate plus 1.75%. The maximum permitted revolving loan balance will be increased in the future by amounts equal to any term loan principal repayments.

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 EBITAR to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of March 31, 2011, 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. As of March 31, 2011, outstanding loans under the U.K. credit agreement amounted to £47.6 million ($76.4 million), including £1.8 million ($2.8 million) under the term loan.

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 beginning in December 2011 at specified redemption prices, or prior to December 2011 at 100% of the principal amount of the notes plus a defined make-whole premium. 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 March 31, 2011, we were in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

As of March 31, 2011, we had $150.6 million of Convertible Notes outstanding. Holders of the Convertible Notes had the right to require us to purchase their notes on April 1, 2011. Of the Convertible Notes outstanding on April 1, 2011, $87.3 million were validly tendered to us. As a result, $63.3 million of the Convertible Notes remain outstanding. Remaining holders of the Convertible Notes may require us to purchase all or a portion of their Convertible Notes for cash on each of April 1, 2016 or April 1, 2021 at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest, if any, to the applicable purchase date. Based on the ability and intent to refinance the redemption of the Convertible Notes, we have classified them as long-term in the Consolidated Condensed Balance Sheet as of March 31, 2011.

The remaining Convertible Notes mature on April 1, 2026, unless earlier converted, redeemed or purchased by us, as discussed below. The Convertible Notes are unsecured senior subordinated obligations and are subordinate to all

future and existing debt under our credit agreements, mortgages and floor plan indebtedness. The Convertible Notes are guaranteed on an unsecured senior subordinated basis by substantially all of our wholly-owned domestic subsidiaries. The guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of March 31, 2010, we were in compliance with all negative covenants and there were no events of default.

Holders of the Convertible Notes may convert them 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), subject to adjustment, only under the following circumstances: (1) in any quarterly period, if the closing price of our common stock for twenty of the last thirty trading days in the prior quarter exceeds $28.05 (subject to adjustment), (2) for specified periods, if the trading price of the Convertible Notes falls below specific thresholds, (3) if the Convertible Notes are called for redemption, (4) if specified distributions to holders of our common stock are made or specified corporate transactions occur, (5) if a fundamental change (as defined) occurs, or (6) during the ten trading days prior to, but excluding, the maturity date.

Upon conversion of the Convertible Notes, for each $1,000 principal amount of the Convertible Notes, a holder will 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, of the number of shares of common stock equal to the conversion rate. If the conversion value exceeds $1,000, we will also deliver, at our election, cash, common stock or a combination of cash and common stock with respect to the remaining value deliverable upon conversion. We will pay additional cash interest commencing with six-month periods beginning on April 1, 2011, if the average trading price of a Convertible Note for certain periods in the prior six-month period equals 120% or more of the principal amount of the Convertible Notes.

We may redeem the Convertible Notes, in whole at any time or in part from time to time, for cash at a redemption price of 100% of the principal amount of the Convertible Notes to be redeemed, plus any accrued and unpaid interest to the applicable redemption date. The decision to redeem any of the notes will be based on factors such as the market price of the notes and our common stock, the potential impact of any redemptions on our capital structure, and consideration of alternate uses of capital, such as for strategic investments in our current business, in addition to any then-existing limits imposed by our finance agreements.

Mortgage Facilities

We are party to several mortgages, which bear interest at defined rates and require monthly principal and interest payments. These mortgage facilities also contain typical events of default, including non-payment of obligations, cross-defaults to our other material indebtedness, certain change of control events, and the loss or sale of certain franchises operated at the properties. Substantially all of the buildings and improvements on the properties financed pursuant to the mortgage facilities are subject to security interests granted to the lender. As of March 31, 2011, we owed $50.6 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.

During the first quarter of 2011, outstanding revolving commitments varied between no balance and $9.0 million under the U.S. credit agreement and between £5.0 million and £42.0 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 forward starting interest rate swap agreements beginning January 2012 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%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements.

Through January 2011 we were party to interest rate swap agreements pursuant to which the LIBOR portion of $300.0 million of our floating rate floor plan debt was fixed at 3.67%. During the three months ended March 31, 2011, the swaps did not have a meaningful impact on the weighted average interest rate on floor plan borrowings.

PTL Dividends

We own a 9.0% limited partnership interest in Penske Truck Leasing. During the three months ended March 31, 2011 and 2010, respectively, we received $7.8 million and $8.8 million of pro rata cash dividends relating to this investment. We currently expect to continue to receive future dividends from PTL subject in amount and timing on its 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 defined financial ratios, including a rent coverage ratio and a debt to EBITDA ratio. 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 March 31, 2011, 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 are potentially subject to additional purchase commitments relating to the smart distribution business as a result of our smart distribution agreement, smart franchise agreements and state franchise laws. These commitments have not historically had a material adverse effect on our results of operations, financial condition or cash flows. We have announced that we intend to transition the smart distribution business to Mercedes-Benz USA. In connection with this transaction, we will be required to fulfill certain of these purchase commitments, though we do not expect fulfillment of the commitments to have a material adverse effect on our future results of operations, financial condition or cash flows in part because Mercedes-Benz USA has announced its intention to continue distribution of the smart fortwo after completion of the transaction. This transaction, estimated to be completed in June 2011, is subject to completion of binding documentation, regulatory approvals, and other conditions outside our control.

Cash Flows

Cash and cash equivalents increased by $17.7 million and $9.9 million during the three months ended March 31, 2011 and 2010, respectively. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities was $9.0 million and $34.8 million during the three months ended March 31, 2011 and 2010, 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:

Dollars in millions	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net cash from continuing operating activities as reported	$ 9.0	$ 34.8
Floor plan notes payable non-trade as reported	37.3	62.6
Net cash from continuing operating activities including all floor plan notes payable	$ 46.3	$ 97.4

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was $31.6 million and $27.8 million during the three months ended March 31, 2011 and 2010, 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 $21.1 million and $18.4 million during the three months ended March 31, 2011 and 2010, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities and the construction of new facilities. As of March 31, 2011, 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 $14.0 million and $9.4 million during the three months ended March 31, 2011 and 2010, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of $5.9 million and $5.7 million, respectively. Additionally, proceeds from other investing activities during the three months ended March 31, 2011 were $3.5 million.

Cash Flows from Continuing Financing Activities

Cash provided by continuing financing activities was $38.9 million during the three months ended March 31, 2011. Cash used in continuing financing activities was $10.8 million during the three months ended March 31, 2010. 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 borrowings of long-term debt of $7.6 million during the three months ended March 31, 2011. We had net repayments of long-term debt of $1.8 million during the three months ended March 31, 2010. We used $71.7 million to repurchase $71.1 million aggregate principal amount of our Convertible Notes during the three months ended March 31, 2010. We had net borrowings of floor plan notes payable non-trade of $29.7 million and $62.6 million during the three months ended March 31, 2011 and 2010, respectively.

Cash Flows from Discontinued Operations

Cash flows relating to discontinued operations are not currently considered, nor are they expected to be, material to our liquidity or our capital resources. Management does not believe that 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.

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

Joint Venture Relationships

We are party to a number of joint ventures pursuant to which we own and operate automotive dealerships together with other investors. We may provide these dealerships with working capital and other debt financing at costs that are based on our incremental borrowing rate. As of March 31, 2011, our automotive retail joint venture relationships included:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	86.56%(A) (B)
Edison, New Jersey	Ferrari, Maserati	70.00%(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)

(A) An entity controlled by one of our directors, Lucio A. Noto (the Investor), owns a 13.44% 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.

In April 2011, we repurchased the remaining 30.0% interest in the Edison, New Jersey joint venture which is now a 100% owned subsidiary. During 2010, we exited one of our German joint ventures by exchanging our 50% interest in the joint venture for 100% ownership in three BMW franchises previously held by the joint venture.

Cyclicality

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

Seasonality

Our business is modestly seasonal overall. Our U.S. operations generally experience higher volumes of vehicle sales in the second and third 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.

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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, continue or variations of such terms, or the use of these terms in the negative. Forward-looking statements include statements regarding our current plans, forecasts, estimates, beliefs or expectations, including, without limitation, statements with respect to:

- our future financial and operating performance;
- future acquisitions and dispositions;
- future potential capital expenditures and securities repurchases;
- our ability to realize cost savings and synergies;
- our ability to respond to economic cycles;
- trends in the automotive retail industry and in the general economy in the various countries in which we operate;
- our ability to access the remaining availability under our credit agreements;
- our liquidity;
- performance of joint ventures, including PTL;
- future foreign exchange rates;
- the outcome of various legal proceedings;
- 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 2010 annual report on Form 10-K filed February 25, 2011. 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 in order to operate our business;
- we depend on the success and popularity of the brands we sell, and adverse conditions affecting one or more automobile manufacturers, such as the impact on the vehicle and parts supply chain due to the earthquake and tsunami that struck Japan in March 2011, 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;

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- 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;
- results of our efforts to transition the smart USA dealer network to Mercedes-Benz USA, which are subject to completion of binding documentation, regulatory approvals, and other conditions;
- we are dependent on continued availability of our information technology systems;
- if we lose key personnel, especially our Chief Executive Officer, or are unable to attract additional qualified personnel;
- new or enhanced regulations relating to automobile dealerships;
- 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 March 31, 2011, a 100 basis point change in interest rates would result in an approximate $2.1 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 2010 and through January 2011, we were party to swap agreements pursuant to which a notional $300.0 million of our floating rate floor plan debt was exchanged for fixed rate debt through January 2011. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the three months ended March 31, 2011, adjusted to exclude the notional value of the swap agreements, a 100 basis point change in interest rates would result in an approximate $11.2 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, the Convertible 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 March 31, 2011, we had dealership operations in the U.K. and Germany. 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 $109.9 million change to our revenues for the three months ended March 31, 2011.

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 1A. ***Risk Factors***

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition, or future results. The following updates the risk factors included in our 2010 Form 10-K:

Production and supply chain disruptions caused by the earthquake and tsunami that struck Japan in March 2011 could have a negative impact on our business and results of operations. The earthquake and tsunami that struck Japan on March 11, 2011, have caused significant production and supply chain disruptions which has resulted in significantly reduced new vehicle production by Japanese automotive manufacturers since the earthquake. These disruptions could also impact non-Japanese manufacturers, since many of them rely upon components produced in Japan to produce new vehicles. Based on currently available information from the manufacturers, we expect significant reductions in new vehicle shipments from the Japanese manufacturers for certain periods in 2011. It is difficult to predict the resulting impact on our business and we cannot be sure these events will not have a material adverse effect on our business and results of operations.

Item 6. ***Exhibits***

4.1	Amended and Restated Supplemental Indenture regarding our 3.5% senior subordinated convertible notes due 2026 dated as of May 3, 2011, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and The Bank of New York Mellon Trust Company, N.A. f/k/a The Bank of New York Trust Company, N.A., as trustee.
4.2	Amended and Restated Supplemental Indenture regarding 7.75% subordinated notes due 2016 dated May 3, 2011, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and The Bank of New York Mellon Trust Company, N.A. f/k/a The Bank of New York Trust Company, N.A., as trustee.
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 March 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Condensed Balance Sheets as of March 31, 2011 and December 31, 2010, (ii) the Consolidated Condensed Statements of Income for the three months ended March 31, 2011 and 2010, (iii) the Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2011 and 2010, (iv) the Consolidated Condensed Statement of Equity for the three months ended March 31, 2011, and (v) the Notes to Consolidated Condensed Financial Statements, tagged as blocks of text.*

* 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.

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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: May 3, 2011	*Chief Executive Officer*
	By: /s/ Robert T. O Shaughnessy
	Robert T. O Shaughnessy
Date: May 3, 2011	*Chief Financial Officer*

EXHIBIT INDEX

Exhibit No.	Description
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32	Section 1350 Certification.
101	The following materials from Penske Automotive Group s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Condensed Balance Sheets as of March 31, 2011 and December 31, 2010, (ii) the Consolidated Condensed Statements of Income for the three months ended March 31, 2011 and 2010, (iii) the Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2011 and 2010, (iv) the Consolidated Condensed Statement of Equity for the three months ended March 31, 2011, and (v) the Notes to Consolidated Condensed Financial Statements, tagged as blocks of text.*

* 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.