

PENSKE AUTOMOTIVE GROUP, INC.

Form 10-K

February 24, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from to

Commission file number 1-12297

Penske Automotive Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

22-3086739
(I.R.S. Employer

Identification No.)

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2555 Telegraph Road

Bloomfield Hills, Michigan
(Address of principal executive offices)

48302-0954
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Voting Common Stock, par value \$0.0001 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None.	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

The aggregate market value of the voting common stock held by non-affiliates as of June 30, 2011 was \$1,005,976,827. As of February 15, 2012, there were 90,277,356 shares of voting common stock outstanding.

Documents Incorporated by Reference

Certain portions, as expressly described in this report, of the registrant's proxy statement for the 2012 Annual Meeting of the Stockholders to be held May 9, 2012 are incorporated by reference into Part III, Items 10-14.

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PART I

Item 1. Business

We are the second largest automotive retailer headquartered in the U.S. as measured by the \$11.6 billion in total revenue we generated in 2011. As of December 31, 2011, we operated 320 retail automotive franchises, of which 166 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. In 2011, we retailed and wholesaled more than 348,000 vehicles. We are diversified geographically, with 63% of our total revenues in 2011 generated in the U.S. and Puerto Rico and 37% generated outside the U.S. We offer approximately 40 vehicle brands, with 96% of our total retail revenue in 2011 generated from brands of non-U.S. based manufacturers, and 69% generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher-margin products, such as third-party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products.

We also own a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading global transportation services provider. PTL leases, rents and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia and is the largest purchaser of commercial trucks in North America through its approximately 1,000 corporate and 1,900 agent locations. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by General Electric Capital Corporation.

We believe our diversified income streams help to mitigate the historical cyclicality found in some elements of the automotive sector. Revenues from higher margin service and parts sales are typically less cyclical than retail vehicle sales, and generate the largest part of our gross profit. The following graphic shows the percentage of our retail revenues by product area (new vehicle, used vehicle, service and parts, and finance and insurance) and their respective contribution to our overall gross profit in 2011:

Revenue Mix

Gross Profit Mix

Industry and Outlook

The majority of our revenues are generated in the U.S., which in 2010 was the world's second largest automotive retail market. In 2011 sales of cars and light trucks were approximately 12.8 million units, which represents an increase of 10% over 2010. The majority of automotive retail sales in the U.S. are generated at approximately 17,700 franchised dealerships as of January 1, 2011, which generated revenues of approximately \$512 billion in 2010, including 53% from new vehicle sales, 33% from used vehicle sales and 14% from service and parts sales. Dealerships also offer a wide range of higher-margin products and services, including extended service contracts, financing arrangements and credit insurance. The National Automobile Dealers Association figures noted above include finance and insurance revenues within either new or used vehicle sales, as sales of these products are usually incremental to the sale of a vehicle.

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We also operate in Germany and the U.K., which represented the first and third largest automotive retail markets, respectively, in Western Europe in 2011, and accounted for approximately 40% of the total vehicle sales in Western Europe. Unit sales of automobiles in Western Europe were approximately 12.8 million in 2011, a 1% decrease compared to 2010. In Germany and the U.K., new car sales were approximately 3.2 million and 1.9 million units, respectively, in 2011.

In the U.S., publicly held automotive retail groups account for less than 10% of total industry revenue. Although significant consolidation has already taken place, the industry remains highly fragmented, with more than 90% of the U.S. industry's market share remaining in the hands of smaller regional and independent players. The Western European retail automotive market is similarly fragmented. We believe that further consolidation in these markets is probable due to the significant capital requirements of maintaining manufacturer facility standards, the limited number of viable alternative exit strategies for dealership owners and the impact of the current economic and industry environment on smaller, less well capitalized dealership groups.

Generally, new vehicle unit sales are cyclical and, historically, fluctuations have been influenced by factors such as manufacturer incentives, interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability, consumer confidence and other general economic factors. However, from a profitability perspective, automotive retailers have historically been less vulnerable than automobile manufacturers and automotive parts suppliers to declines in new vehicle sales. We believe this is due to the retailers more flexible expense structure (a significant portion of the automotive retail industry's costs are variable) and their diversified revenue streams. In addition, automobile manufacturers may offer various dealer incentives when sales are slow, which further increases the volatility in profitability for automobile manufacturers and may help to decrease volatility for automotive retailers.

The level of new automotive unit sales in our markets impacts our results. The new vehicle market and the amount of customer traffic visiting our dealerships has improved during 2010 and 2011, though the level of automotive sales in the U.S. remains below levels 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. During 2011, 12.8 million cars and light trucks were sold in the U.S., representing a 10% improvement over the 11.6 million cars and light trucks sold during the same period last year. We believe the U.S. automotive market will continue to recover based upon industry forecasts from companies such as JD Power, coupled with demand in the marketplace, an aging vehicle population, increased availability, and lower cost, of credit for consumers, and the planned introduction of new models by many different vehicle brands.

Vehicle registrations in the U.K. were 1.94 million in 2011 compared to 2.03 million in 2010, representing a decline of 4.4%. According to the Society of Motor Manufacturers and Traders (www.smmmt.co.uk), the U.K. market is expected to be challenging in 2012 as the economic outlook remains uncertain, however, in 2011, vehicle registrations of premium brands such as Audi, Bentley, BMW, Jaguar, Land Rover, Lexus, Mercedes-Benz, MINI and Porsche increased, indicating that registrations of premium/luxury vehicles have been more resilient than the market as a whole.

For a more detailed discussion of our financial and operating results, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Long-Term Business Strategy

Our long-term business strategy focuses on several key areas in an effort to foster long-term relationships with our customers. The key areas of our long-term strategy follow:

Attract, develop, and empower associates to grow our business;

Offer outstanding brands in premium facilities and facilitate superior customer service;

Diversification;

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Expand revenues at existing locations and increase higher-margin businesses;

Grow through targeted acquisitions;

Enhance customer satisfaction;

Leverage scale and implement best practices; and

Leverage Internet Marketing

Attract, Develop, and Empower Associates to Grow our Business

We view our local dealership general managers and customer-facing associates as one of our most important assets. Each dealership or group of dealerships has independent operational and financial management responsible for day-to-day operations. We believe experienced local managers are better qualified to make day-to-day decisions concerning the successful operation of a dealership and can be more responsive to our customers' needs. We seek local dealership management that not only has experience in the automotive industry, but is also familiar with the local dealership's market. We also have regional management that oversees operations at the individual dealerships and supports the dealerships operationally and administratively. We invest for future growth and offer outstanding brands and facilities which we believe attracts outstanding talent. We believe attracting the best talent to our retail dealership operations and allowing our associates to make business decisions at the local level helps to foster long-term growth through increased repeat and referral business.

Offer Outstanding Brands in Premium Facilities and Facilitate Superior Customer Service

We offer outstanding brands in premium facilities and believe offering our customers a superior customer service experience will generate repeat and referral business and will help to foster a loyal and dedicated customer base. Customer satisfaction is measured at each of our dealerships on a monthly, quarterly, and/or yearly basis by the manufacturers we represent, and we compensate our dealership employees, in part, based on their performance in such rankings.

We have the highest percentage of revenues from foreign and luxury brands among the U.S. based publicly-traded automotive retailers. We believe luxury and foreign brands will continue to offer us the opportunity to generate same-store growth, including higher margin service and parts sales. In 2011, our revenue mix consists of 69% related to premium brands, 27% related to volume foreign brands, and 4% relating to brands of U.S. based manufacturers.

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The following chart reflects our percentage of total revenues by brand in 2011:

We sell and service outstanding automotive brands in our premium facilities, in attractive geographic markets. Where advantageous, we attempt to aggregate our dealerships in a campus setting in order to build a destination location for our customers, which we believe helps to drive increased customer traffic to each of the brands at the location. This strategy also creates an opportunity to reduce personnel expenses, consolidate advertising and administrative expenses and leverage operating expenses over a larger base of dealerships. Our dealerships have generally achieved new unit vehicle sales that are significantly higher than industry averages for the brands we sell.

Diversification

Our business benefits from our diversified revenue mix, including the multiple revenue streams in a traditional automotive dealership (new vehicles, used vehicles, finance and insurance, and service and parts operations), and returns relating to our joint venture investments, which we believe helps to mitigate the cyclical nature that has historically impacted some elements of the automotive sector. We are further diversified within our retail automotive operations due to our brand mix and geographical dispersion.

Diversification Outside the U.S.

One of the unique attributes of our operations versus our peers is our diversification outside the U.S. Approximately 37% of our consolidated revenue during 2011 was generated outside the U.S. and Puerto Rico, predominately in the U.K. The U.K. is the third largest retail automotive market in Western Europe. Our brand mix in the U.K. is predominantly premium. We believe that as of December 31, 2011, we were among the largest Audi, Bentley, BMW, Ferrari, Land Rover, Lexus, Mercedes-Benz, Maserati and Porsche dealers in the U.K. based on new unit sales.

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Additionally, we operate a number of dealerships in Germany, Western Europe's largest retail automotive market, including through joint ventures with experienced local partners, which sell and service Audi, BMW, Lexus, MINI, Porsche, Toyota, Volkswagen and various other premium brands.

Penske Truck Leasing

We hold a 9.0% limited partnership interest in PTL. PTL leases, rents and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia and is one of the largest purchasers of commercial trucks in North America through its approximately 1,000 corporate and 1,900 agent locations. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. We currently expect to continue to receive annual pro-rata cash distributions of a portion of the partnership's profits, and we expect to realize U.S. tax savings from the partnership.

Expand Revenues at Existing Locations and Increase Higher-Margin Businesses

Increase Same-Store Sales. We believe our emphasis on superior customer service and premium facilities will contribute to increases in same-store sales over time. We have added a significant number of incremental service bays in recent years in order to better accommodate our customers and further enhance our higher-margin service and parts revenues. We have employed a strategy called "Retail First" to increase our same-store used vehicle sales. Under this approach, we have increased our efforts to retail a vehicle to a consumer before attempting to dispose of it through the traditional wholesale process. We believe this approach has helped to increase the number of used retail vehicle sales in 2011.

Grow Finance, Insurance, and Other Aftermarket Revenues. Each sale of a vehicle provides us the opportunity to assist in financing the sale of a vehicle, to sell the customer an extended service contract or other insurance product, and to sell aftermarket products, such as security systems and protective coatings. In order to improve our finance and insurance business, we focus on enhancing and standardizing our salesperson training programs through a menu-driven product offering, and strengthening our product offerings.

Expand Service and Parts and Collision Repair Revenues. Today's vehicles are increasingly complex and require sophisticated equipment and specially trained technicians to perform certain services. Unlike independent service shops, our dealerships are authorized to perform this work under warranties provided by manufacturers. We believe that our brand mix and the complexity of today's vehicles, combined with our investment in expanded service facilities and our focus on customer service, will contribute to increases in our service and parts revenue. We also operate 29 collision repair centers which are integrated with local dealership operations. We also offer rapid repair services such as paint-less dent repair, headlight reconditioning, wheel repairs, tire sales and windshield replacement at most of our facilities in order to offer our customers the convenience of one-stop shopping for all of their automotive requirements.

Grow through Targeted Acquisitions

We believe that attractive acquisition opportunities exist for well-capitalized dealership groups with experience in identifying, acquiring and integrating dealerships. The fragmented automotive retail market provides us with significant growth opportunities in our markets. We generally seek to acquire dealerships with high-growth automotive brands in highly concentrated or growing demographic areas that will benefit from our management expertise, manufacturer relations and scale of operations, as well as smaller, single location dealerships that can be effectively integrated into our existing operations. Over time, we have also been awarded new franchises from various manufacturers. In 2011, we acquired 7 franchises which we estimate will generate approximately \$500 million of revenue on an annualized basis. In addition, in January 2012, we acquired the Agnew Group of dealerships in the U.K. which we expect to generate approximately \$500 million of additional annualized revenues. We also divested or classified as discontinued operations 16 franchises that generated approximately \$300 million of revenue on an annualized basis in 2011.

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Enhance Customer Satisfaction

We strive for superior customer satisfaction. By offering outstanding brands in premium facilities, one-stop shopping convenience in our aggregated facilities, and a well-trained and knowledgeable sales staff, we aim to forge lasting relationships with our customers, enhance our reputation in the community, and create the opportunity for significant repeat and referral business. We monitor customer satisfaction data accumulated by manufacturers to track the performance of dealership operations, and incent our personnel to provide exceptional customer service and customer loyalty.

Leverage Scale and Implement Best Practices

We seek to build scale in many of the markets where we have dealership operations. Our desire is to reduce or eliminate redundant administrative costs such as accounting, information technology systems and other general administrative costs. In addition, we seek to leverage our industry knowledge and experience to foster communication and cooperation between like brand dealerships throughout our organization. Senior management and dealership management meet regularly to review dealership operating performance, examine industry trends, and implement operating improvements. Key financial information is discussed and compared between dealerships across all markets. This frequent interaction facilitates implementation of successful strategies throughout the organization.

Leverage Internet Marketing

We intend to leverage the internet to attract and retain customers as we believe the majority of our customers consult the Internet for information when shopping for a vehicle. In order to attract customers and enhance our customer service, each of our dealerships maintains its own website. All of our dealership websites are presented in common formats (except where otherwise required by manufacturers) which helps to minimize costs and provides a consistent image across dealerships. In addition, many automotive manufacturers' websites, and our corporate websites, provide links to our dealership websites and, in the U.K., manufacturers also provide a website for the dealership.

In addition, we list substantially all our U.S. and U.K. vehicle inventory on www.PenskeCars.com or www.sytner.co.uk, respectively. These websites are designed to make it easy for consumers, employees and partners to view and compare over 30,000 new, certified and pre-owned vehicles. These sites, together with our dealership websites, provide consumers a simple method to schedule maintenance and repair services at their local Penske Automotive dealership and view extensive vehicle information, including photos, prices, promotions, videos and third party vehicle history reports for pre-owned vehicles.

We attempt to obtain high visibility for these websites by utilizing strategies to obtain high search engine relevance on sites like Google and Bing. We also encourage interaction with our customers on social media sites such as Facebook and YouTube to bring new customers to our dealership and enhance repeat and referral business.

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We routinely acquire and dispose of franchises. Our financial statements include the results of operations of acquired dealerships from the date of acquisition. The following table sets forth information with respect to our current dealerships that were acquired or opened from January 1, 2009 to December 31, 2011:

Dealership	Date Opened or Acquired	Location	Franchises
U.S.			
Lamborghini Scottsdale	04/09	Phoenix, AZ	Lamborghini
Audi Turnersville	06/09	Turnersville, NJ	Audi
Commonwealth Audi Volkswagen	01/10	Santa Ana, CA	Audi, Volkswagen
Hudson Chrysler Jeep Dodge	02/10	Jersey City, NJ	Chrysler, Jeep, Dodge
Sprinter @ Mercedes-Benz of Chandler	02/10	Chandler, AZ	Sprinter
Sprinter @ Mercedes-Benz of San Diego	03/10	San Diego, CA	Sprinter
MINI of Tempe	03/10	Tempe, AZ	MINI
MINI of Austin	04/10	Austin, TX	MINI
Audi Chantilly	04/10	Chantilly, VA	Audi
Mercedes-Benz Chantilly	04/10	Chantilly, VA	Mercedes-Benz
Sprinter @ Mercedes-Benz of Chantilly	04/10	Chantilly, VA	Sprinter
Sprinter @ Mercedes-Benz of Warwick	04/10	Warwick, RI	Sprinter
Sprinter @ Mercedes-Benz of Fairfield	04/10	Fairfield, CT	Sprinter
MINI of San Diego	09/10	San Diego, CA	MINI
Audi Bedford	12/10	Bedford, OH	Audi
Porsche of Bedford	12/10	Bedford, OH	Porsche
Lotus Scottsdale	02/11	Scottsdale, AZ	Lotus
Fiat-Ponce	05/11	Ponce, PR	Fiat
Audi Willoughby	03/11	Willoughby, OH	Audi
Crevier BMW/MINI	07/11	Santa Ana, CA	BMW, MINI
Mercedes-Benz of Greenwich	07/11	Greenwich, CT	Mercedes-Benz
Maybach of Greenwich	07/11	Greenwich, CT	Maybach
Fiat of Fayetteville	12/11	Fayetteville, AR	Fiat
Fiat Mayaguez	12/11	Mayaguez, PR	Fiat
Outside the U.S.			
Porsche Centre Leicester	03/09	Leicester, England	Porsche
Porsche Centre Solihull	03/09	West Midlands, England	Porsche
Graypaul Birmingham	03/09	Worcestershire, England	Ferrari/Maserati
Guy Salmon Land Rover Bristol	09/09	Bristol, England	Land Rover
Autohaus Augsburg	03/10	Augsburg, Germany	BMW(2), MINI
smart Northampton	07/10	Northampton, England	smart
Sytner Maidenhead (BMW/MINI)	02/11	Maidenhead, England	BMW, MINI
McLaren Manchester	07/11	Manchester, England	McLaren

In January 2012, we acquired 13 additional franchises in the United Kingdom formerly part of the Isaac Agnew dealership group.

In 2011, 2010, and 2009, we disposed of 16, 7, and 7 franchises, respectively, that we believe were not integral to our strategy or operations. We expect to continue to pursue acquisitions and selected dispositions in the future.

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Franchises. Following are summaries of our franchises by location and our dealership mix by franchise as of December 31, 2011:

Location	Franchises	Franchises	U.S.	Non-U.S.	Total
Arizona	23	Toyota/Lexus/Scion	33	13	46
Arkansas	11	BMW/MINI	17	35	52
California	27	Mercedes-Benz/Sprinter/smart	20	20	40
Connecticut	8	Honda/Acura	26	2	28
Florida	8	Chrysler/Jeep/Dodge/Fiat	15	15	30
Georgia	4	Jaguar	1	7	8
Indiana	2	Land Rover	1	12	13
Michigan	2	Audi/Volkswagen/Bentley	16	20	36
Minnesota	2	Ferrari/Maserati	6	12	18
Nevada	2	Ford	1		1
New Jersey	22	Porsche	6	7	13
New York	1	Cadillac/Chevrolet	6		6
Ohio	9	Nissan/Infiniti	7		7
Puerto Rico	15	Others	11	11	22
Rhode Island	13	Total	166	154	320
Tennessee	2				
Texas	8				
Virginia	7				
Total U.S.	166				
U.K.	142				
Germany	12				
Total Foreign	154				
Total Worldwide	320				

New Vehicle Retail Sales. In 2011, we sold 154,829 new vehicles which generated 53% of our retail revenue and 27% of our retail gross profit. We sell approximately 40 brands of domestic and import family, sports and premium cars, light trucks and sport utility vehicles in the U.S., Puerto Rico, the U.K. and Germany. New vehicles are typically acquired by dealerships directly from the manufacturer. We strive to maintain outstanding relations with the automotive manufacturers, based in part on our long-term presence in the automotive retail market, our commitment to providing premium facilities, the reputation of our management team and the consistent high sales volume at our dealerships. Our dealerships finance the purchase of most new vehicles from the manufacturers through floor plan financing provided primarily by various manufacturers captive finance companies.

Used Vehicle Retail Sales. In 2011, we sold 129,652 used vehicles, which generated 31% of our retail revenue and 14% of our retail gross profit. We acquire used vehicles from various sources, including auctions open only to authorized new vehicle dealers, public auctions, trade-ins from consumers in connection with their purchase of a new vehicle from us and lease expirations or terminations. To improve customer confidence in our used vehicle inventory, each of our dealerships participates in all available manufacturer certification processes for used vehicles. If certification is obtained, the used vehicle owner is typically provided benefits and warranties similar to those offered to new vehicle owners by the applicable manufacturer. Several of our dealerships have implemented software tools which assist in procuring and selling used vehicles. Through our scale in certain U.S. markets, we have implemented closed-bid auctions that allow us to bring a large number of vehicles we do not intend to retail to a central market for other dealers or wholesalers to purchase. In the U.K., we offer used vehicles to wholesalers and other dealers via online auction. We have employed a strategy called Retail First to increase our same-store used vehicle sales. Under this approach, we have increased our efforts to retail a vehicle

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to a consumer before attempting to dispose of it through the traditional wholesale process. We believe this approach has helped to increase the number of used retail vehicles sales in 2011. We believe these strategies have resulted in greater operating efficiency and helped to reduce costs associated with maintaining optimal inventories.

Vehicle Finance, Extended Service and Insurance Sales. Finance and insurance sales represented 3% of our retail revenue and 15% of our retail gross profit in 2011. At our customers' option, our dealerships can arrange third-party financing or leasing in connection with vehicle purchases. We typically receive a portion of the cost of the financing or leasing paid by the customer for each transaction as a fee. While these services are generally non-recourse to us, we are subject to chargebacks in certain circumstances, such as default under a financing arrangement or prepayment. These chargebacks vary by finance product but typically are limited to the fee we receive.

We also offer our customers various vehicle warranty and extended protection products, including extended service contracts, maintenance programs, guaranteed auto protection (known as GAP, this protection covers the shortfall between a customer's loan balance and insurance payoff in the event of a total loss), lease wear and tear insurance and theft protection products. The extended service contracts and other products that our dealerships currently offer to customers are underwritten by independent third parties, including the vehicle manufacturers' captive finance subsidiaries. Similar to finance transactions, we are subject to chargebacks relating to fees earned in connection with the sale of certain extended protection products. We also offer for sale other aftermarket products, including security systems and protective coatings.

We offer finance and insurance products using a menu process, which is designed to ensure that we offer our customers a complete range of finance, insurance, protection, and other aftermarket products in a transparent manner. We provide training to our finance and insurance personnel to help assure compliance with internal policies and procedures, as well as applicable state regulations.

Service and Parts Sales. Service and parts sales represented 13% of our retail revenue and 44% of our retail gross profit in 2011. We generate service and parts sales in connection with warranty and non-warranty work performed at each of our dealerships. We believe our service and parts revenues benefit from the increasingly complex technology used in vehicles that makes it difficult for independent repair facilities to maintain and repair today's automobiles.

A goal of each of our dealerships is to make each vehicle purchaser a customer of our service and parts department. Our dealerships keep detailed records of our customers' maintenance and service histories, and many dealerships send reminders to customers when vehicles are due for periodic maintenance or service. Many of our dealerships have extended evening and weekend service hours for the convenience of our customers. We also offer rapid repair services such as paint-less dent repair, headlight reconditioning, wheel repairs, tire sales and windshield replacement at most of our facilities in order to offer our customers the convenience of one-stop shopping for all of their automotive requirements. We also operate 29 collision repair centers, each of which is operated as an integral part of our dealership operations.

smart USA. Through June 30, 2011, smart USA Distributor LLC, our former wholly-owned subsidiary, was the exclusive distributor of the smart fortwo vehicle in the U.S. and Puerto Rico and was responsible for maintaining a vehicle dealership network. On June 30, 2011, smart USA completed the sale of certain assets and the transfer of certain liabilities relating to the distribution rights, management, sales and marketing activities of smart USA to Daimler Vehicle Innovations LLC, a wholly owned subsidiary of Mercedes-Benz USA.

Penske Truck Leasing

We hold a 9.0% limited partnership interest in Penske Truck Leasing (PTL). PTL, which was founded more than 40 years ago, provides transportation services and supply chain management solutions in North America. PTL is capable of meeting customers' needs at every point in the supply chain with one of the

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industry's most comprehensive offerings, including full-service leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. PTL has a highly diversified customer base ranging from individual consumers to multi-national corporations across industries such as food and beverage, manufacturing, transportation, automotive, healthcare, and retail.

Leasing, Rental & Contract Maintenance represents PTL's largest business. For commercial customers, PTL provides full-service leasing and rental utilizing a fleet of approximately 130,000 company owned vehicles and contract maintenance on a fleet of approximately 70,000 customer owned vehicles. Customers outsource vehicle operations to PTL in order to reduce the complexity and cost of vehicle ownership. Under a typical full-service lease, PTL provides and fully maintains the vehicle, which has been specifically configured for and approved by the customer. Full-service lease terms generally range from four to seven years on tractors and trucks and from six to ten years on trailers.

The services provided under full-service lease and contract maintenance generally include preventive maintenance, emergency road service, fleet services, safety programs, and nationwide fuel services through its network of company operated facilities and a nationwide network of independent truck stops. PTL's rental operations offer short term availability of tractors, trucks and trailers, typically to accommodate seasonal, emergency and other temporary needs. A significant portion of these rentals are to existing full-service lease and contract maintenance customers seeking flexibility in their fleet management. PTL has a network of nearly 700 locations throughout North America to provide full-service leasing, rental and contract maintenance services to customers.

For consumer customers, PTL provides short term rental of light and medium duty trucks on a one-way and local basis, typically to transport household goods. Customers typically include individuals seeking a do-it-yourself solution to their moving needs. PTL's fleet consists of late model vehicles ranging in size from small vans to 26-foot trucks. Consumer rentals are conducted through approximately 1,900 independent rental agents and also through PTL's leasing and rental facilities.

Logistics. PTL's logistics business offers an extensive variety of services, such as dedicated contract carriage, distribution center management, transportation management and acting as the lead logistics provider for its customers. PTL provides solutions to its customers for many aspects of the supply chain, including inbound material flow, handling and packaging, inventory management, distribution and technology solutions, and sourcing of third party carriers. These offerings are available individually or in any combination and often involve PTL associates performing services at the customer's location. By offering a scalable series of products and services to its customers, PTL can manage all or part of its customer's supply chain. PTL utilizes specialized software that enables real-time fleet visibility and provides reporting metrics, giving customers detailed information on fuel economy and other critical supply chain costs.

Table of Contents**PAG Dealership Locations**

The following is a list of all of our dealerships as of December 31, 2011:

U.S. DEALERSHIPS

<i>ARIZONA</i>	Honda North	<i>NEW JERSEY</i>
Acura North Scottsdale	Honda of Escondido	Acura of Turnersville
Audi of Chandler	Kearny Mesa Acura	Audi Turnersville
Audi North Scottsdale	Kearny Mesa Toyota-Scion	BMW of Turnersville
Bentley Scottsdale	Lexus Kearny Mesa	Chevrolet Cadillac of Turnersville
BMW North Scottsdale	Los Gatos Acura	BMW of Tenafly
Bugatti Scottsdale	Marin Honda	Lexus of Edison
Jaguar North Scottsdale	MINI of San Diego	Ferrari Maserati of Central New Jersey
Lamborghini Scottsdale	Mazda of Escondido	Gateway Toyota-Scion
Land Rover North Scottsdale	Mercedes-Benz of San Diego	Honda of Turnersville
Lexus of Chandler	Peter Pan BMW	Hudson Chrysler Jeep Dodge
Lotus Scottsdale	Porsche of Stevens Creek	Hudson Nissan
Mercedes-Benz of Chandler	smart center San Diego	Hudson Toyota-Scion
MINI North Scottsdale	Sprinter @ Mercedes-Benz of San Diego	Hyundai of Turnersville
MINI of Tempe	<i>CONNECTICUT</i>	Lexus of Bridgewater
Porsche North Scottsdale	Audi of Fairfield	Nissan of Turnersville
Rolls-Royce Scottsdale	Honda of Danbury	Toyota-Scion of Turnersville
Scottsdale Aston Martin	Mercedes-Benz of Fairfield	<i>NEW YORK</i>
Scottsdale Ferrari Maserati	Mercedes-Benz of Greenwich	Honda of Nanuet
Scottsdale Lexus	Maybach of Greenwich	<i>OHIO</i>
smart center Chandler	Porsche of Fairfield	Audi Bedford
Sprinter @ Mercedes-Benz of Chandler	smart center Fairfield	Audi Willoughby

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Tempe Honda	Sprinter @ Mercedes-Benz of Fairfield	Honda of Mentor
Volkswagen North Scottsdale	FLORIDA	Infiniti of Bedford
ARKANSAS	Central Florida Toyota-Scion	Mercedes-Benz of Bedford
Acura of Fayetteville	Royal Palm Mazda	Porsche of Beachwood
Chevrolet of Fayetteville	Palm Beach Toyota-Scion	smart center Bedford
Fiat of Fayetteville	Royal Palm Toyota-Scion	Toyota-Scion of Bedford
Honda of Fayetteville	Royal Palm Nissan	RHODE ISLAND
Landers Chevrolet	GEORGIA	Acura of Warwick
Landers Chrysler Jeep Dodge	Atlanta Toyota-Scion	Audi Warwick
Landers Ford	Honda Mall of Georgia	Bentley Providence
Toyota-Scion of Fayetteville	United BMW of Gwinnett	BMW of Warwick
CALIFORNIA	United BMW of Roswell	Infiniti of Warwick
Acura of Escondido	INDIANA	Lexus of Warwick
Audi Escondido	Penske Chevrolet	Mercedes-Benz of Warwick
Audi Stevens Creek	Penske Honda	MINI of Warwick
Toyota Scion of Clovis	MICHIGAN	Nissan West Warwick
BMW of San Diego	Honda Bloomfield	Porsche of Warwick
Capitol Honda	Rinke Cadillac	smart center Warwick
Commonwealth Audi	MINNESOTA	Sprinter @ Mercedes-Benz of Warwick
Commonwealth Volkswagen	Motorwerks BMW	TENNESSEE
Crevier BMW	Motorwerks MINI	Wolfchase Toyota-Scion
Creview MINI		
Honda Mission Valley		

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TEXAS	Audi of Tysons Corner	Ponce
BMW of Austin	Mercedes-Benz Chantilly	Triangle Chrysler, Dodge, Jeep, del Oeste
Honda of Spring	Mercedes-Benz of Tysons Corner	Triangle Honda 65 de Infanteria
Spring Branch Honda	Porsche of Tysons Corner	Triangle Honda-Suzuki de Ponce
MINI of Austin	smart center Tysons Corner	Triangle Nissan del Oeste
Round Rock Honda	Sprinter @ Mercedes-Benz of Chantilly	Triangle Toyota-Scion de San Juan
Round Rock Hyundai	PUERTO RICO	Triangle Fiat del Oeste
Round Rock Toyota-Scion	Lexus de San Juan	Triangle Fiat de Ponce
VIRGINIA	Triangle Chrysler, Dodge, Jeep de	

Audi Chantilly
NON-U.S. DEALERSHIPS

U.K.**Audi**

Bradford Audi

Derby Audi

Harrogate Audi

Huddersfield Audi

Leeds Audi

Leicester Audi

Mayfair Audi

Nottingham Audi

Reading Audi

Slough Audi

Wakefield Audi

West London Audi

Bentley

Bentley Birmingham

Chrysler/Jeep/Dodge

Kings Cheltenham &

Gloucester

Kings Manchester

Kings Newcastle

Kings Swindon

Kings Teesside

Ferrari/Maserati

Ferrari Classic Parts

Graypaul Birmingham

Graypaul Edinburgh

Graypaul Nottingham

Maranello Egham Ferrari/Maserati

Honda

Honda Gatwick

Lamborghini

Lamborghini Birmingham

Lamborghini Edinburgh

Lexus

Lexus Birmingham

Lexus Bristol

Lexus Cardiff

Lexus Leicester

Lexus Milton Keynes

McLaren

McLaren Manchester

Mercedes-Benz/smart

Mercedes-Benz of Bath

Mercedes-Benz of Bedford

Mercedes-Benz of Carlisle

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Bentley Edinburgh	Honda Redhill	Mercedes-Benz of Cheltenham and Gloucester
Bentley Leicester	Jaguar/Land Rover	Mercedes-Benz of Newbury
Bentley Manchester	Guy Salmon Jaguar Coventry	Mercedes-Benz/smart of Northampton
BMW/MINI	Guy Salmon Jaguar/Land Rover Ascot	Mercedes-Benz of Sunderland
Sytner Birmingham	Guy Salmon Jaguar/Land Rover Gatwick	Mercedes-Benz of Swindon
Sytner Cardiff	Guy Salmon Jaguar/Land Rover Maidstone	Mercedes-Benz of Weston-Super-Mare
Sytner Chigwell	Guy Salmon Jaguar/Land Rover Thames Ditton	Mercedes-Benz/smart of Bristol
Sytner Coventry	Guy Salmon Jaguar Northampton	Mercedes-Benz/smart of Milton Keynes
Sytner Docklands	Guy Salmon Jaguar Oxford	Mercedes-Benz/smart of Newcastle
Sytner Harold Wood	Guy Salmon Land Rover Bristol	Mercedes-Benz/smart of Teesside
Sytner High Wycombe	Guy Salmon Land Rover Coventry	Porsche
Sytner Leicester	Guy Salmon Land Rover Knutsford	Porsche Centre Edinburgh
Sytner Maidenhead	Guy Salmon Land Rover Portsmouth	Porsche Centre Glasgow
Sytner Newport	Guy Salmon Land Rover Sheffield	Porsche Centre Leicester
Sytner Nottingham	Guy Salmon Land Rover Stockport	Porsche Centre Mid-Sussex
Sytner Oldbury	Guy Salmon Land Rover	Porsche Centre Silverstone
Sytner Sheffield	Stratford-upon-Avon	Porsche Centre Solihull
Sytner Solihull	Guy Salmon Land Rover Wakefield	Rolls-Royce
Sytner Sunningdale		Rolls-Royce Motor Cars Manchester
Sytner Sutton		Rolls-Royce Motor Cars Sunningdale

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Toyota

Toyota World Birmingham

Toyota World Bridgend

Toyota World Bristol North

Toyota World Bristol South

Toyota World Cardiff

Toyota World Newport

Toyota World Solihull

Toyota World Tamworth

Volkswagen

SEAT Huddersfield

VW Harrogate

VW Huddersfield

VW Leeds

We also own 50% of the following dealerships:

GERMANY

Aix Automobile (Toyota)

Audi Zentrum Aachen

Autohaus Nix (Eschborn) (Toyota)

Autohaus Krings (Volkswagen)

Autohaus Nix (Frankfurt) (Toyota, Lexus)

Autohaus Nix (Offenbach) (Toyota, Lexus)

Autohaus Nix (Wachtersbach) (Toyota)

Autohaus Piper (Skoda)

Autohaus Piper Aachen (Volkswagen)

Autohaus Sirries (Volkswagen, Audi)

Volvo

Tollbar Warwick

GERMANY

Autohaus Augsburg (Goggingen) (BMW)

Autohaus Augsburg (Lechhausen) (BMW)

Autohaus Augsburg (Stadtmitte) (MINI)

Penske Sportwagenzentrum (Porsche)

Tamsen, Bremen (Aston Martin, Bentley, Ferrari, Maserati)

Tamsen, Hamburg (Aston Martin, Ferrari,

Lamborghini, Maserati)

U.S.

Penske Wynn Ferrari Maserati (Nevada)

MAX BMW Motorcycles (Connecticut)

MAX BMW Motorcycles (New Hampshire)

MAX BMW Motorcycles (New York)

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J-S Auto Park Stolberg (Volkswagen)

Jacobs Automobile Düren (Volkswagen, Audi)

Jacobs Automobile Zweighieder Lassung

Geilenkirehen (Volkswagen, Audi)

Lexus Forum Frankfurt

TCD (Toyota)

Volkswagen Zentrum Aachen

Wolff & Meir (Volkswagen, Skoda)

Zabka Automobile (Volkswagen, Audi)

Information Technology

We consolidate financial, accounting and operational data received from our U.S. dealers through a private communications network. Dealership data is gathered and processed through individual dealer systems utilizing a common management system licensed from a third-party. Each dealership is allowed to tailor the operational capabilities of that system locally, but we require that they follow our standardized accounting procedures. Our database technology allows us to extract and aggregate information from the system in a consistent format to generate consolidating financial and operational data. The system also allows us to access detailed information for each dealership individually, as a group, or on a consolidated basis. Information we can access includes, among other things, inventory, cash, unit sales, the mix of new and used vehicle sales and sales of aftermarket products and services. Our ability to access this data allows us to continually analyze these dealerships results of operations and financial position so as to identify areas for improvement. Our technology and processes also enable us to quickly integrate dealerships or dealership groups we acquire in the U.S.

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Our U.K. dealership financial, accounting and operational data is processed through a standard management system licensed from a third-party, except when otherwise required by the manufacturer. Financial and operational information is aggregated following U.S. policies and accounting requirements, and is reported in our U.S. reporting format to ensure consistency of results among our worldwide operations. Similar to the U.S., the U.K. technology and processes enable us to continually analyze these dealerships' results of operations and financial position so as to identify areas for improvement and to quickly integrate dealerships or dealership groups we acquire in the U.K.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building our retail operations. We utilize many different media for our marketing activities, focusing on the Internet and other digital media, including our own websites such as www.PenskeCars.com and www.sytner.co.uk as discussed above under "Leverage Internet Marketing". We also utilize newspaper, direct mail, magazine, television, and radio advertising. Automobile manufacturers supplement our local and regional advertising efforts through large advertising campaigns promoting their brands and promoting attractive financing packages and other incentive programs they may offer. In an effort to realize increased efficiencies, we are focusing on common marketing metrics and business practices across our dealerships, as well as negotiating enterprise arrangements for targeted marketing resources.

Agreements with Vehicle Manufacturers

We operate our dealerships under separate agreements with the manufacturers or distributors of each brand of vehicle sold at that dealership. These agreements are typical throughout the industry and may contain provisions and standards governing almost every aspect of the dealership, including ownership, management, personnel, training, maintenance of a minimum of working capital, net worth requirements, maintenance of minimum lines of credit, advertising and marketing activities, facilities, signs, products and services, maintenance of minimum amounts of insurance, achievement of minimum customer service standards and monthly financial reporting. In addition, the General Manager and/or the owner of a dealership typically cannot be changed without the manufacturer's consent. In exchange for complying with these provisions and standards, we are granted the non-exclusive right to sell the manufacturer's or distributors brand of vehicles and related parts and warranty services at our dealership. The agreements also grant us a non-exclusive license to use each manufacturer's trademarks, service marks and designs in connection with our sales and service of its brand at our dealership.

Some of our agreements, including those with BMW, Honda, Mercedes-Benz and Toyota, expire after a specified period of time ranging from one to six years. Manufacturers have generally not terminated our franchise agreements, and our franchise agreements with fixed terms have typically been renewed without substantial cost. We currently expect the manufacturers to renew all of our franchise agreements as they expire. In addition, certain agreements with the manufacturers limit the total number of dealerships of that brand that we may own in a particular geographic area and, in some cases, limit the total number of their vehicles that we may sell as a percentage of a particular manufacturer's overall sales. Manufacturers may also limit the ownership of stores in contiguous markets. To date, we have reached the limit of the number of Lexus dealerships we may own in the U.S., and we have reached certain geographical limitations with certain manufacturers in the U.S. and U.K. Where these limits are reached, we cannot acquire additional franchises of those brands in the relevant market unless we can negotiate modifications to the agreements. We may not be able to negotiate any such modifications.

Many of these agreements also grant the manufacturer or distributor a security interest in the vehicles and/or parts sold by them to the dealership, as well as other dealership assets, and permit them to terminate or not renew the agreement for a variety of causes, including failure to adequately operate the dealership, insolvency or bankruptcy, impairment of the dealer's reputation or financial standing, changes in the dealership's management, owners or location without consent, sales of the dealership's assets without consent, failure to maintain adequate

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working capital or floor plan financing, changes in the dealership's financial or other condition, failure to submit required information to them on a timely basis, failure to have any permit or license necessary to operate the dealership, and material breaches of other provisions of the agreement. In the U.S., these termination rights are subject to state franchise laws that limit a manufacturer's right to terminate a franchise. In the U.K., we operate without such local franchise law protection (see Regulation below).

Our agreements with manufacturers or distributors usually give them the right, in some circumstances (including upon a merger, sale, or change of control of the company, or in some cases a material change in our business or capital structure), to acquire from us, at fair market value, the dealerships. For example, our agreement with General Motors provides that, upon a proposed purchase of 20% or more of our voting stock by any new person or entity or another manufacturer (subject to certain exceptions), an extraordinary corporate transaction (such as a merger, reorganization or sale of a material amount of assets) or a change of control of our board of directors, General Motors has the right to acquire all assets, properties and business of any General Motors dealership owned by us for fair value. Some of our agreements with other major manufacturers, including Honda and Toyota, contain provisions similar to the General Motors provisions.

Competition

The automotive retail industry is currently served by franchised automotive dealerships, independent used vehicle dealerships and individual consumers who sell used vehicles in private transactions.

For new vehicle sales, we compete primarily with other franchised dealers in each of our marketing areas, relying on our premium facilities, advertising and merchandising, management experience, sales expertise, service reputation and the location of our dealerships to attract and retain customers. Each of our markets may include a number of well-capitalized competitors, including in certain instances dealerships owned by automotive manufacturers and national and regional automotive retail chains. We also compete with dealers that sell the same brands of new vehicles that we sell and with dealers that sell other brands of new vehicles that we do not represent in a particular market. Our new vehicle dealership competitors have franchise agreements which gives them access to new vehicles on the same terms as us. Automotive dealers also face competition in the sale of new vehicles from on-line purchasing services and warehouse clubs. With respect to arranging financing for our customers' vehicle purchases, we compete with a broad range of financial institutions such as banks and local credit unions.

For used vehicle sales, we compete with other franchised dealers, independent used vehicle dealers, automobile rental agencies, on-line purchasing services, private parties and used vehicle superstores for the procurement and resale of used vehicles.

We believe that the principal factors consumers consider when determining where to purchase a vehicle are the marketing campaigns conducted by manufacturers, the ability of dealerships to offer a wide selection of the most popular vehicles, the location of dealerships and the quality of the customer experience. Other factors include customer preference for particular brands of automobiles, pricing (including manufacturer rebates and other special offers) and warranties. We believe that our dealerships are competitive in all of these areas.

We compete with other franchised dealers to perform warranty repairs and with other automotive dealers, franchised and non-franchised service center chains, and independent garages for non-warranty repair and routine maintenance business. We compete with other automotive dealers, service stores and auto parts retailers in our parts operations. We believe that the principal factors consumers consider when determining where to purchase vehicle parts and service are price, the use of factory-approved replacement parts, facility location, the familiarity with a manufacturer's brands and the quality of customer service. A number of regional or national chains offer selected parts and services at prices that may be lower than our prices.

We believe the majority of consumers are utilizing the Internet and other digital media in connection with the purchase of new and used vehicles. Accordingly, we face increased competition from on-line automotive

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websites, including those developed by automobile manufacturers and other dealership groups. Consumers can use the Internet and other digital media to compare prices for vehicles and related services, which may result in reduced margins for new vehicles, used vehicles and related services.

Employees and Labor Relations

As of December 31, 2011, we employed approximately 15,600 people, approximately 600 of whom were covered by collective bargaining agreements with labor unions. We consider our relations with our employees to be satisfactory. Our policy is to motivate our key managers through, among other things, variable compensation programs tied principally to dealership profitability. Due to our reliance on vehicle manufacturers, we may be adversely affected by labor strikes or work stoppages at the manufacturers' facilities.

Regulation

We operate in a highly regulated industry and a number of regulations affect the marketing, selling, financing and servicing of automobiles. Under the laws of the jurisdictions in which we currently operate, we typically must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include franchise laws and regulations, environmental laws and regulations (see Environmental Matters below), laws and regulations applicable to new and used motor vehicle dealers, as well as privacy, identity theft prevention, wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to truth-in-lending, consumer leasing, equal credit opportunity and similar regulations, as well as motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws. Some jurisdictions regulate finance fees that may be paid as a result of vehicle sales. In recent years, private plaintiffs and state attorneys general in the U.S. have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles.

In the U.S., we benefit from the protection of numerous state franchise laws that generally provide that a manufacturer or distributor may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state franchise laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or non-renewal.

Europe generally does not have these laws and, as a result, our European dealerships operate without these types of protections. However, current European rules limit automotive manufacturers' block exemption to certain anti-competitive rules in regards to establishing and maintaining a retail network. As a result, existing manufacturer authorized retailers are able to, subject to manufacturer facility requirements, relocate or add additional facilities throughout the European Union, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on transfers of dealerships between existing franchisees within the European Union. In June 2013, the European rules will change such that the authorized retailers' abilities will be more limited. We do not currently believe that the rule changes will have a material affect on us.

Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of aboveground and underground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of environmental contamination. As with automotive dealerships generally, and service, parts and body shop operations in particular, our business involves the generation, use, handling and contracting for recycling or

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disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, filters, transmission fluid, antifreeze, refrigerant, batteries, solvents, lubricants, and fuel. We have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Our operations involving the management of hazardous and other environmentally sensitive materials are subject to numerous requirements. Our business also involves the operation of storage tanks containing such materials. Storage tanks are subject to periodic testing, containment, upgrading and removal under applicable law. Furthermore, investigation or remediation may be necessary in the event of leaks or other discharges from current or former underground or aboveground storage tanks. In addition, water quality protection programs govern certain discharges from some of our operations. Similarly, certain air emissions from our operations, such as auto body painting, may be subject to relevant laws. Various health and safety standards also apply to our operations.

We may have liability in connection with materials that are sent to third-party recycling, treatment, and/or disposal facilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and comparable statutes. These statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Responsible parties under these statutes may include the owner or operator of the site where the contamination occurred and companies that disposed or arranged for the disposal of the hazardous substances released at these sites.

An expanding trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. Vehicle manufacturers are subject to federally mandated corporate average fuel economy standards, which will increase substantially through 2016. Furthermore, in response to recent studies suggesting that emissions of carbon dioxide and certain other gases, referred to as greenhouse gases, may be contributing to warming of the Earth's atmosphere, climate change-related legislation and policy changes to restrict greenhouse gas emissions are being considered at state and federal levels. Significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide on vehicles and automobile fuels in the U.S. could adversely affect prices of and demand for the vehicles that we sell.

We believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material effect on us. However, soil and groundwater contamination is known to exist at certain of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. Compliance with current, amended, new or more stringent laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions could require additional expenditures by us, and such expenditures could be material.

Insurance

The automotive retail industry is subject to substantial risk of loss due to the significant concentration of property values at dealership locations, including vehicles and parts. In addition, we are exposed to liabilities arising out of our operations, including claims by employees, customers or third parties for personal injury or property damage and potential fines and penalties in connection with alleged violations of regulatory requirements. We attempt to manage such risks through insurance programs, including umbrella and excess insurance policies, subject to specified deductibles and significant loss retentions. As a result, we are exposed to uninsured and underinsured losses that could have a material adverse effect on us.

Available Information

For selected financial information concerning our various operating and geographic segments, see Note 16 to our consolidated financial statements included in Item 8 of this report. Our Annual Report on Form 10-K,

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Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website, www.penskeautomotive.com, under the tab "Investor Relations" as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). You may read or copy any materials we filed with the SEC at the SEC's Public Reference Room at 100F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 800-732-0330. Additionally, the SEC maintains an internet site that contains reports, proxy and information statements, and other information. The address of the SEC's website is www.sec.gov. We also make available on our website copies of materials regarding our corporate governance policies and practices, including our Corporate Governance Guidelines; our Code of Business Ethics; and the charters relating to the committees of our Board of Directors. You may obtain a printed copy of any of the foregoing materials by sending a written request to: Investor Relations, Penske Automotive Group, Inc., 2555 Telegraph Road, Bloomfield Hills, MI 48302 or by calling toll-free 866-715-5289. The information on or linked to our website is not part of this document. We plan to disclose changes to our Code of Business Ethics, or waivers, if any, for our executive officers or directors, on our website. We are incorporated in the state of Delaware and began dealership operations in October 1992.

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.

Item 1A. Risk Factors

Our business, financial condition, results of operations, cash flows, prospects, and the prevailing market price and performance of our common stock may be affected by a number of factors, including the matters discussed below. Certain statements and information set forth herein, as well as other written or oral statements made from time to time by us or by our authorized officers on our behalf, constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Words such as anticipates, believes, estimates, expects, intends, may, plans, seeks, projects, will, would, and similar expressions are intended to identify such forward-looking statements for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this Annual Report on Form 10-K or when made and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events, or otherwise.

Although we believe that the expectations, plans, intentions, and projections reflected in our forward-looking statements are reasonable, such statements are subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include the following:

Macro-economic conditions. Our performance is impacted by general economic conditions overall, and in particular by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales; availability of consumer credit; changes in consumer demand; consumer

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confidence levels; fuel prices; personal discretionary spending levels; interest rates; and unemployment rates. When the worldwide economy faltered and the worldwide automotive industry experienced significant operational and financial difficulties in 2008 and 2009, we were adversely affected, and we expect a similar relationship between general economic and industry conditions and our performance in the future.

Automotive manufacturers exercise significant control over us. Each of our dealerships operates under franchise and other agreements with automotive manufacturers or related distributors. These agreements govern almost every aspect of the operation of our dealerships, and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons, including certain events outside our control such as accumulation of our stock by third parties. Without franchise agreements, we would be unable to sell new vehicles or perform manufacturer authorized warranty service. If a significant number of our franchise agreements are terminated or are not renewed, we would be materially affected.

Restructuring, bankruptcy or other adverse condition affecting a significant automotive manufacturer or supplier. Our success depends on the overall success of the automotive industry generally, and in particular on the success of the brands of vehicles that each of our dealerships sell. In 2011, revenue generated at our BMW/MINI, Audi/Volkswagen/Bentley, Toyota/Lexus/Scion, Honda/Acura, and Mercedes-Benz/Sprinter/smart dealerships represented 25%, 15%, 15%, 13%, and 10%, respectively, of our total revenues. Significant adverse events, such as the reduced 2011 new vehicle production by Japanese automotive manufacturers caused by the significant production and supply chain disruptions resulting from the earthquake and tsunami that struck Japan on March 11, 2011, or future events that interrupt vehicle or parts supply to our dealerships, would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events relate to any of the manufacturers whose franchises generate a significant percentage of our revenue.

Our business is very competitive. We generally compete with: other franchised automotive dealerships in our markets; private market buyers and sellers of used vehicles; Internet-based vehicle brokers; national and local service and repair shops and parts retailers; and automotive manufacturers (in certain markets). Purchase decisions by consumers when shopping for a vehicle are extremely price sensitive. The level of competition in the market generally, coupled with increasing price transparency resulting from increased use of the Internet by consumers, can lead to lower selling prices and related profits. If there is a prolonged drop in retail prices, new vehicle sales are allowed to be made over the Internet without the involvement of franchised dealers, or if dealerships are able to effectively use the Internet to sell outside of their markets, our business could be materially adversely affected.

Property loss, business interruption or other liabilities. Our business is subject to substantial risk of loss due to: the significant concentration of property values, including vehicle and parts inventories, at our operating locations; claims by employees, customers and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements. While we have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance. If we experience significant losses that are not covered by our insurance, whether due to adverse weather conditions or otherwise, or we are required to retain a significant portion of a loss, it could have a significant and adverse effect on us.

Leverage. Our significant debt and other commitments expose us to a number of risks, including:

Cash requirements for debt and lease obligations. A significant portion of the cash flow we generate must be used to service the interest and principal payments relating to our various financial commitments, including \$1.7 billion of floor plan notes payable, \$850 million of long-term debt and \$4.7 billion of future lease commitments (including extension periods and assuming constant consumer price indices). A sustained or significant decrease in our operating cash flows could lead to an inability to meet our debt service requirements or to a failure to meet specified financial and operating covenants included in certain of our agreements. If this were to occur, it may lead to a default under one or more of our commitments and potentially the acceleration of amounts due, which could have a significant and adverse effect on us.

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Availability. Because we finance the majority of our operating and strategic initiatives using a variety of commitments, including floor plan notes payable and revolving credit facilities, we are dependent on continued availability of these sources of funds. If these agreements are terminated or we are unable to access them because of a breach of financial or operating covenants or otherwise, we will likely be materially affected.

Interest rate variability. The interest rates we are charged on a substantial portion of our debt, including the floor plan notes payable we issue to purchase the majority of our inventory, are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates would likely result in significantly higher interest expense for us, which would negatively affect our operating results. Because many of our customers finance their vehicle purchases, increased interest rates may also decrease vehicle sales, which would negatively affect our operating results.

International operations. We have significant operations outside the U.S. that expose us to changes in foreign exchange rates and to the impact of economic and political conditions in the markets where we operate. As exchange rates fluctuate, our results of operations as reported in U.S. dollars fluctuate. For example, if the U.S. dollar were to strengthen against the U.K. pound, our U.K. results of operations would translate into less U.S. dollar reported results. Any significant or prolonged increase in the value of the U.S. dollar, particularly as compared to the U.K. pound, could result in a significant and adverse effect on our reported results.

Joint ventures. We have significant investments in a variety of joint ventures, including retail automotive operations in Germany and a 9.0% limited partnership interest in PTL. We expect to receive annual operating distributions from each such venture, and, in the case of PTL, to realize U.S. tax savings as a result of our investment. These benefits may not be realized if the joint ventures do not perform as expected, or if changes in tax, financial or regulatory requirements negatively impact the results of the joint venture operations. Our ability to dispose of these investments may be limited. In addition, because PTL is engaged in different businesses than we are, its performance may vary significantly from ours.

Performance of sublessees. In connection with the sale, relocation and closure of certain of our franchises, we have entered into a number of third-party sublease agreements. The rent paid by our sub-tenants on such properties in 2011 totaled approximately \$11.7 million. In the aggregate, we remain ultimately liable for approximately \$178.9 million of such lease payments including payments relating to all available renewal periods. We rely on our sub-tenants to pay the rent and maintain the properties covered by these leases. In the event a subtenant does not perform under the terms of their lease with us, we could be required to fulfill such obligations, which could have a significant and adverse effect on us.

Information Technology. Our information systems are fully integrated into our operations, including: electronic communications and data transfer protocols with manufacturers and other vendors; customer relationship management; sales and service scheduling; data storage; and financial and operational reporting. The majority of our systems are licensed from third parties, the most significant of which are provided by one supplier in the U.S. and one supplier in the U.K. To the extent these systems become unavailable to us for any reason, or if our relationship deteriorates with either of our two principal suppliers, we may not be able to negotiate agreements to secure those or similar services on terms that are acceptable to us, if at all, and our business could be significantly disrupted. In addition, to the extent our systems are subject to intentional attacks or unintentional events that allow unauthorized access that disrupts our systems, our business could be significantly disrupted.

Key personnel. We believe that our success depends to a significant extent upon the efforts and abilities of our senior management, and in particular upon Roger Penske who is our Chairman and Chief Executive Officer. To the extent Mr. Penske, or other key personnel, were to depart from our Company unexpectedly, our business could be significantly disrupted.

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Regulatory issues. We are subject to a wide variety of regulatory activities, including:

Governmental regulations, claims and legal proceedings. Governmental regulations affect almost every aspect of our business, including the fair treatment of our employees, wage and hour issues, and our financing activities with customers. In the event of regulation restricting our ability to generate revenue from arranging financing for our customers, we could be adversely affected. We could also be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws. Claims arising out of actual or alleged violations of law which may be asserted against us or any of our dealers by individuals, through class actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us.

Franchise laws in the U.S. In the U.S., state law generally provides protections to franchised automotive dealers from discriminatory practices by manufacturers and from unreasonable termination or non-renewal of their franchise agreements. If these franchise laws are repealed or amended, manufacturers may have greater flexibility to terminate or not renew our franchises. Franchised automotive dealers in the European Union operate without such protections.

Environmental regulations. We are subject to a wide range of environmental laws and regulations, including those governing: discharges into the air and water; the operation and removal of storage tanks; and the use, storage and disposal of hazardous substances. In the normal course of our operations we use, generate and dispose of materials covered by these laws and regulations. We face potentially significant costs relating to claims, penalties and remediation efforts in the event of non-compliance with existing and future laws and regulations.

Accounting rules and regulations. The Financial Accounting Standards Board is currently evaluating several significant changes to generally accepted accounting standards in the U.S., including the rules governing the accounting for leases. Any such changes could significantly affect our reported financial position, earnings and cash flows. In addition, the Securities and Exchange Commission is currently considering adopting rules that would require us to prepare our financial statements in accordance with International Financial Reporting Standards, which could also result in significant changes to our reported financial position, earnings and cash flows.

Related parties. Our two largest stockholders, Penske Corporation and its affiliates (Penske Corporation) and Mitsui & Co and its affiliates (Mitsui), together beneficially own 51.5% of our outstanding common stock. The presence of such significant shareholders results in several risks, including:

Our principal stockholders have substantial influence. Penske Corporation and Mitsui have entered into a stockholders agreement pursuant to which they have agreed to vote together as to the election of our directors. As a result, Penske Corporation has the ability to control the composition of our Board of Directors, which may allow them to control our affairs and business. This concentration of ownership, coupled with certain provisions contained in our agreements with manufacturers, our certificate of incorporation, and our bylaws, could discourage, delay or prevent a change in control of us.

Some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests. Roger Penske, our Chairman and Chief Executive Officer and a director, and Robert H. Kurnick, Jr., our President and a director, hold the same offices at Penske Corporation. Each of these officers is paid much of their compensation by Penske Corporation. The compensation they receive from us is based on their efforts on our behalf, however, they are not required to spend any specific amount of time on our matters. One of our directors, Richard J. Peters also serves as a director of Penske Corporation.

Penske Corporation has pledged its shares of common stock to secure a loan facility. Penske Corporation has pledged all of its shares of our common stock as collateral to secure a loan facility. A default by Penske Corporation could result in the foreclosure on those shares by the lenders, after which the lenders could attempt to sell those shares on the open market. Any such change in ownership and/or sale could materially impact the market price of our common stock. See below Penske Corporation ownership levels.

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Penske Corporation ownership levels. Certain of our agreements have clauses that are triggered in the event of a material change in the level of ownership of our common stock by Penske Corporation, such as our trademark agreement between us and Penske Corporation that governs our use of the Penske name which can be terminated 24 months after the date that Penske Corporation no longer owns at least 20% of our voting stock. We may not be able to renegotiate such agreements on terms that are acceptable to us, if at all, in the event of a significant change in Penske Corporation's ownership.

We have a significant number of shares of common stock eligible for future sale. Penske Corporation and Mitsui own 51.5% of our common stock and each has two demand registration rights that could result in a substantial number of shares being introduced for sale in the market. We also have a significant amount of authorized but unissued shares. The introduction of any of these shares into the market could have a material adverse effect on our stock price.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

We lease or sublease substantially all of our dealership properties and other facilities. These leases are generally for a period of between five and 20 years, and are typically structured to include renewal options at our election. We lease office space in Bloomfield Hills, Michigan, Leicester, England and Stuttgart, Germany for our administrative headquarters and other corporate related activities. We believe that our facilities are sufficient for our needs and are in good repair.

Item 3. *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 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 4. *Mine Safety Disclosures*

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities**

Our common stock is traded on the New York Stock Exchange under the symbol PAG. As of February 15, 2012, there were approximately 217 holders of record of our common stock. The following table sets forth the high and low sales prices and quarterly dividends per share for our common stock as reported on the New York Stock Exchange Composite Tape during each quarter of 2011 and 2010.

	High	Low	Dividend
2010:			
First Quarter	\$ 17.70	\$ 13.75	\$
Second Quarter	16.50	11.35	
Third Quarter	14.64	10.89	
Fourth Quarter	17.58	12.87	
2011:			
First Quarter	\$ 22.10	\$ 16.24	\$
Second Quarter	23.24	18.46	0.07
Third Quarter	24.00	15.31	0.08
Fourth Quarter	22.45	14.87	0.09

Dividends

In addition to the dividends noted above, we have announced the payment of a dividend of \$0.10 per share to be paid on March 1, 2012 to record holders as of February 10, 2012. Future cash dividends will depend upon our earnings, capital requirements, financial condition, restrictions imposed by any then existing indebtedness and other factors considered relevant by our Board of Directors. In particular, our U.S. credit agreement and the indenture governing our 7.75% senior subordinated notes contain, and any future indenture that governs any notes which may be issued by us may contain, certain limitations on our ability to pay dividends. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources. We are a holding company whose assets consist primarily of the direct or indirect ownership of the capital stock of our operating subsidiaries. Consequently, our ability to pay dividends is dependent upon the earnings of our subsidiaries and their ability to distribute earnings and other advances and payments to us. Also, pursuant to the automobile franchise agreements to which our dealerships are subject, our dealerships are generally required to maintain a certain amount of working capital, which could limit our subsidiaries' ability to pay us dividends.

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SHARE INVESTMENT PERFORMANCE

The following graph compares the cumulative total stockholder returns on our common stock based on an investment of \$100 on December 31, 2006 and the close of the market on December 31 of each year thereafter against (i) the Standard & Poor's 500 Index and (ii) an industry/peer group consisting of Asbury Automotive Group, Inc., AutoNation, Inc., Group 1 Automotive, Inc., Lithia Motors Inc. and Sonic Automotive, Inc. The graph assumes the reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Penske Automotive Group, Inc., The S&P 500 Index

And A Peer Group

* \$100 invested on 12/31/06 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	Cumulative Total Return					
	12/06	12/07	12/08	12/09	12/10	12/11
Penske Automotive Group, Inc.	100.00	75.12	33.99	67.19	77.11	86.26
S&P 500	100.00	105.49	66.46	84.05	96.71	98.75
Peer Group	100.00	66.40	33.02	69.24	102.28	131.32

Share Repurchases

For information with respect to repurchase of our shares by us, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Securities Repurchases on p. 37.

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The following table sets forth our selected historical consolidated financial and other data as of and for each of the five years in the period ended December 31, 2011, which has been derived from our audited consolidated financial statements. During the periods presented, we made a number of acquisitions and have included the results of operations of the acquired dealerships from the date of acquisition. As a result, our period to period results of operations vary depending on the dates of the acquisitions. Accordingly, this selected financial data is not necessarily comparable or indicative of our future results. During the periods presented, we also sold certain dealerships which have been treated as discontinued operations in accordance with generally accepted accounting principles. You should read this selected consolidated financial data in conjunction with our audited consolidated financial statements and related footnotes included elsewhere in this report.

	As of and for the Years Ended December 31,				
	2011(1)	2010(2)	2009(3)	2008(4)	2007(5)
	(In millions, except per share data)				
Consolidated Statement of Operations Data:					
Total revenues	\$ 11,556.2	\$ 10,328.4	\$ 9,012.2	\$ 10,895.7	\$ 12,311.0
Gross profit	\$ 1,825.4	\$ 1,644.1	\$ 1,507.1	\$ 1,678.7	\$ 1,831.1
Income (loss) from continuing operations attributable to Penske Automotive Group common stockholders (6)	\$ 175.1	\$ 123.6	\$ 79.7	\$ (436.0)	\$ 116.1
Net income (loss) attributable to Penske Automotive Group common stockholders	\$ 176.9	\$ 108.3	\$ 76.5	\$ (420.0)	\$ 120.3
Diluted earnings (loss) per share from continuing operations attributable to Penske Automotive Group common stockholders	\$ 1.92	\$ 1.34	\$ 0.87	\$ (4.64)	\$ 1.22
Diluted earnings (loss) per share attributable to Penske Automotive Group common stockholders	\$ 1.94	\$ 1.18	\$ 0.83	\$ (4.47)	\$ 1.27
Shares used in computing diluted share data	91.3	92.1	91.7	94.0	95.0
Balance Sheet Data:					
Total assets	\$ 4,502.3	\$ 4,069.8	\$ 3,796.0	\$ 3,962.1	\$ 4,667.1
Total floor plan notes payable	\$ 1,702.3	\$ 1,408.6	\$ 1,141.1	\$ 1,409.9	\$ 1,449.0
Total debt (excluding floor plan notes payable)	\$ 850.2	\$ 779.9	\$ 946.4	\$ 1,063.3	\$ 794.8
Total equity attributable to Penske Automotive Group common stockholders	\$ 1,136.0	\$ 1,041.6	\$ 942.4	\$ 804.8	\$ 1,450.7
Cash dividends per share	\$ 0.24	\$	\$	\$ 0.36	\$ 0.30

- (1) Includes benefit of \$17.0 million, or \$0.19 per share, from the resolution of certain tax items in the U.K. offset by a reduction in U.K. deferred tax assets of \$6.0 million, or \$0.07 per share.
- (2) Includes gains of \$5.3 million (\$3.6 million after-tax), or \$0.04 per share, and \$1.6 million (\$1.1 million after-tax), or \$0.01 per share, relating to a gain on the sale of an investment and the repurchase of \$155.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes, respectively, offset by a charge of \$4.1 million (\$2.8 million after-tax), or \$0.03 per share, associated with costs related to franchise closure and relocation costs.
- (3) Includes a gain of \$10.4 million (\$6.5 million after-tax), or \$0.07 per share, relating to the repurchase of \$68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes and charges of \$5.2 million (\$3.4 million after-tax), or \$0.04 per share, relating to costs associated with the termination of the acquisition of the Saturn brand, our election to close three franchises in the U.S. and charges relating to our interest rate hedges of variable rate floor plan notes payable as a result of decreases in our vehicle inventories, and resulting decreases in outstanding floor plan notes payable, below hedged levels.
- (4) Includes charges of \$661.9 million (\$505.2 million after-tax), or \$5.37 per share, including \$643.5 million (\$493.2 million after-tax), or \$5.25 per share, relating to goodwill and franchise asset impairments, as well

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- as, an additional \$18.4 million (\$12.0 million after-tax), or \$0.13 per share, of dealership consolidation and relocation costs, severance costs, other asset impairment charges, costs associated with the termination of an acquisition agreement, and insurance deductibles relating to damage sustained at our dealerships in the Houston market during Hurricane Ike.
- (5) Includes charges of \$18.6 million (\$12.3 million after-tax), or \$0.13 per share, relating to the redemption of the \$300.0 million aggregate amount of 9.625% senior subordinated notes and \$6.3 million (\$4.5 million after-tax), or \$0.05 per share, relating to impairment charges.
- (6) Excludes income from continuing operations attributable to non-controlling interests of \$1.4 million, \$1.1 million, \$0.5 million, \$1.1 million, and \$2.0 million in 2011, 2010, 2009, 2008, and 2007, respectively.

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Item 7. 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 Item 1A. Risk Factors and Forward Looking Statements. We have acquired and initiated a number of businesses since inception. Our financial statements include the results of operations of those businesses from the date acquired or when they commenced operations. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated to reflect the revision of our financial statements for entities which have been treated as discontinued operations through December 31, 2011.

Overview

We are the second largest automotive retailer headquartered in the U.S. as measured by the \$11.6 billion in total revenue we generated in 2011. As of December 31, 2011, we operated 320 retail automotive franchises, of which 166 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. In 2011, we retailed and wholesaled more than 348,000 vehicles. We are diversified geographically, with 63% of our total revenues in 2011 generated in the U.S. and Puerto Rico and 37% generated outside the U.S. We offer approximately 40 vehicle brands, with 96% of our total retail revenue in 2011 generated from brands of non-U.S. based manufacturers, and 69% generated from premium brands, such as Audi, BMW, Mercedes-Benz and Porsche. Each of our dealerships offers a wide selection of new and used vehicles for sale. In addition to selling new and used vehicles, we generate higher-margin revenue at each of our dealerships through maintenance and repair services and the sale and placement of higher-margin products, such as third-party finance and insurance products, third-party extended service contracts and replacement and aftermarket automotive products.

We also own a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading global transportation services provider. PTL leases, rents and maintains more than 200,000 vehicles and serves customers in North America, South America, Europe and Asia and is one of the largest purchasers of commercial trucks in North America through its approximately 1,000 corporate and 1,900 agent locations. Product lines include full-service leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions. The general partner of PTL is Penske Truck Leasing Corporation, a wholly-owned subsidiary of Penske Corporation, which, together with other wholly-owned subsidiaries of Penske Corporation, owns 41.1% of PTL. The remaining 49.9% of PTL is owned by General Electric Capital Corporation.

In 2011, smart USA Distributor, LLC, our wholly owned subsidiary, completed the sale of certain assets and the transfer of certain liabilities relating to the distribution rights, management, sales and marketing activities of smart USA to Daimler Vehicle Innovations LLC, a wholly owned subsidiary of Mercedes-Benz USA. The final aggregate cash purchase price for the assets was \$44.6 million. 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. The new vehicle market and the amount of customer traffic visiting our dealerships has improved during 2010 and 2011, though the level of automotive sales in the U.S. remains below the last 10 years average sales level. 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. During 2011, 12.8 million cars and light trucks were sold in the U.S., representing a 10% improvement over the 11.6 million cars and light trucks sold during the same period last year. We believe the U.S. automotive market will continue to recover based upon industry forecasts from companies such as JD Power, coupled with demand in the marketplace, an aging vehicle population, increased availability, and lower cost, of credit for consumers, and the planned introduction of new models by many different vehicle brands.

Vehicle registrations in the U.K were 1.94 million in 2011 compared to 2.03 million in 2010, representing a decline of 4.4%. According to the Society of Motor Manufacturers and Traders (www.smmmt.co.uk), the U.K. market is expected to be challenging in 2012 as the economic outlook remains uncertain, however, in 2011,

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vehicle registrations of premium brands such as Audi, Bentley, BMW, Jaguar, Land Rover, Lexus, Mercedes-Benz, MINI and Porsche increased, indicating that registrations of premium/luxury vehicles have been more resilient than the market as a whole.

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 \$181.3 million, or 11.0%, during the year ended December 31, 2011 compared to the same period in prior year. The increase in gross profit is largely attributable to the 8.2% increase in same store retail revenue. Our retail gross margin percentage declined from 16.9% during the year ended December 31, 2010 to 16.7% during the year ended December 31, 2011, due primarily to an increase in the percentage of our revenues generated by used vehicle sales which carry a lower gross margin than other parts of our business.

Our selling expenses consist of advertising and compensation for sales personnel, including commissions and related bonuses. General and administrative expenses include compensation for administration, finance, legal and general management personnel, rent, insurance, utilities, and other expenses. As the majority of our selling expenses are variable, and we believe a significant portion of our general and administrative expenses are subject to our control, we believe our expenses can be adjusted over time to reflect economic trends.

Floor plan interest expense relates to financing incurred in connection with the acquisition of new and used vehicle inventories that is secured by those vehicles. Other interest expense consists of interest charges on all of our interest-bearing debt, other than interest relating to floor plan financing. The cost of our variable rate indebtedness is based on the prime rate, defined London Interbank Offered Rate (LIBOR), the Bank of England Base Rate, the Finance House Base Rate, or the Euro Interbank Offered Rate. Our floor plan interest expense has decreased during the year ended December 31, 2011 as a result of lower applicable interest rates, including the impact of the expiration of interest rate swap transactions. Our other interest expense has decreased during the year ended December 31, 2011 due to repurchases of our 3.5% senior subordinated convertible notes and term loan repayments offset by increased average borrowings under the revolving U.S. credit facility.

Equity in earnings of affiliates represents our share of the earnings from our investments in joint ventures and other non-consolidated investments, including PTL. It is our expectation that operating conditions as outlined above in the Outlook section will similarly impact these businesses throughout 2012. However, because PTL is engaged in different businesses than we are, its operating performance may vary significantly from ours.

The future success of our business is dependent upon, among other things, general economic and industry conditions, our ability to consummate and integrate acquisitions, the level of vehicle sales in the markets where we operate, our ability to increase sales of higher margin products, especially service and parts services, our ability to realize returns on our significant capital investment in new and upgraded dealership facilities and the return realized from our investments in various joint ventures and other non-consolidated investments. See Item 1A Risk Factors and Forward-Looking Statements.

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Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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 years ended December 31, 2011, 2010, and 2009, we earned \$382.6 million, \$360.8 million, and \$310.4 million, respectively, of rebates, incentives and reimbursements from manufacturers, of which \$371.7 million, \$351.5 million, and \$304.9 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. 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. We have determined that the dealerships in each of our operating segments within the Retail reportable segment are components that are aggregated into four

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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.

In September 2011, the FASB updated the accounting guidance related to testing goodwill for impairment. This update permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, however, early adoption is permitted. We elected to early adopt the qualitative assessment.

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 \$298.6 million and \$288.4 million as of December 31, 2011 and 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.

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 the 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 \$25.9 million and \$22.8 million as of December 31, 2011 and 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.

We do not provide for U.S. taxes relating to undistributed earnings or losses of our foreign subsidiaries. Income from continuing operations before income taxes of foreign subsidiaries (which subsidiaries are predominately in the U.K.) was \$98.2 million, \$98.8 million, and \$93.1 million during the years ended

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December 31, 2011, 2010 and 2009, respectively. It is our belief that such earnings will be indefinitely reinvested in the companies that produced them. At December 31, 2011, we have not provided U.S. federal income taxes on a total of approximately \$700.4 million of earnings of individual foreign subsidiaries. If these earnings were remitted as dividends, we would be subject to U.S. income taxes in excess of foreign taxes paid and certain foreign withholding taxes.

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, whether the cash flows will be replaced, the period required to complete the divestiture, and the likelihood of changes to the divestiture plans. If we determine that a business should be either reclassified from continuing operations to discontinued operations or from discontinued operations to continuing operations, our consolidated financial statements for prior periods are revised to reflect such reclassification.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, Presentation of Comprehensive Income, which requires the presentation of components of other comprehensive income with the components of net income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. We will adopt this update for periods beginning after December 31, 2011. While this will affect the presentation of comprehensive income, we do not believe it will have a material impact on our consolidated financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, amending the guidance on goodwill impairment testing. This update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of reporting unit is less than its carrying value. This is intended to reduce the cost and complexity of the annual impairment test and is considered a preliminary step in determining whether it is necessary to calculate a fair value for a reporting unit. We elected to early adopt the provisions of this update by preparing a qualitative assessment for the period ending December 31, 2011. The adoption of this update had no impact on our consolidated financial position or results of operations.

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.

2011 compared to 2010 and 2010 compared to 2009 (in millions, except unit and per unit amounts)

Our results for the year ended December 31, 2011 include a net income tax benefit of \$11.0 million, or \$0.12 per share, reflecting a positive adjustment from the resolution of certain tax items in the U.K. of \$17.0 million, or \$0.19 per share, partially offset by a reduction in U.K. deferred tax assets of \$6.0 million, or \$0.07 per share.

Our results for the year ended December 31, 2010 include a gain of \$5.3 million (\$3.6 million after-tax), or \$0.04 per share, relating to a gain on the sale of an investment, a gain of \$1.6 million (\$1.1 million after-tax), or \$0.01 per share, relating to the repurchase of \$155.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes, and a charge of \$4.1 million (\$2.8 million after-tax), or \$0.03 per share, associated with costs related to franchise closure and relocation costs.

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Our results for the year ended December 31, 2009 include a gain of \$10.4 million (\$6.5 million after-tax), or \$0.07 per share, relating to the repurchase of \$68.7 million aggregate principal amount of our 3.5% senior subordinated convertible notes and charges of \$5.2 million (\$3.4 million after-tax), or \$0.04 per share, relating to costs associated with the termination of the acquisition of the Saturn brand, our election to close three franchises in the U.S. and charges relating to our interest rate hedges of variable rate floor plan notes payable as a result of decreases in our vehicle inventories, and resulting decreases in outstanding floor plan notes payable, below hedged levels.

Retail unit sales of new vehicles during the year ended December 31, 2009 include approximately 9,500 units sold under government incentive programs in the markets where we have retail operations.

New Vehicle Data

New Vehicle Data	2011	2010	2011 vs. 2010		2010	2009	2010 vs. 2009	
			Change	% Change			Change	% Change
New retail unit sales	154,829	150,164	4,665	3.1%	150,164	135,393	14,771	10.9%
Same-store new retail unit sales	146,004	146,419	(415)	-0.3%	144,587	134,819	9,768	7.2%
New retail sales revenue	\$ 5,811.1	\$ 5,276.4	\$ 534.7	10.1%	\$ 5,276.4	\$ 4,481.7	\$ 794.7	17.7%
Same-store new retail sales revenue	\$ 5,429.1	\$ 5,143.3	\$ 285.8	5.6%	\$ 5,050.9	\$ 4,442.8	\$ 608.1	13.7%
New retail sales revenue per unit	\$ 37,532	\$ 35,137	\$ 2,395	6.8%	\$ 35,137	\$ 33,101	\$ 2,036	6.2%
Same-store new retail sales revenue per unit	\$ 37,184	\$ 35,127	\$ 2,057	5.9%	\$ 34,934	\$ 32,954	\$ 1,980	6.0%
Gross profit new	\$ 483.0	\$ 434.8	\$ 48.2	11.1%	\$ 434.8	\$ 362.5	\$ 72.3	19.9%
Same-store gross profit new	\$ 451.8	\$ 423.6	\$ 28.2	6.7%	\$ 414.2	\$ 358.1	\$ 56.1	15.7%
Average gross profit per new vehicle retailed	\$ 3,120	\$ 2,896	\$ 224	7.7%	\$ 2,896	\$ 2,677	\$ 219	8.2%
Same-store average gross profit per new vehicle retailed	\$ 3,095	\$ 2,893	\$ 202	7.0%	\$ 2,865	\$ 2,656	\$ 209	7.9%
Gross margin% new	8.3%	8.2%	0.1%	1.2%	8.2%	8.1%	0.1%	1.2%
Same-store gross margin% new	8.3%	8.2%	0.1%	1.2%	8.2%	8.1%	0.1%	1.2%

Units

Retail unit sales of new vehicles increased 4,665 units, or 3.1%, from 2010 to 2011, and increased 14,771 units, or 10.9%, from 2009 to 2010. The increase from 2010 to 2011 is due to a 5,080 unit increase from net dealership acquisitions during the year, offset by a 415 unit, or 0.3%, decrease in same-store new retail unit sales. The same-store decrease from 2010 to 2011 was due primarily to unit sales decreases in our volume foreign brand stores in the U.S. and U.K. We believe that such decreases were substantially due to the impact of the earthquake and tsunami in Japan. The increase from 2009 to 2010 is due to a 9,768 unit, or 7.2%, increase in same-store new retail unit sales, coupled with a 5,003 unit increase from net dealership acquisitions during the year. The same-store increase from 2009 to 2010 was due primarily to unit sales increases in our volume foreign and domestic brand stores in the U.S. and premium brand stores in the U.S. and U.K.

Revenues

New vehicle retail sales revenue increased \$534.7 million, or 10.1%, from 2010 to 2011 and increased \$794.7 million, or 17.7%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$285.8 million, or 5.6%, increase in same-store revenues, coupled with a \$248.9 million increase from net dealership acquisitions during the year. The same-store revenue increase is due primarily to a \$2,057, or 5.9%, increase in average selling prices per unit which increased revenue by \$300.3 million, offset by the 0.3% decrease in new retail unit sales, which decreased revenue by \$14.5 million. The increase from 2009 to 2010 is due to a \$608.1 million, or 13.7%, increase in same-store revenues, coupled with a \$186.6 million increase from net dealership acquisitions during the year. The same-store revenue increase is due primarily to the 7.2% increase in new retail unit sales, which increased revenue by \$341.2 million, coupled with a \$1,980, or 6.0%, increase in comparative average selling price per unit which increased revenue by \$266.9 million.

Table of Contents*Gross Profit*

Retail gross profit from new vehicle sales increased \$48.2 million, or 11.1%, from 2010 to 2011, and increased \$72.3 million, or 19.9%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$28.2 million, or 6.7%, increase in same-store gross profit, coupled with a \$20.0 million increase from net dealership acquisitions during the year. The same-store increase is due primarily to a \$202, or 7.0%, increase in the average gross profit per new vehicle retailed, which increased gross profit by \$29.4 million, offset by a 0.3% decrease in retail unit sales, which decreased gross profit by \$1.2 million. The increase from 2009 to 2010 is due to a \$56.1 million, or 15.7%, increase in same-store gross profit, coupled by a \$16.2 million increase from net dealership acquisitions during the year. The same-store retail gross profit increase is due to the 7.2% increase in retail unit sales, which increased gross profit by \$28.0 million, coupled with a \$209, or 7.9%, increase in average gross profit per new vehicle retailed, which increased gross profit by \$28.1 million.

Used Vehicle Data

Used Vehicle Data	2011 vs. 2010				2010 vs. 2009			
	2011	2010	Change	% Change	2010	2009	Change	% Change
Used retail unit sales	129,652	110,083	19,569	17.8%	110,083	99,038	11,045	11.2%
Same-store used retail unit sales	122,515	107,500	15,015	14.0%	106,420	98,408	8,012	8.1%
Used retail sales revenue	\$ 3,400.0	\$ 2,857.9	\$ 542.1	19.0%	\$ 2,857.9	\$ 2,524.4	\$ 333.5	13.2%
Same-store used retail sales revenue	\$ 3,219.8	\$ 2,800.6	\$ 419.2	15.0%	\$ 2,744.4	\$ 2,486.8	\$ 257.6	10.4%
Used retail sales revenue per unit	\$ 26,224	\$ 25,962	\$ 262	1.0%	\$ 25,962	\$ 25,489	\$ 473	1.9%
Same-store used retail sales revenue per unit	\$ 26,281	\$ 26,052	\$ 229	0.9%	\$ 25,788	\$ 25,270	\$ 518	2.0%
Gross profit used	\$ 263.5	\$ 220.5	\$ 43.0	19.5%	\$ 220.5	\$ 218.0	\$ 2.5	1.1%
Same-store gross profit used	\$ 251.9	\$ 218.1	\$ 33.8	15.5%	\$ 214.9	\$ 215.4	\$ (0.5)	-0.2%
Average gross profit per used vehicle retailed	\$ 2,032	\$ 2,003	\$ 29	1.4%	\$ 2,003	\$ 2,201	\$ (198)	-9.0%
Same-store average gross profit per used vehicle retailed	\$ 2,056	\$ 2,029	\$ 27	1.3%	\$ 2,019	\$ 2,189	\$ (170)	-7.8%
Gross margin % used	7.7%	7.7%	0.0%	0.0%	7.7%	8.6%	-0.9%	-10.5%
Same-store gross margin % used	7.8%	7.8%	0.0%	0.0%	7.8%	8.7%	-0.9%	-10.3%

Retail unit sales of used vehicles increased 19,569 units, or 17.8%, from 2010 to 2011 and increased 11,045 units, or 11.2%, from 2009 to 2010. The increase from 2010 to 2011 is due to a 15,015, or 14.0%, increase in same-store used retail unit sales, coupled with a 4,554 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. and premium brands in the U.K. The increase from 2009 to 2010 is due to a 8,012, or 8.1%, increase in same-store used retail unit sales, coupled with a 3,033 unit increase from net dealership acquisitions during the year. The same-store increase in 2010 versus 2009 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 \$542.1 million, or 19.0%, from 2010 to 2011 and increased \$333.5 million, or 13.2%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$419.2 million, or 15.0%, increase in same-store revenues, coupled with a \$122.9 million increase from net dealership acquisitions

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during the year. The same store revenue increase is due to the 14.0% increase in same store retail unit sales, which increased revenue by \$394.6 million, coupled with a \$229, or 0.9%, increase in comparative average selling price per unit, which increased revenue by \$24.6 million. The increase from 2009 to 2010 is due to a \$257.6 million, or 10.4%, increase in same-store revenues, coupled with a \$75.9 million increase from net dealership acquisitions during the year. The same-store revenue increase is due to the 8.1% increase in retail unit sales, which increased revenue by \$206.6 million, coupled with a \$518, or 2.0%, increase in comparative average selling price per vehicle, which increased revenue by \$51.0 million.

Gross Profit

Retail gross profit from used vehicle sales increased \$43.0 million, or 19.5%, from 2010 to 2011 and increased \$2.5 million, or 1.1%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$33.8 million, or 15.5%, increase in same store gross profit, coupled with a \$9.2 million increase from net dealership acquisitions during the year. The increase in same store gross profit is primarily due to the 14.0% increase in used retail unit sales, which increased gross profit by \$30.9 million, coupled with a \$27, or 1.3%, increase in average gross profit per used vehicle retained, which increased gross profit by \$2.9 million. The increase from 2009 to 2010 is due to a \$3.0 million increase from net dealership acquisitions during the year, offset by a \$0.5 million or 0.2%, decrease in same-store gross profit. The same-store gross profit decrease is primarily due to a \$170, or 7.8%, decrease in average gross profit per used vehicle retained, which decreased gross profit by \$16.7 million, offset by the 8.1% increase in used retail unit sales, which increased gross profit by \$16.2 million.

Finance and Insurance Data

Finance and Insurance Data	2011	2010	2011 vs. 2010		2010	2009	2010 vs. 2009	
			Change	% Change			Change	% Change
Total retail unit sales	284,481	260,247	24,234	9.3%	260,247	234,431	25,816	11.0%
Total same-store retail unit sales	268,519	253,919	14,600	5.7%	251,007	233,227	17,780	7.6%
Finance and insurance revenue	\$ 278.0	\$ 244.7	\$ 33.3	13.6%	\$ 244.7	\$ 215.0	\$ 29.7	13.8%
Same-store finance and insurance revenue	\$ 266.5	\$ 240.4	\$ 26.1	10.9%	\$ 237.3	\$ 213.5	\$ 23.8	11.1%
Finance and insurance revenue per unit	\$ 977	\$ 940	\$ 37	3.9%	\$ 940	\$ 917	\$ 23	2.5%
Same-store finance and insurance revenue per unit	\$ 992	\$ 947	\$ 45	4.8%	\$ 945	\$ 915	\$ 30	3.3%

Finance and insurance revenue increased \$33.3 million, or 13.6%, from 2010 to 2011 and increased \$29.7 million, or 13.8%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$26.1 million, or 10.9%, increase in same-store revenues, coupled with a \$7.2 million increase from net dealership acquisitions during the year. The same-store revenue increase is due to a 5.7% increase in retail unit sales, which increased revenue by \$14.6 million, coupled with a \$45, or 4.8%, increase in comparative average finance and insurance revenue per unit, which increased revenue by \$11.5 million. The increase from 2009 to 2010 is due to a \$23.8 million, or 11.1%, increase in same-store revenues, coupled with a \$5.9 million increase from net dealership acquisitions during the year. The same-store revenue increase is due to a 7.6% increase in retail unit sales, which increased revenue by \$16.8 million, coupled with a \$30, or 3.3%, increase in comparative average finance and insurance revenue per unit retained, which increased revenue by \$7.0 million.

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Service and Parts Data	2011	2010	2011 vs. 2010		2010	2009	2010 vs. 2009	
			Change	% Change			Change	% Change
Service and parts revenue	\$ 1,395.0	\$ 1,301.8	\$ 93.2	7.2%	\$ 1,301.8	\$ 1,272.9	\$ 28.9	2.3%
Same-store service and parts revenue	\$ 1,315.1	\$ 1,274.2	\$ 40.9	3.2%	\$ 1,258.8	\$ 1,260.8	\$ (2.0)	-0.2%
Gross profit	\$ 795.3	\$ 737.3	\$ 58.0	7.9%	\$ 737.3	\$ 699.6	\$ 37.7	5.4%
Same-store gross profit	\$ 750.7	\$ 721.9	\$ 28.8	4.0%	\$ 713.2	\$ 693.3	\$ 19.9	2.9%
Gross margin	57.0%	56.6%	0.4%	0.7%	56.6%	55.0%	1.6%	2.9%
Same-store gross margin	57.1%	56.7%	0.4%	0.7%	56.7%	55.0%	1.7%	3.1%

Revenues

Service and parts revenue increased \$93.2 million, or 7.2%, from 2010 to 2011 and increased \$28.9 million, or 2.3%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$52.3 million increase from net dealership acquisitions during the year, coupled with a \$40.9 million, or 3.2%, increase in same-store revenues during the year. The increase from 2009 to 2010 is due to a \$30.9 million increase from net dealership acquisitions during the year, offset by a \$2.0 million, or 0.2%, decrease in same-store revenues. We believe the year over year increase experienced from 2010 to 2011 is primarily due to increased customer demand as a result of an aging vehicle population and improving economic conditions.

Gross Profit

Service and parts gross profit increased \$58.0 million, or 7.9%, from 2010 to 2011 and increased \$37.7 million, or 5.4%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$29.2 million increase from net dealership acquisitions during the year, coupled with a \$28.8 million, or 4.0%, increase in same-store gross profit. The same-store gross profit increase is due to the \$40.9 million, or 3.2%, increase in same store revenues, which increased gross profit by \$23.3 million, coupled with a 0.4% increase in gross margin percentage, which increased gross profit by \$5.5 million. The increase from 2009 to 2010 is due to a \$19.9 million, or 2.9%, increase in same-store gross profit, coupled with a \$17.8 million increase from net dealership acquisitions during the year. The same-store gross profit increase is due to a 1.7% increase in gross margin percentage, which increased gross profit by \$21.0 million, offset by the \$2.0 million, or 0.2%, decrease in revenues, which decreased gross profit by \$1.1 million. Service and parts margin in 2010 was positively impacted by significant Toyota recall actions.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses increased \$139.2 million, or 10.4%, from 2010 to 2011 and increased \$84.6 million, or 6.7%, from 2009 to 2010. The aggregate increase from 2010 to 2011 is due primarily to a \$91.6 million, or 7.0%, increase in same-store SG&A expenses, coupled with a \$47.6 million increase from net dealership acquisitions during the year. The increase in same-store SG&A expenses from 2010 to 2011 is due to a net increase in variable selling expenses, including increases in variable compensation, as a result of a 7.3% increase in same-store retail gross profit versus the prior year, as well as increased rent and other related costs. The aggregate increase from 2009 to 2010 is due primarily to a \$49.0 million, or 3.9%, increase in same-store SG&A expenses, coupled with a \$35.6 million increase from net dealership acquisitions during the year. The increase in same-store SG&A expenses from 2009 to 2010 is due to (1) a net increase in variable selling expenses, including increases in variable compensation, as a result of a 6.7% increase in same-store retail gross profit versus the prior year, (2) increased rent and other related costs, and (3) costs related to franchise closures and relocations, offset by a gain on the sale of an investment.

SG&A expenses as a percentage of total revenue were 12.8%, 13.0% and 13.9% in 2011, 2010, and 2009, respectively, and as a percentage of gross profit were 81.0%, 81.4%, and 83.2% in 2011, 2010, and 2009, respectively.

Table of Contents**Depreciation**

Depreciation increased \$2.7 million, or 5.7%, from 2010 to 2011 and decreased \$5.1 million, or 10.0%, from 2009 to 2010. The increase from 2010 to 2011 is due to a \$1.3 million, or 2.9%, increase in same-store depreciation, coupled with a \$1.4 million increase from net dealership acquisitions during the year. The same store increase is primarily related to our ongoing facility improvement and expansion programs. The decrease from 2009 to 2010 is due to a \$6.3 million, or 12.2%, decrease in same-store depreciation, offset by a \$1.2 million increase from net dealership acquisitions during the year. The same store decrease was primarily due to a change in the estimated useful lives of certain fixed assets effective January 1, 2010.

Floor Plan Interest Expense

Floor plan interest expense, including the impact of swap transactions, decreased \$5.3 million, or 15.6%, from 2010 to 2011 and decreased \$0.3 million, or 0.9%, from 2009 to 2010. The decrease from 2010 to 2011 is primarily due to a \$6.5 million, or 19.6%, decrease in same-store floor plan interest expense, offset by a \$1.2 million increase from net dealership acquisitions. The same store decrease is due to lower effective interest rates in 2011 primarily due to the expiration of interest rate swaps in January 2011 somewhat offset by higher average outstanding floor plan balances in 2011. The decrease from 2009 to 2010 is primarily due to a \$0.9 million, or 2.9%, decrease in same-store floor plan interest expense, offset by a \$0.6 million increase from net dealership acquisitions. The same store decrease is due in large part to decreases in average outstanding floor plan balances and lower applicable rates.

Other Interest Expense

Other interest expense decreased \$4.2 million, or 8.5%, from 2010 to 2011 and decreased \$5.9 million, or 10.7%, from 2009 to 2010. The decrease from 2010 to 2011 is due to repurchases of our 3.5% senior subordinated convertible notes and term loan repayments, offset by increased average borrowings on the revolving credit line under the U.S. credit agreement. The decrease from 2009 to 2010 is due primarily to the repurchases of \$155.7 million aggregate principal amount of convertible notes and \$15.0 million of repayments of our term loan under the U.S. credit agreement during the year ended December 31, 2010.

Debt Discount Amortization

Debt discount amortization decreased \$6.9 million, or 80.1%, from 2010 to 2011 and decreased \$4.4 million, or 33.8%, from 2009 to 2010. The decreases from 2010 to 2011 and 2009 to 2010 were both primarily due to repurchases of our 3.5% senior subordinated convertible notes during 2011 and 2010.

Equity in Earnings of Affiliates

Equity in earnings of affiliates increased \$4.9 million, or 23.7%, from 2010 to 2011 and increased \$6.8 million, or 49.0%, from 2009 to 2010. The increases from 2010 to 2011 and 2009 to 2010 were both primarily attributable to an improvement in PTL's financial results. Our share of PTL profits increased \$6.0 million, or 38.7%, from 2010 to 2011 and \$5.3 million, or 51.5%, from 2009 to 2010.

Gain on Debt Repurchase

During 2010, we repurchased \$155.7 million principal amount of 3.5% senior subordinated convertible notes, which had a book value, net of debt discount, of \$149.1 million for \$156.6 million. We allocated \$10.2 million of the total consideration to the reacquisition of the equity component of the convertible notes. In connection with the transactions, we wrote off \$0.7 million of unamortized deferred financing costs. As a result, we recorded \$1.6 million of pre-tax gains in connection with the repurchases.

During 2009, we repurchased \$68.7 million principal amount of our outstanding 3.5% senior subordinated convertible notes, which had a book value, net of debt discount, of \$62.8 million for \$51.4 million. In connection

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with the transaction, we wrote off \$0.7 million of unamortized deferred financing costs, and incurred \$0.3 million of transaction costs. No element of the consideration was allocated to the reacquisition of the equity component because the consideration paid was less than the fair value of the liability component prior to extinguishment. As a result, we recorded a \$10.4 million pre-tax gain in connection with the repurchase.

Income Taxes

Income taxes increased \$7.2 million, or 11.1%, from 2010 to 2011 and increased \$21.7 million, or 50.3%, from 2009 to 2010. The 2011 results include a net benefit of \$11.0 million from the resolution of certain tax items in the U.K. offset by reductions in U.K. deferred tax assets. Adjusting for these items, income taxes increased \$18.2 million, or 28.1%, from 2010 to 2011, due to an increase in our pre-tax income versus prior year. The increase from 2009 to 2010 is due to the increase in our pre-tax income versus the prior year, partially offset by a 1.1% decrease in our annual tax rate.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, inventory financing, the acquisition of new businesses, the improvement and expansion of existing facilities, the purchase or construction of new facilities, debt service and repayments, 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 and distributions from joint venture investments or the issuance of equity securities.

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

As of December 31, 2011, we had working capital of \$42.9 million, including \$29.1 million of cash, available to fund our operations and capital commitments. In addition, we had \$219.3 million and £63.4 million (\$98.5 million) available for borrowing under our U.S. credit agreement and our U.K. credit agreement, respectively.

Securities Repurchases

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

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During the year ended December 31, 2011, we repurchased 2,449,768 shares of our common stock, including 2,400,301 shares on the open market for a total of \$44.3 million, or \$18.07 per share. The remaining 49,467 shares of common stock were repurchased for \$1.0 million, or \$20.08 per share, from employees using a net share settlement feature of employee restricted stock awards. As of December 31, 2011, we have \$106.8 million in authorization under the existing securities repurchase program.

We also repurchased \$87.3 million of convertible notes in April 2011 pursuant to the holder's 2011 put right, noting that these repurchases were accomplished pursuant to the terms of the convertible notes and not the authority noted above. See below *Convertible Notes*.

Dividends

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

Per Share Dividends	
2011	
Second Quarter	\$ 0.07
Third Quarter	0.08
Fourth Quarter	0.09

We also have announced a cash dividend of \$0.10 per share payable on March 1, 2012 to shareholders of record on February 10, 2012. Future quarterly or other cash dividends will depend upon a variety of factors considered relevant by our Board of Directors which may include our earnings, capital requirements, restrictions relating to any then-existing indebtedness, financial condition, and other factors.

Inventory Financing

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

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

U.S. Credit Agreement

We are party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the "U.S. credit agreement"), which provides for up to \$375.0 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 \$127.0 million, and for an additional \$10.0 million of availability for letters of credit, through September 2014. The revolving loans bear interest at a defined LIBOR plus 2.50%, subject to an incremental 1.0% 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. We repaid \$7.0 million of the term loan during 2011.

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The U.S. credit agreement is fully and unconditionally guaranteed on a joint and several basis by our domestic subsidiaries and contains a number of significant covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. We are also required to comply with specified financial and other tests and ratios, each as defined in the U.S. credit agreement including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity and a ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA). A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of December 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 have 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 Item 1A Risk Factors and 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 December 31, 2011, \$127.0 million of term loans, \$0.5 million of letters of credit, and \$132.0 million of revolver borrowings were outstanding under the U.S. credit agreement.

U.K. Credit Agreement

Our subsidiaries in the U.K. (the U.K. subsidiaries) are party to £100 million revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10 million demand overdraft line of credit with RBS (collectively, the U.K. credit agreement) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of December 31, 2011, outstanding loans under the U.K. credit agreement amounted to £46.6 million (\$72.4 million).

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by our U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments (EBITAR) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of December 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 Item 1A Risk Factors and Forward Looking Statements .

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of our U.K. subsidiaries' assets are subject to security interests granted to lenders under the U.K. credit agreement.

In January 2012, our U.K. subsidiaries entered into a separate agreement with RBS, as agent for National Westminster Bank plc, providing for a £30 million term loan which was used for working capital and an

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acquisition. The term loan is repayable in £1.5 million quarterly installments through 2015 with a final payment of £7.5 million due December 31, 2015. The term loan bears interest between 2.675% and 4.325%, depending on the U.K. subsidiaries' ratio of net borrowings to earnings before interest, taxes, depreciation and amortization (as defined).

7.75% Senior Subordinated Notes

In December 2006, we issued \$375.0 million aggregate principal amount of 7.75% senior subordinated notes due 2016 (the "7.75% Notes"). The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under our credit agreements, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of our wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. We can redeem all or some of the 7.75% Notes at our option at specified redemption prices (currently 103.875% of the principal amount). 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 December 31, 2011, we were in compliance with all negative covenants and there were no events of default. We expect to remain in compliance during the next twelve months.

Senior Subordinated Convertible Notes

We currently have \$63.3 million of Convertible Notes outstanding. We issued the Convertible Notes in January 2006, which 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 December 31, 2011, we were in compliance with all negative covenants and there were no events of default. We expect to remain in compliance during the next twelve months.

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, plus any applicable conversion premium. The decision to

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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. In addition, holders of the Convertible Notes have the right to 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, plus any applicable conversion premium.

We repurchased \$87.3 million of convertible notes in April 2011 pursuant to the holder's 2011 put right.

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 December 31, 2011, we owed \$75.7 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 2011, outstanding revolving commitments varied between no balance and \$179.6 million under the U.S. credit agreement and between £5.0 million and £62.0 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 and maturing December 2014 pursuant to which the LIBOR portion of \$400.0 million of our floating rate floor plan debt is fixed at a blended rate of 1.99%. We may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements. Our prior interest rate swap agreements which fixed the LIBOR portion of \$300.0 million of our floating rate floor plan debt at 3.67% concluded in January 2011.

PTL Dividends

We own a 9.0% limited partnership interest in Penske Truck Leasing. During the years ended December 31, 2011, 2010, and 2009, respectively, we received \$7.8 million, \$8.8 million, and \$20.0 million of pro rata cash distributions relating to this investment. We currently expect to continue to receive future distributions from PTL subject in amount and timing on its performance.

Operating Leases

We 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

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years, and are typically structured to include renewal options at our election. We estimate our total rent obligations under these leases, including any extension periods we may exercise at our discretion and assuming constant consumer price indices, to be \$4.7 billion. Pursuant to the leases for some of our larger facilities, we are required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require us to post collateral in the form of a letter of credit. A breach of our other lease covenants give rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease. As of December 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 generated proceeds which varied from period to period.

Off-Balance Sheet Arrangements

We have sold a number of dealerships to third parties and, as a condition to certain of those sales, remain liable for the lease payments relating to the properties on which those businesses operate in the event of non-payment by the buyer. We are also party to lease agreements on properties that we no longer use in our retail operations that we have sublet to third parties. We rely on subtenants to pay the rent and maintain the property at these locations. In the event a subtenant does not perform as expected, we may not be able to recover amounts owed to us and we could be required to fulfill these obligations. We believe we have made appropriate reserves relating to these locations. The aggregate rent paid by the tenants on those properties in 2011 was approximately \$11.7 million, and, in aggregate, we guarantee or are otherwise liable for approximately \$178.9 million of third-party lease payments, including lease payments during available renewal periods.

Cash Flows

Cash and cash equivalents increased by \$9.4 million, \$1.5 million and \$2.4 million during the years ended December 31, 2011, 2010 and 2009, respectively. The major components of these changes are discussed below.

Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities was \$122.6 million, \$198.4 million, and \$302.3 million during the years ended December 31, 2011, 2010, and 2009, 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.

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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:

	Year Ended December 31,		
	2011	2010	2009
Net cash from continuing operating activities as reported	\$ 122.6	\$ 198.4	\$ 302.3
Floor plan notes payable non-trade as reported	216.6	80.2	(82.8)
Net cash from continuing operating activities including all floor plan notes payable	\$ 339.2	\$ 278.6	\$ 219.5

Cash Flows from Continuing Investing Activities

Cash used in continuing investing activities was \$362.4 million, \$84.1 million, and \$77.4 million during the years ended December 31, 2011, 2010, and 2009, respectively. Cash flows from continuing investing activities consist primarily of cash used for capital expenditures, net expenditures for acquisitions and other investments, and proceeds from sale-leaseback transactions. Capital expenditures were \$133.1 million, \$75.7 million, and \$89.2 million during the years ended December 31, 2011, 2010, and 2009, respectively. Capital expenditures relate primarily to improvements to our existing dealership facilities, the construction of new facilities and the acquisition of existing leased facilities. As of December 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 \$232.1 million, \$22.2 million, and \$8.5 million during the years ended December 31, 2011, 2010, and 2009, respectively, and included cash used to repay sellers floor plan liabilities in such business acquisitions of \$54.5 million, \$9.9 million, and \$2.9 million, respectively. Proceeds from sale-leaseback transactions were \$2.3 million during the year ended December 31, 2009.

Cash Flows from Continuing Financing Activities

Cash provided by continuing financing activities was \$217.8 million during the year ended December 31, 2011, and cash used in continuing financing activities was \$107.1 million and \$211.3 million during the years ended December 31, 2010 and 2009, respectively. Cash flows from continuing financing activities include net borrowings or repayments of long-term debt, repurchases of securities, net borrowings or repayments of floor plan notes payable non-trade, payments of deferred financing costs, proceeds from the issuance of common stock and the exercise of stock options, and dividends. We had net borrowings of long-term debt of \$151.4 million during the year ended December 31, 2011, which included borrowings on our U.S. credit agreement revolving loans of \$132.0 million, net borrowing on other long term debt, primarily relating to our mortgage facilities, of \$26.4 million, partially offset by a repayment of \$7.0 million on our U.S. credit agreement term loan.

We had net repayments of long-term debt of \$30.4 million and \$77.4 million during the years ended December 31, 2010 and 2009, respectively, which included repayments of \$15.0 million and \$60.0 million on our U.S. credit agreement term loan. During the years ended December 31, 2011, 2010 and 2009, we used \$87.3 million, \$156.6 million and \$51.4 million to repurchase \$87.3 million, \$155.7 million and \$68.7 million aggregate principal amount, respectively, of our Convertible Notes. We had net borrowings of floor plan notes payable non-trade of \$216.6 million and \$80.2 million during the years ended December 31, 2011 and 2010, respectively, and net repayment of floor plan notes payable non-trade of \$82.8 million during the year ended December 31, 2009. In 2011 and 2010, we repurchased 2.4 million and 68,340 shares of common stock, respectively, for \$44.3 million and \$0.8 million, respectively. During the year ended December 31, 2011, we also paid \$22.0 million of cash dividends to our stockholders. No cash dividends were paid to our stockholders during the years ended December 31, 2010 and 2009.

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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 there are any material past, present or upcoming cash transactions relating to discontinued operations.

Contractual Payment Obligations

The table below sets forth our best estimates as to the amounts and timing of future payments relating to our most significant contractual obligations as of December 31, 2011, except as otherwise noted. The information in the table reflects future unconditional payments and is based upon, among other things, the terms of any relevant agreements. Future events, including acquisitions, divestitures, new or revised operating lease agreements, borrowings or repayments under our credit agreements and our floor plan arrangements, and purchases or refinancing of our securities could cause actual payments to differ significantly from these amounts. Potential payments noted above under Off-Balance Sheet Arrangements are excluded from this table.

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Floorplan notes payable(A)	\$ 1,702.3	\$ 1,702.3	\$	\$	\$
Long-term debt obligations(B)	850.2	3.4	265.1	556.5	25.2
Operating lease commitments	4,691.5	176.9	347.8	340.1	3,826.7
Scheduled interest payments(B)(C)	175.5	35.1	69.8	65.4	5.2
Other liabilities(D)	14.9			14.9	
	\$ 7,434.4	\$ 1,917.7	\$ 682.7	\$ 976.9	\$ 3,857.1

- (A) Floor plan notes payable are revolving financing arrangements. Payments are generally made as required pursuant to the floor plan borrowing agreements discussed above under Inventory Financing.
- (B) Interest and principal repayments under our \$63.3 million of 3.5% senior subordinated notes due 2026 are reflected in the table above in the column entitled 3 to 5 years. While these notes are not due until 2026, the holders may require us to purchase all or a portion of their notes for cash in 2016.
- (C) Estimates of future variable rate interest payments under floor plan notes payable and our credit agreements are excluded due to our inability to estimate changes in interest rates in the future. See Inventory Financing, U.S. Credit Agreement, and U.K. Credit Agreement above for a discussion of such variable rates.
- (D) Includes uncertain tax positions. Due to the subjective nature of our uncertain tax positions, we are unable to make reasonably reliable estimates of the timing of payments arising in connection with the unrecognized tax benefits, however, as a result of the statute of limitations, we do not expect any of these payments to occur in more than 5 years. We have thus classified this as 3 to 5 years. We expect that, other than for scheduled payments upon the maturity or termination dates of certain of our debt instruments, the amounts above will be funded through cash flow from operations. In the case of payments upon the maturity or termination dates of our debt instruments, we currently expect to be able to refinance such instruments in the normal course of business or otherwise fund them from cash flows from operations or borrowings under our credit agreements.

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.

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(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.

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 December 31, 2011, our automotive retail joint venture relationships included:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Porsche, smart	86.56% (A)
Las Vegas, Nevada	Ferrari, Maserati	50.00% (B)
Frankfurt, Germany	Lexus, Toyota	50.00% (B)
Aachen, Germany	Audi, Lexus, Skoda, Toyota, Volkswagen, Citroën	50.00% (B)

(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. This joint venture is consolidated in our financial statements.

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

In April 2011, we repurchased the remaining 30.0% interest in one of our joint ventures which is now a 100% owned subsidiary. Additionally, 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.

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Cyclicality

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

Seasonality

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

Effects of Inflation

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

Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements. Forward-looking statements generally can be identified by the use of terms such as may, will, should, expect, anticipate, believe, intend, plan, estimate, predict, potential, forecast, 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.

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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 under Item 1A. Risk Factors. Important factors that could cause actual results to differ materially from our expectations include those mentioned in Item 1A. Risk Factors such as the following:

our business and the automotive retail industry in general are susceptible to adverse economic conditions, including changes in interest rates, foreign exchange rates, consumer demand, consumer confidence, fuel prices, unemployment rates and credit availability;

the number of new and used vehicles sold in our markets;

automobile manufacturers exercise significant control over our operations, and we depend on them and continuation of our franchise agreements in order to operate our business;

we depend on the success, popularity and availability of the brands we sell, and adverse conditions affecting one or more automobile manufacturers, such as the impact on the vehicle and parts supply chain due to natural disasters such as 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;

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

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

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

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

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

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.

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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 and further information under Item 1A- 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 the 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 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates. We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding 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 December 31, 2011, a 100 basis point change in interest rates would result in an approximate \$3.3 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. During 2009, 2010 and into January 2011, the Company was party to interest rate swap agreements pursuant to which the LIBOR portion of \$300.0 million of the Company's floating rate floor plan debt was fixed at 3.67%. In 2011, we entered into forward-starting interest rate swap agreements beginning January 2012 and maturing December 2014 pursuant to which the LIBOR portion of \$300.0 million of our floating rate floor plan debt is fixed at a rate of 2.135% and \$100.0 million of our floating rate floor plan debt is fixed at a rate of 1.55%. Based on an average of the aggregate amounts outstanding under our floor plan financing arrangements subject to variable interest payments during the year ended December 31, 2011, including consideration of the notional value of the swap agreements, a 100 basis point change in interest rates would result in an approximate \$14.9 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 December 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

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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 \$426.1 million change to our revenues for the year ended December 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 8. *Financial Statements and Supplementary Data*

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are incorporated by reference into this Item 8.

Item 9. *Changes In and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *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.

Management's and our auditors' reports on our internal control over financial reporting are included with our financial statements filed as part of this Annual Report on Form 10-K.

Item 9B. *Other Information*

Not applicable.

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PART III

The information required by Items 10 through 14 is included in the Company's definitive proxy statement under the captions Election of Directors, Executive Officers, Compensation Committee Report, Compensation Discussion and Analysis, Executive Compensation, Director Compensation, Security Ownership of Certain Beneficial Owners and Management, Independent Auditing Firms, Related Party Transactions, Other Matters and Our Corporate Governance. Such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) Financial Statements

The consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K.

(2) Financial Statement Schedule

The Schedule II Valuation and Qualifying Accounts following the Consolidated Financial Statements is filed as part of this Annual Report on Form 10-K.

(3) Exhibits

See the Index of Exhibits following the signature page for the exhibits to this Annual Report on Form 10-K.

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Pursuant to the requirements of Section 13 or 15(d) 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 on February 24, 2012.

PENSKE AUTOMOTIVE GROUP, INC.

By: /s/ Roger S. Penske
Roger S. Penske

Chairman of the Board and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Roger S. Penske	Chairman of the Board and	February 24, 2012
Roger S. Penske	Chief Executive Officer (Principal Executive Officer)	
/s/ David K. Jones	Executive Vice President Finance and Chief Financial Officer (Principal Financial Officer)	February 24, 2012
David K. Jones		
/s/ J.D. Carlson	Senior Vice President and Corporate Controller (Principal Accounting Officer)	February 24, 2012
J.D. Carlson		
/s/ John D. Barr	Director	February 24, 2012
John D. Barr		
/s/ Michael R. Eisenson	Director	February 24, 2012
Michael R. Eisenson		
/s/ Robert H. Kurnick, Jr.	Director	February 24, 2012
Robert H. Kurnick, Jr.		
/s/ William J. Lovejoy	Director	February 24, 2012
William J. Lovejoy		
/s/ Kimberly J. McWaters	Director	February 24, 2012
Kimberly J. McWaters		

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/s/ Yoshimi Namba	Director	February 24, 2012
Yoshimi Namba		
/s/ Lucio A. Noto	Director	February 24, 2012
Lucio A. Noto		
/s/ Richard J. Peters	Director	February 24, 2012
Richard J. Peters		
/s/ Ronald G. Steinhart	Director	February 24, 2012
Ronald G. Steinhart		
/s/ H. Brian Thompson	Director	February 24, 2012
H. Brian Thompson		

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Each management contract or compensatory plan or arrangement is identified with an asterisk.

- 3.1 Certificate of Incorporation (incorporated by reference to exhibit 3.2 to our Form 8-K filed on July 2, 2007).
- 3.2 Bylaws (incorporated by reference to exhibit 3.1 to our Form 8-K filed on December 7, 2007).
- 4.1.1 Indenture regarding our 3.5% senior subordinated convertible notes due 2026, dated January 31, 2006, by and among us, as Issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 8-K filed February 2, 2006).
- 4.1.2 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 Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our Form 10-Q filed May 3, 2011).
- 4.2.1 Indenture regarding our 7.75% senior subordinated notes due 2016 dated December 7, 2006, by and among us as Issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.1 to our current report on Form 8-K filed on December 12, 2006).
- 4.2.2 Amended and Restated Supplemental Indenture regarding 7.75% Senior Subordinated Notes due 2016 dated May 3, 2011, among us, as Issuer, and certain of our domestic subsidiaries, as Guarantors, and Bank of New York Trust Company, N.A., as trustee (incorporated by reference to exhibit 4.2 to our Form 10-Q filed May 3, 2011).
- 4.3.1 Third Amended and Restated Credit Agreement, dated as of October 30, 2008, among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.4 to our Form 10-Q filed November 5, 2008).
- 4.3.2 First Amendment dated October 30, 2009 to Amended and Restated Credit Agreement dated as of October 30, 2008 among us, Toyota Motor Credit Corporation and Mercedes-Benz Financial Services USA LLC, as agent (incorporated by reference to exhibit 4.1 to the quarterly report on Form 10-Q filed November 4, 2009).
- 4.3.3 Second Amendment dated July 27, 2010 to Amended and Restated Credit Agreement, dated as of October 30, 2008 among us, Toyota Motor Credit Corporation and Mercedes-Benz Financial Services USA LLC, as agent (incorporated by reference to Exhibit 4.1 to the quarterly report on Form 10-Q filed July 10, 2010).
- 4.3.4 Third Amendment dated December 14, 2010 to Amended and Restated Credit Agreement, dated as of October 30, 2008 among us, Toyota Motor Credit Corporation and Mercedes-Benz Financial Services USA LLC, as agent (incorporated by reference to Exhibit 4.3.4 to our 2010 annual report on Form 10-K filed February 28, 2011).
- 4.3.5 Fourth Amendment dated September 30, 2011 to the Third Amended and Restated Credit Agreement dated September 30, 2008 by and among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to the Form 8-K filed September 30, 2011).
- 4.3.6 Fifth Amendment dated December 1, 2011 to the Third Amended and Restated Credit Agreement dated September 30, 2008 by and among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to exhibit 4.1 to the Form 8-K filed December 6, 2011).
- 4.3.7 Second Amended and Restated Security Agreement dated as of September 8, 2004 among us, Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation (incorporated by reference to Exhibit 10.2 to our September 8, 2004 Form 8-K).

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- 4.4.1 Credit Agreement, dated as of December 16, 2011, by and among the Company's U.K. Subsidiaries, Royal Bank of Scotland plc, and BMW Financial Services (GB) Limited (incorporated by reference to exhibit 4.1 to our Form 8-K filed December 22, 2011).
- 4.4.2 Amendment No. 1 dated January 10, 2012 to Credit Agreement, dated as of December 16, 2011, by and among the Company's U.K. Subsidiaries, Royal Bank of Scotland plc, Westminster Bank and BMW Financial Services (GB) Limited (incorporated by reference to exhibit 4.1 to the Form 8-K filed January 10, 2012).
- 4.4.3 Seasonally Adjusted Overdraft Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.3 to our Form 8-K filed on September 5, 2006).
- 4.4.4 Amendment dated September 29, 2008 to Seasonally Adjusted Overdraft Agreement dated as of August 31, 2006 between Sytner Group Limited and RBS (incorporated by reference to exhibit 4.4 of our October 1, 2008 Form 8-K).
- 10.1 Form of Dealer Agreement with Acura Automobile Division, American Honda Motor Co., Inc. (incorporated by reference to exhibit 10.2.15 to our 2001 Form 10-K).
- 10.2 Form of Dealer Agreement with Audi of America, Inc., a division of Volkswagen of America, Inc. (incorporated by reference to exhibit 10.2.14 to our 2001 Form 10-K).
- 10.3 Form of Car Center Agreement with BMW of North America, Inc. (incorporated by reference to exhibit 10.2.5 to our 2001 Form 10-K).
- 10.4 Form of SAV Center Agreement with BMW of North America, Inc. (incorporated by reference to exhibit 10.2.6 to our 2001 Form 10-K).
- 10.5 Form of Dealership Agreement with BMW (GB) Limited (incorporated by reference to exhibit 10.4 to our 2007 Form 10-K).
- 10.6 Form of Dealer Agreement with Honda Automobile Division, American Honda Motor Co. (incorporated by reference to exhibit 10.2.3 to our 2001 Form 10-K).
- 10.7 Form of Dealer Agreement with Lexus, a division of Toyota Motor Sales U.S.A., Inc. (incorporated by reference to exhibit 10.2.4 to our 2001 Form 10-K).
- 10.8 Form of Mercedes-Benz USA, Inc. Passenger and Car Retailer Agreement (incorporated by reference to exhibit 10.2.11 to our Form 10-Q for the quarter ended March 31, 2000).
- 10.9 Form of Mercedes-Benz USA, Inc. Light Truck Retailer Agreement (incorporated by reference to exhibit 10.2.12 to our Form 10-Q for the quarter ended March 31, 2000).
- 10.10 Form of Dealer Agreement with MINI Division of BMW of North America, LLC (incorporated by reference to exhibit 10.10 to our 2009 Form 10-K filed February 24, 2010).
- 10.11 Form of Dealer Agreement with Toyota Motor Sales, U.S.A., Inc. (incorporated by reference to exhibit 10.2.7 to our 2001 Form 10-K).
- *10.12 Relocation Agreement with respect to David K. Jones dated August 1, 2011 (incorporated by reference to exhibit 10.1 to the Form 10-Q filed August 2, 2011).
- *10.13 Amended and Restated Penske Automotive Group, Inc. 2002 Equity Compensation Plan (incorporated by reference to exhibit 10.9 to our 2007 Form 10-K).
- *10.14 Form of Restricted Stock Agreement (incorporated by reference to exhibit 10.3 to our Form 10-Q for the quarter ended June 30, 2003).
- *10.15 Amended and Restated Penske Automotive Group, Inc. Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.16 to our 2010 annual report on Form 10-K filed February 28, 2011).

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*10.16	Penske Automotive Group, Inc. Amended and Restated Management Incentive Plan (incorporated by reference to exhibit 10.26 to our January 21, 2010 Form S-1).
10.17.1	First Amended and Restated Limited Liability Company Agreement dated April 1, 2003 between UAG Connecticut I, LLC and Noto Holdings, LLC (incorporated by reference to exhibit 10.3 to our Form 10-Q filed May 15, 2003).
10.17.2	Letter Agreement dated April 1, 2003 between UAG Connecticut I, LLC and Noto Holdings, LLC (incorporated by reference to exhibit 10.5 to our Form 10-Q filed May 15, 2003).
10.18	Registration Rights Agreement among us and Penske Automotive Holdings Corp. dated as of December 22, 2000 (incorporated by reference to exhibit 10.26.1 to our Form 10-K filed March 29, 2001).
10.19	Second Amended and Restated Registration Rights Agreement among us, Mitsui & Co., Ltd. And Mitsui & Co. (U.S.A.), Inc. dated as of March 26, 2004 (incorporated by reference to the exhibit 10.2 to our March 26, 2004 Form 8-K).
10.20	Purchase Agreement by and between Mitsui & Co., Ltd., Mitsui & Co. (U.S.A.), Inc., International Motor Cars Group I, L.L.C., International Motor Cars Group II, L.L.C., Penske Corporation, Penske Automotive Holdings Corp, and Penske Automotive Group, Inc. (incorporated by reference to exhibit 10.1 to our Form 8-K filed on February 17, 2004).
10.21	Stockholders Agreement among Penske Automotive Holdings Corp., Penske Corporation and Mitsui & Co., Ltd. And Mitsui & Co. (USA), Inc. dated as of March 26, 2004 (incorporated by reference to exhibit 10.1 to our March 26, 2004 Form 8-K).
10.22	VMC Holding Corporation Stockholders Agreement dated April 28, 2005 among VMC Holding Corporation, U.S., Transportation Resource Partners, LP., Penske Truck Leasing Co. LLP., and Opus Ventures General Partners Limited (incorporated by reference to exhibit 10.1 to our Form 10-Q filed on May 5, 2005).
10.23	Management Services Agreement dated April 28, 2005 among VMC Acquisition Corporation, Transportation Resource Advisors LLC., Penske Truck Leasing Co. L.P. and Opus Ventures General Partner Limited (incorporated by reference to exhibit 10.1 to our Form 10-Q filed on May 5, 2005).
10.24	Joint Insurance Agreement dated August 7, 2006 between us and Penske Corporation (incorporated by reference to exhibit 10.1 to our Form 10-Q filed August 9, 2006).
10.25	Trade Name and Trademark Agreement dated May 6, 2008 between us and Penske System, Inc. (incorporated by reference to exhibit 10 to our Form 10-Q filed May 8, 2008).
10.26	Purchase and Sale Agreement dated June 26, 2008 by and among General Electric Credit Corporation of Tennessee, Logistics Holding Corp., RTLAC Acquisition Corp., NTFC Capital Corporation, Penske Truck Leasing Corporation, PTLC Holdings Co., LLC, PTLC2 Holdings Co., LLC, Penske Automotive Group, Inc. and Penske Truck Leasing Co., L.P. (incorporated by reference to exhibit 10.1 to our July 2, 2008 Form 8-K).
10.27	Third Amended and Restated Limited Partnership Agreement of Penske Truck Leasing Co., L.P. dated as of March 26, 2009 (incorporated by reference to exhibit 10.1 to our Form 10-Q filed May 8, 2009).
10.28	Rights Agreement dated June 26, 2008 by and among PTLC Holdings Co., LLC, PTLC2 Holdings Co., LLC, Penske Truck Leasing Corporation and Penske Automotive Group, Inc. (incorporated by reference to exhibit 10.4 to our July 2, 2008 Form 8-K).
10.29.1	Amended and Restated Penske Automotive Group 401(k) Savings and Retirement Plan dated as of March 3, 2009 (incorporated by reference to exhibit 10.26 to our Form 10-K filed March 11, 2009).

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10.29.2	Amendment No. 1 dated December 12, 2009 Amended and Restated Penske Automotive Group 401(k) Savings and Retirement Plan (incorporated by reference to exhibit 10.26 to our January 21, 2010 Form S-1).
10.29.3	Amendment No. 2 dated September 20, 2010 to the Amended and Restated Penske Automotive Group 401(k) Savings and Retirement Plan (incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q filed November 4, 2010).
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiary List.
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of KPMG Audit Plc.
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 Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Balance Sheets as of December 31, 2011 and 2010, (ii) the Condensed Statements of Income for the years ended December 31, 2011, 2010, and 2009, (iii) the Condensed Statements of Cash Flows for the years ended December 31, 2011, 2010, and 2009, (iv) the Consolidated Condensed Statement of Equity for the years ended December 31, 2011, 2010, and 2009, and (v) the Notes to Consolidated Condensed Financial Statements**.

* Compensatory plans or contracts

** 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.

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of certain instruments defining the rights of holders of long-term debt of the Company or its subsidiaries are not filed herewith. We hereby agree to furnish a copy of any such instrument to the Commission upon request.

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PENSKE AUTOMOTIVE GROUP, INC

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Penske Automotive Group, Inc. and subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors that the Company's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*. Based on our assessment we believe that, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the consolidated financial statements included in the Company's Annual Report on Form 10-K has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page F-3.

Penske Automotive Group, Inc.

February 24, 2012

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of UAG UK Holdings Limited and subsidiaries (the UAG UK Holdings Limited) is responsible for establishing and maintaining adequate internal control over financial reporting. UAG UK Holdings Limited's internal control system was designed to provide reasonable assurance to the UAG UK Holdings Limited's management and board of directors that the UAG UK Holdings Limited's internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the UAG UK Holdings Limited's internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*. Based on our assessment we believe that, as of December 31, 2011, the UAG UK Holdings Limited's internal control over financial reporting is effective based on those criteria.

UAG UK Holdings Limited's independent registered public accounting firm that audited the consolidated financial statements of UAG UK Holdings Limited (not included herein) has issued an audit report on the effectiveness of the UAG UK Holdings Limited's internal control over financial reporting. This report appears on page F-5.

UAG UK Holdings Limited

February 24, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Penske Automotive Group, Inc.

Bloomfield Hills, Michigan

We have audited the accompanying consolidated balance sheets of Penske Automotive Group, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits. We did not audit the financial statements or the effectiveness of internal control over financial reporting of UAG UK Holdings Limited and subsidiaries (a consolidated subsidiary), which statements reflect total assets constituting 34% and 33% of consolidated total assets as of December 31, 2011 and 2010, respectively, and total revenues constituting 37%, 37%, and 38% of consolidated total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. Those financial statements and the effectiveness of UAG UK Holdings Limited and subsidiaries' internal control over financial reporting were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAG UK Holdings Limited and subsidiaries and to the effectiveness of UAG UK Holdings Limited and subsidiaries' internal control over financial reporting, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audits and (as to the amounts included for UAG UK Holdings Limited and subsidiaries) the report of the other auditors, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, based on our audit and the report of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Detroit, Michigan

February 24, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

UAG UK Holdings Limited:

We have audited the accompanying consolidated balance sheets of UAG UK Holdings Limited and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we have also audited the related financial statement schedule. We also have audited UAG UK Holdings Limited's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with US generally accepted accounting principles. In addition, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG Audit Plc

Birmingham, United Kingdom

February 24, 2012

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

	December 31, 2011 2010 (In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 29,116	\$ 19,688
Accounts receivable, net of allowance for doubtful accounts of \$2,256 and \$1,884	444,673	382,382
Inventories	1,605,280	1,443,284
Other current assets	80,307	68,225
Assets held for sale	33,224	133,019
Total current assets	2,192,600	2,046,598
Property and equipment, net	858,975	716,427
Goodwill	906,592	800,621
Franchise value	231,994	203,108
Equity method investments	298,640	288,406
Other long-term assets	13,498	14,672
Total assets	\$ 4,502,299	\$ 4,069,832
LIABILITIES AND EQUITY		
Floor plan notes payable	\$ 988,650	\$ 911,548
Floor plan notes payable non-trade	713,635	497,074
Accounts payable	223,313	251,960
Accrued expenses	202,761	201,714
Current portion of long-term debt	3,414	10,593
Liabilities held for sale	17,899	88,117
Total current liabilities	2,149,672	1,961,006
Long-term debt	846,777	769,285
Deferred tax liabilities	217,902	178,406
Other long-term liabilities	147,535	115,282
Total liabilities	3,361,886	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		
Common Stock, \$0.0001 par value, 240,000 shares authorized; 90,277 shares issued and outstanding at December 31, 2011; 92,100 shares issued and outstanding at December 31, 2010	9	9
Non-voting Common Stock, \$0.0001 par value, 7,125 shares authorized; none issued and outstanding		
Class C Common Stock, \$0.0001 par value, 20,000 shares authorized; none issued and outstanding		
Additional paid-in-capital	702,335	738,728
Retained earnings	459,375	304,486
Accumulated other comprehensive (loss) income	(25,734)	(1,673)
Total Penske Automotive Group stockholders' equity	1,135,985	1,041,550
Non-controlling interest	4,428	4,303

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Total equity	1,140,413	1,045,853
Total liabilities and equity	\$ 4,502,299	\$ 4,069,832

See Notes to Consolidated Financial Statements.

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except per share amounts)		
Revenue:			
New vehicle	\$ 5,811,084	\$ 5,276,371	\$ 4,481,682
Used vehicle	3,399,981	2,857,922	2,524,421
Finance and insurance, net	278,027	244,687	215,039
Service and parts	1,394,990	1,301,811	1,272,872
Fleet and wholesale vehicle	672,150	647,594	518,203
Total revenues	\$ 11,556,232	\$ 10,328,385	\$ 9,012,217
Cost of sales:			
New vehicle	5,328,053	4,841,556	4,119,190
Used vehicle	3,136,474	2,637,356	2,306,468
Service and parts	599,651	564,494	573,232
Fleet and wholesale	666,664	640,864	506,198
Total cost of sales	9,730,842	8,684,270	7,505,088
Gross profit	1,825,390	1,644,115	1,507,129
Selling, general and administrative expenses	1,478,297	1,339,125	1,254,500
Depreciation	48,903	46,253	51,401
Operating income	298,190	258,737	201,228
Floor plan interest expense	(28,515)	(33,779)	(34,097)
Other interest expense	(45,020)	(49,176)	(55,085)
Debt discount amortization	(1,718)	(8,637)	(13,043)
Equity in earnings of affiliates	25,451	20,569	13,808
Gain on debt repurchase		1,634	10,429
Income from continuing operations before income taxes	248,388	189,348	123,240
Income taxes	(71,933)	(64,732)	(43,055)
Income from continuing operations	176,455	124,616	80,185
Income (loss) from discontinued operations, net of tax	1,803	(15,269)	(3,265)
Net income	178,258	109,347	76,920
Less: Income attributable to non-controlling interests	1,377	1,066	459
Net income attributable to Penske Automotive Group common stockholders	\$ 176,881	\$ 108,281	\$ 76,461
Basic earnings per share attributable to Penske Automotive Group common stockholders:			
Continuing operations	\$ 1.92	\$ 1.34	\$ 0.87
Discontinued operations	0.02	(0.16)	(0.03)
Net income attributable to Penske Automotive Group common stockholders	\$ 1.94	\$ 1.18	\$ 0.84
Shares used in determining basic earnings per share	91,154	92,018	91,557
Diluted earnings per share attributable to Penske Automotive Group common stockholders:			

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Continuing operations	\$	1.92	\$	1.34	\$	0.87
Discontinued operations		0.02		(0.16)		(0.04)
Net income attributable to Penske Automotive Group common stockholders	\$	1.94	\$	1.18	\$	0.83
Shares used in determining diluted earnings per share		91,274		92,091		91,653
Amounts attributable to Penske Automotive Group common stockholders:						
Income from continuing operations	\$	176,455	\$	124,616	\$	80,185
Less: Income attributable to non-controlling interests		1,377		1,066		459
Income from continuing operations, net of tax		175,078		123,550		79,726
Income (loss) from discontinued operations, net of tax		1,803		(15,269)		(3,265)
Net income attributable to Penske Automotive Group common stockholders	\$	176,881	\$	108,281	\$	76,461
Cash dividends per share	\$	0.24	\$		\$	
	See Notes to Consolidated Financial Statements.					

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME**

	Voting and Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity Accumulated Attributable			Comprehensive Income Attributable			
	Issued Shares	Amount			Other Comprehensive Income (Loss)	Penske Automotive Group	Non-controlling Interest	Total Equity	to Penske Automotive Group	Non-controlling Interest	Total
Balance, January 1, 2009	91,430,781	\$ 9	\$ 731,037	\$ 119,744	\$ (45,989)	\$ 804,801	\$ 3,620	\$ 808,421			
Equity compensation	153,757		5,718			5,718		5,718			
Exercise of options, including tax benefit of \$319	33,208		349			349		349			
Distributions to non-controlling interests							(565)	(565)			
Sale of subsidiary shares to non-controlling interest			94			94	64	158			
Foreign currency translation					47,920	47,920		47,920	\$ 47,920	\$	\$ 47,920
Other					7,118	7,118		7,118	7,118		7,118
Net income				76,461		76,461	459	76,920	76,461	459	76,920
Balance, December 31, 2009	91,617,746	9	737,198	196,205	9,049	942,461	3,578	946,039	\$ 131,499	\$ 459	\$ 131,958
Equity compensation	495,146		7,898			7,898		7,898			
Exercise of options, including tax benefit of \$319	55,000		540			540		540			
Repurchase of common stock	(68,340)		(751)			(751)		(751)			
Repurchase of 3.5% senior subordinated convertible notes			(6,157)			(6,157)		(6,157)			
Distributions to non-controlling interests							(341)	(341)			
Foreign currency translation					(16,852)	(16,852)		(16,852)	\$ (16,852)	\$	\$ (16,852)
Other					6,130	6,130		6,130	6,130		6,130
Net income				108,281		108,281	1,066	109,347	108,281	1,066	109,347
Balance, December 31, 2010	92,099,552	9	738,728	304,486	(1,673)	1,041,550	4,303	1,045,853	\$ 97,559	\$ 1,066	\$ 98,625
Equity compensation	391,904		5,128			5,128		5,128			
Exercise of options, including tax benefit of \$155	235,668		3,370			3,370		3,370			
	(2,449,768)		(44,263)			(44,263)		(44,263)			

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Repurchase of common stock																					
Dividends		(21,992)		(21,992)		(21,992)															
Distributions to non-controlling interests						(1,412)		(1,412)													
Purchase of subsidiary shares from non-controlling interest		(853)		(853)	3			(850)													
Sale of subsidiary shares to non-controlling interest		225		225	157			382													
Foreign currency translation			(5,792)	(5,792)				(5,792)	\$	(5,792)	\$	(5,792)									
Other			(18,269)	(18,269)				(18,269)	(18,269)			(18,269)									
Net income		176,881		176,881	1,377		178,258	176,881	1,377			178,258									
Balance, December 31, 2011	90,277,356	\$	9	\$	702,335	\$	459,375	\$	(25,734)	\$	1,135,985	\$	4,428	\$	1,140,413	\$	152,820	\$	1,377	\$	154,197

See Notes to Consolidated Financial Statements

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Operating Activities:			
Net income	\$ 178,258	\$ 109,347	\$ 76,920
Adjustments to reconcile net income to net cash from continuing operating activities:			
Depreciation	48,903	46,253	51,401
Debt discount amortization	1,718	8,637	13,043
Earnings of equity method investments	(25,451)	(20,569)	(13,808)
(Income) loss from discontinued operations, net of tax	(1,803)	15,269	3,265
Deferred income taxes	47,187	27,714	46,282
Gain on debt repurchase		(1,634)	(10,733)
Changes in operating assets and liabilities:			
Accounts receivable	(62,604)	(69,864)	(28,341)
Inventories	(100,749)	(192,426)	298,930
Floor plan notes payable	77,102	165,711	(188,811)
Accounts payable and accrued expenses	(31,634)	65,948	43,483
Other	(8,310)	44,054	10,703
Net cash from continuing operating activities	122,617	198,440	302,334
Investing Activities:			
Purchase of equipment and improvements	(133,115)	(75,699)	(89,203)
Proceeds from sale-leaseback transactions			2,338
Dealership acquisitions net, including repayment of sellers' floor plan notes payable of \$54,453, \$9,883 and \$2,884, respectively	(232,106)	(22,232)	(8,517)
Other	2,865	13,822	17,994
Net cash used in continuing investing activities	(362,356)	(84,109)	(77,388)
Financing Activities:			
Proceeds from borrowings under U.S. credit agreement revolving credit line	663,400	632,000	409,900
Repayments under U.S. credit agreement revolving credit line	(531,400)	(632,000)	(409,900)
Repayments under U.S. credit agreement term loan	(7,000)	(15,000)	(60,000)
Repurchase of 3.5% senior subordinated convertible notes	(87,278)	(156,604)	(51,424)
Net borrowings (repayments) of other long-term debt	26,395	(15,402)	(17,402)
Net borrowings (repayments) of floor plan notes payable - non-trade	216,561	80,151	(82,799)
Proceeds from exercises of options, including excess tax benefit	3,370	540	349
Repurchases of common stock	(44,263)	(751)	
Dividends	(21,992)		
Net cash from (used in) continuing financing activities	217,793	(107,066)	(211,276)
Discontinued operations:			
Net cash from (used in) discontinued operating activities	(59,142)	(10,064)	2,390
Net cash from (used in) discontinued investing activities	90,943	2,512	(3,139)
Net cash from (used in) discontinued financing activities	(427)	1,756	(10,517)
Net cash from discontinued operations	31,374	(5,796)	(11,266)

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Net change in cash and cash equivalents	9,428	1,469	2,404
Cash and cash equivalents, beginning of period	19,688	18,219	15,815
Cash and cash equivalents, end of period	\$ 29,116	\$ 19,688	\$ 18,219

Supplemental disclosures of cash flow information:

Cash paid for:			
Interest	\$ 45,105	\$ 86,173	\$ 92,804
Income taxes	53,075	30,952	18,251
Seller financed/assumed debt	4,865	2,260	

See Notes to Consolidated Financial Statements.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

1. Organization and Summary of Significant Accounting Policies

Business Overview and Concentrations

Penske Automotive Group, Inc. through its subsidiaries (the Company) is engaged in the sale of new and used motor vehicles and related products and services, including vehicle service, collision repair, and placement of finance and lease contracts, third-party insurance products and other aftermarket products. The Company operates dealerships under franchise agreements with a number of automotive manufacturers and distributors. In accordance with individual franchise agreements, each dealership is subject to certain rights and restrictions typical of the industry. The ability of the manufacturers to influence the operations of the dealerships, or the loss of a significant number of franchise agreements, could have a material impact on the Company's results of operations, financial position and cash flows. For the year ended December 31, 2011, BMW/MINI franchises accounted for 25% of the Company's total revenues, Audi/Volkswagen/Bentley accounted for 15%, Toyota/Lexus/Scion franchises accounted for 15%, Honda/Acura franchises accounted for 13%, and Mercedes-Benz/Sprinter/smart accounted for 10%. No other manufacturers' franchises accounted for more than 10% of our total revenue. At December 31, 2011 and 2010, the Company had receivables from manufacturers of \$111,296 and \$98,973, respectively. In addition, a large portion of the Company's contracts in transit, which are included in accounts receivable, are due from manufacturers' captive finance subsidiaries. Finally, the Company holds a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a leading global transportation services provider.

In 2011, smart USA Distributor, LLC, our wholly owned subsidiary, completed the sale of certain assets and the transfer of certain liabilities relating to the distribution rights, management, sales and marketing activities of smart USA to Daimler Vehicle Innovations LLC, a wholly owned subsidiary of Mercedes-Benz USA. The final aggregate cash purchase price for the assets was \$44,611. As a result, smart USA has been treated as a discontinued operation for all periods presented in the accompanying financial statements.

Basis of Presentation

Results for the year ended December 31, 2011 include an \$11,046 net income tax benefit reflecting a positive adjustment from the resolution of certain tax items in the U.K. of \$17,008 partially offset by a reduction of U.K. deferred tax assets of \$5,962. Results for the year ended December 31, 2010 include a \$1,634 pre-tax gain relating to the repurchase of \$155,658 aggregate principal amount of the Company's 3.5% senior subordinated convertible notes due 2026 (the Convertible Notes). Results for the year ended December 31, 2009 include a \$10,429 pre-tax gain relating to the repurchase of \$68,740 aggregate principal amount of the Convertible Notes.

The consolidated financial statements include all majority-owned subsidiaries. Investments in affiliated companies, representing an ownership interest in the voting stock of the affiliate of between 20% and 50% or an investment in a limited partnership or a limited liability corporation for which the Company's investment is more than minor, are stated at the cost of acquisition plus the Company's equity in undistributed net earnings since acquisition. All intercompany accounts and transactions have been eliminated in consolidation. The Company evaluated subsequent events through February 24, 2012, the date the consolidated financial statements were filed with the SEC.

The consolidated financial statements have been adjusted for entities that have been treated as discontinued operations through December 31, 2011 in accordance with generally accepted accounting principles.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments that have an original maturity of three months or less at the date of purchase.

Contracts in Transit

Contracts in transit represent receivables from unaffiliated finance companies relating to the sale of customers' installment sales and lease contracts arising in connection with the sale of a vehicle by us. Contracts in transit, included in accounts receivable, net in the Company's consolidated balance sheets, amounted to \$186,178 and \$140,246 as of December 31, 2011 and 2010, respectively.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost for new and used vehicle inventories is determined using the specific identification method. Cost for parts and accessories are based on factory list prices.

Property and Equipment

Property and equipment are recorded at cost and depreciated over estimated useful lives using the straight-line method. Useful lives for purposes of computing depreciation for assets, other than leasehold improvements, range between 3 and 15 years. Leasehold improvements and equipment under capital lease are depreciated over the shorter of the term of the lease or the estimated useful life of the asset, not to exceed 40 years. The Company changed the useful lives of certain fixed assets during the first quarter of 2010 as part of a review of assumptions related to the expected utilization of those assets by the Company. The Company accounted for the change in useful lives as a change in estimate prospectively effective January 1, 2010, which resulted in a reduction of depreciation expense of \$5,638 for the year ended December 31, 2010.

Expenditures relating to recurring repair and maintenance are expensed as incurred. Expenditures that increase the useful life or substantially increase the serviceability of an existing asset are capitalized.

When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet, with any resulting gain or loss being reflected in income.

Income Taxes

Tax regulations may require items to be included in the Company's tax return at different times than those items are reflected in its financial statements. Some of the differences are permanent, such as expenses that are not deductible on the Company's tax return, and some are temporary differences, such as the timing of depreciation expense.

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 the Company's tax return in future years which we have already recorded in the Company's financial statements. Deferred tax liabilities generally represent deductions taken on its tax return that have not yet been recognized as an expense in its financial statements. We establish valuation allowances for the Company's deferred tax assets if the amount of expected future taxable income is not more likely than not to allow for the use of the deduction or credit.

Intangible Assets

The Company's principal intangible assets relate to its franchise agreements with vehicle manufacturers and distributors, which represent the estimated value of franchises acquired in business combinations, and goodwill, which represents the excess of cost over the fair value of tangible and identified intangible assets acquired in business combinations. The Company believes the franchise values of its dealerships have an indefinite useful life based on the following:

Automotive retailing is a mature industry and is based on franchise agreements with the vehicle manufacturers and distributors;

There are no known changes or events that would alter the automotive retailing franchise environment;

Certain franchise agreement terms are indefinite;

Franchise agreements that have limited terms have historically been renewed by us without substantial cost; and

The Company's history shows that manufacturers and distributors have not terminated our franchise agreements.

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 that include revenue and profitability growth, franchise profit margins, and the Company's cost of capital. The Company also evaluates its franchise agreements in connection with the annual impairment testing to determine whether events and circumstances continue to support its 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. The Company has determined that the dealerships in each of its 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 the PAG Investments reportable segment. The annual test for impairment begins with a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value. If the carrying value is determined to more likely than not exceed its estimated fair value, a two-step impairment testing method would be applied. In the two-step

method, the fair value of goodwill is determined using a discounted cash flow approach, which includes assumptions about revenue and profitability

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

growth, franchise profit margins, residual values and the Company's 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 the Company's investments under the equity method, pursuant to which the Company records its proportionate share of the investee's income each period. The net book value of the Company's investments was \$298,640 and \$288,406 as of December 31, 2011 and 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, residual values and the Company's 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.

Foreign Currency Translation

For all of the Company's foreign operations, the functional currency is the local currency. The revenue and expense accounts of the Company's foreign operations are translated into U.S. dollars using the average exchange rates that prevailed during the period. Assets and liabilities of foreign operations are translated into U.S. dollars using period end exchange rates. Cumulative translation adjustments relating to foreign functional currency assets and liabilities are recorded in accumulated other comprehensive income (loss), a separate component of equity.

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:

	December 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
7.75% senior subordinated notes due 2016	\$ 375,000	\$ 385,313	\$ 375,000	\$ 380,063
3.5% senior subordinated convertible notes due 2026	63,324	61,029	148,884	150,602

Revenue Recognition**Vehicle, Parts and Service Sales**

The Company records 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

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Finance and Insurance Sales

Subsequent to the sale of a vehicle to a customer, the Company sells its installment sale contracts to various financial institutions on a non-recourse basis (with specified exceptions) to mitigate the risk of default. The Company receives 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. The Company also receives 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. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts and other insurance products, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions the Company received may be charged back based on the terms of the contracts. The revenue the Company records relating to these transactions is net of an estimate of the amount of chargebacks the Company will be required to pay. The Company's estimate is based upon the Company's historical experience with similar contracts, including the impact of refinance and default rates on retail finance contracts and cancellation rates on extended service contracts and other insurance products. Aggregate reserves relating to chargeback activity were \$21,037 and \$19,317 as of December 31, 2011 and 2010, respectively.

Defined Contribution Plans

The Company sponsors a number of defined contribution plans covering a significant majority of the Company's employees. Company contributions to such plans are discretionary and are based on the level of compensation and contributions by plan participants. The Company suspended its 2009 matching contributions to its U.S. 401(K) plan but reinstated the matching contributions relating to employees' 2010 contributions. The Company incurred expense of \$11,847, \$9,426, and \$5,932 relating to such plans during the years ended December 31, 2011, 2010, and 2009, respectively.

Advertising

Advertising costs are expensed as incurred or when such advertising takes place. The Company incurred net advertising costs of \$73,794, \$68,141, and \$57,584 during the years ended December 31, 2011, 2010, and 2009, respectively. Qualified advertising expenditures reimbursed by manufacturers, which are treated as a reduction of advertising expense, were \$10,904, \$9,319, and \$5,570 during the years ended December 31, 2011, 2010, and 2009, respectively.

Self Insurance

The Company retains 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, the Company is likely to be responsible for a significant portion of the claims and losses incurred under these programs. The amount of risk the Company retains varies by program, and, for certain exposures, the Company has pre-determined maximum loss limits for certain individual claims and/or insurance periods. Losses, if any, above such pre-determined loss limits are paid by third-party insurance.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

carriers. The Company's estimate of future losses is prepared by management using the Company's historical loss experience and industry-based development factors. Aggregate reserves relating to retained risk were \$25,884 and \$22,778 as of December 31, 2011 and 2010, respectively. Changes in the reserve estimate during 2011 relate primarily to current year activity in the Company's general liability and workers compensation programs.

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 years ended December 31, 2011, 2010, and 2009 follows:

	Year Ended December 31,		
	2011	2010	2009
Weighted average number of common shares outstanding	91,154	92,018	91,557
Effect of non-participatory equity compensation	120	73	96
Weighted average number of common shares outstanding, including effect of dilutive securities	91,274	92,091	91,653

There were no anti-dilutive stock options outstanding during the years ended December 31, 2011, 2010 or 2009. In addition, the Company has senior subordinated convertible notes outstanding which, under certain circumstances discussed in Note 9, may be converted to voting common stock. As of December 31, 2011, 2010, and 2009, 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.

Hedging

Generally accepted accounting principles relating to derivative instruments and hedging activities require all derivatives, whether designated in hedging relationships or not, to be recorded on the balance sheet at fair value. These accounting principles also define requirements for designation and documentation of hedging relationships, as well as ongoing effectiveness assessments, which must be met in order to qualify for hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recorded in earnings immediately. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recorded in earnings. If the derivative is designated in a cash-flow hedge, effective changes in the fair value of the derivative are recorded in accumulated other comprehensive income (loss), a separate component of equity, and recorded in the income statement only when the hedged item affects earnings. Changes in the fair value of the derivative attributable to hedge ineffectiveness are recorded in earnings immediately.

Stock-Based Compensation

Generally accepted accounting principles relating to share-based payments require the Company to record compensation expense for all awards based on their grant-date fair value. The Company's share-based payments have generally been in the form of non-vested shares, the fair value of which are measured as if they were vested and issued on the grant date.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)*****New Accounting Pronouncements***

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, Presentation of Comprehensive Income, which requires the presentation of components of other comprehensive income with the components of net income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company will adopt this update for periods beginning after December 31, 2011. While this will affect the presentation of comprehensive income, the Company does not believe it will have a material impact on its consolidated financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, amending the guidance on goodwill impairment testing. This update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. This is intended to reduce the cost and complexity of the annual impairment test and is considered a preliminary step in determining whether it is necessary to calculate a fair value for a reporting unit. The Company elected to early adopt the provisions of this update by preparing a qualitative assessment for the period ending December 31, 2011. The adoption of this update had no impact on the Company's consolidated financial position or results of operations.

2. Equity Method Investees

As of December 31, 2011, the Company has investments in the following companies that are accounted for under the equity method: the Jacobs Group (50%), the Nix Group (50%), Penske Wynn Ferrari Maserati (50%), Max Cycles (50%), Innovative Media (45%), QEK Global Solutions (22.5%), and Fleetwash, LLC (7%). Jacobs Group, Nix Group, and Penske Wynn Ferrari Maserati are engaged in the sale and servicing of automobiles. Max Cycles is engaged in the sale and servicing of BMW motorcycles, QEK is an automotive fleet management company, Innovative Media provides dealership graphics, and Fleetwash provides vehicle fleet washing services. These investments in entities accounted for under the equity method amounted to \$58,386 and \$59,097 at December 31, 2011 and 2010, respectively.

The Company also has a 9.0% limited partnership interest in Penske Truck Leasing Co., L.P. (PTL), a global transportation services provider. The Company's investment in PTL, which is accounted for under the equity method, amounted to \$240,254 and \$229,309 at December 31, 2011 and 2010, respectively.

In 2010, the Company exchanged its 50% interest in the Reisacher Group 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. The Company sold its investment in Cycle Express, LP, in the fourth quarter of 2010 for \$14,616, which resulted in a pre-tax gain of \$5,295. In 2009, the Company sold its investment in a Mexican entity which operates several Toyota franchises for \$7,865, which resulted in a pre-tax gain of \$581.

The combined results of operations and financial position of the Company's equity basis investments are summarized as follows:

Condensed income statement information:

	Year Ended December 31,		
	2011	2010	2009
Revenues	\$ 5,970,595	\$ 4,531,588	\$ 4,748,082
Gross margin	1,802,301	1,749,504	1,794,563
Net income	255,145	198,793	138,504

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Equity in net income of affiliates	25,451	20,569	13,808
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Condensed balance sheet information:

	December 31,	
	2011	2010
Current assets	\$ 1,159,066	\$ 933,160
Noncurrent assets	7,228,052	6,135,749
Total assets	\$ 8,387,118	\$ 7,068,909
Current liabilities	\$ 916,344	\$ 830,616
Noncurrent liabilities	6,330,666	5,233,973
Equity	1,140,108	1,004,320
Total liabilities and equity	\$ 8,387,118	\$ 7,068,909

3. Business Combinations

During 2011 and 2010, respectively, the Company acquired seven and five franchises in its retail operations. The Company's financial statements include the results of operations of the acquired dealerships from the date of acquisition. The fair value of the assets acquired and liabilities assumed have been recorded in the Company's consolidated 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 years ended December 31, 2011 and 2010 follows:

	December 31,	
	2011	2010
Accounts receivable	\$ 953	\$
Inventory	61,247	11,520
Other current assets		45
Property and equipment	40,190	4,932
Goodwill	107,498	8,274
Franchise value	29,491	
Other assets	628	
Current liabilities	(6,190)	(279)
Total consideration	233,817	24,492
Seller financed/assumed debt	(1,711)	(2,260)

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Cash used in dealership acquisitions	\$ 232,106	\$ 22,232
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In January 2012, the Company acquired a dealership group in the United Kingdom which included thirteen franchises for total consideration of approximately \$83,000, which includes goodwill, working capital, inventory and other assets. The Company is still in the process of completing final purchase accounting which is estimated to be completed during the first quarter of 2012.

In 2010, the Company exchanged its 50% interest in the Reisacher Group 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.

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

The following unaudited consolidated pro forma results of operations of the Company for the years ended December 31, 2011 and 2010 give effect to acquisitions consummated during 2011 and 2010 as if they had occurred on January 1, 2010:

	Year Ended December 31,	
	2011	2010
Revenues	\$ 11,755,235	\$ 10,848,317
Income from continuing operations	178,954	130,227
Net income	180,757	114,958
Income from continuing operations per diluted common share	\$ 1.96	\$ 1.41
Net income per diluted common share	\$ 1.98	\$ 1.25

4. 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.

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

	Year Ended December 31,		
	2011	2010	2009
Revenues	\$ 313,308	\$ 406,028	\$ 545,883
Pre-tax (loss) income	(110)	(20,034)	4,795
Gain (loss) on disposal	3,313	(3,955)	(9,199)

	2011	2010
Inventory	\$ 15,491	\$ 80,942
Other assets	17,733	52,077

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Total assets	33,224	133,019
Floor plan	12,020	70,093
Other liabilities	5,879	18,024
Total liabilities	17,899	88,117

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Inventories consisted of the following:

	December 31,	
	2011	2010
New vehicles	\$ 1,068,905	\$ 1,004,893
Used vehicles	454,800	364,101
Parts, accessories and other	81,575	74,290
 Total inventories	 \$ 1,605,280	 \$ 1,443,284

The Company receives non-refundable credits from certain vehicle manufacturers that reduce cost of sales when the vehicles are sold. Such credits amounted to \$29,070, \$26,166, and \$29,679 during the years ended December 31, 2011, 2010, and 2009, respectively.

6. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2011	2010
Buildings and leasehold improvements	\$ 823,561	\$ 682,036
Furniture, fixtures and equipment	351,821	318,260
 Total	 1,175,382	 1,000,296
Less: Accumulated depreciation	(316,407)	(283,869)
 Property and equipment, net	 \$ 858,975	 \$ 716,427

As of December 31, 2011 and 2010, approximately \$27,500 and \$27,600, respectively, of capitalized interest is included in buildings and leasehold improvements and is being depreciated over the useful life of the related assets.

7. Intangible Assets

Following is a summary of the changes in the carrying amount of goodwill and franchise value during the years ended December 31, 2011 and 2010, net of accumulated impairment losses recorded prior to December 31, 2009 of \$606,349 and \$37,110, respectively:

		Goodwill	Franchise Value
Balance	December 31, 2009	\$ 796,278	\$ 201,463
Additions		17,199	4,222
Foreign currency translation		(12,856)	(2,577)
Balance	December 31, 2010	800,621	203,108
Additions		107,498	29,491
Foreign currency translation		(1,527)	(605)
Balance	December 31, 2011	\$ 906,592	\$ 231,994

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

We test for impairment in our intangible assets at least annually. We did not record any impairment charges relating to our intangibles in 2011, 2010 or 2009.

In September 2011, the FASB updated the accounting guidance related to testing goodwill for impairment. This update permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying a two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the two-step impairment test would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, however, early adoption is permitted. The Company elected to adopt the qualitative assessment early. A number of qualitative factors were considered, including but not limited to the criteria in ASC 350-20-35-3, and the Company determined that it is not more likely than not that any of the four reporting unit's fair value is less than their carrying amount.

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

In the Company's situation, if the first step of the impairment testing process indicated that the fair value of the reporting unit was below its carrying value (even by a relatively small amount), the requirements of the second step of the test result in a significant decrease in the amount of goodwill recorded on the balance sheet. This is because, prior to the Company's adoption on July 1, 2001 of generally accepted accounting principles relating to business combinations, it did not separately identify franchise rights associated with the acquisition of dealerships as separate intangible assets. In performing the second step, the Company would be required by generally accepted accounting principles related to goodwill and other intangibles to assign value to any previously unrecognized identifiable intangible assets (including such franchise rights, which are substantial) even though such amounts are not separately recorded on its consolidated balance sheet.

8. 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., the 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

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

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 weighted average interest rate on floor plan borrowings, including the effect of the interest rate swap discussed in Note 10, was 1.9%, 2.6%, and 2.7% for the years ended December 31, 2011, 2010, and 2009, respectively. 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 balance sheets and classifies related cash flows as a financing activity on its consolidated statements of cash flows.

9. Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2011	2010
U.S. credit agreement revolving credit line	\$ 132,000	\$
U.S. credit agreement term loan	127,000	134,000
U.K. credit agreement revolving credit line	59,060	54,597
U.K. credit agreement term loan		5,505
U.K. credit agreement overdraft line of credit	13,333	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	63,324	148,884
Mortgage facilities	75,684	46,052
Other	4,790	8,724
Total long-term debt	\$ 850,191	\$ 779,878
Less: current portion	(3,414)	(10,593)
Net long-term debt	\$ 846,777	\$ 769,285

Scheduled maturities of long-term debt for each of the next five years and thereafter are as follows:

2012	\$ 3,414
2013	3,545
2014	261,541
2015	114,728
2016	441,764
2017 and thereafter	25,199

Total long-term debt reported	\$ 850,191
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The Convertible Notes are not due until 2026, however, the holders may require the Company to purchase all or a portion of these notes for cash in 2016. This acceleration of ultimate repayment is reflected in the table above.

U.S. Credit Agreement

The Company is party to a credit agreement with Mercedes-Benz Financial Services USA LLC and Toyota Motor Credit Corporation, as amended (the U.S. Credit Agreement), which provides for up to \$375,000 in revolving loans for working capital, acquisitions, capital expenditures, investments and other general corporate

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

purposes, a non-amortizing term loan with a remaining balance of \$127,000, and for an additional \$10,000 of availability for letters of credit. The revolving loans bear interest at a defined LIBOR plus 2.50%, subject to an incremental 1.00% for uncollateralized borrowings in excess of a defined borrowing base. The term loan, which bears interest at defined LIBOR plus 2.50%, may be prepaid at any time, but then may not be re-borrowed. The Company repaid \$7,000 and \$15,000 of this term loan during 2011 and 2010, respectively.

The U.S. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company's domestic subsidiaries and contains a number of significant covenants that, among other things, restrict the Company's ability to dispose of assets, incur additional indebtedness, repay other indebtedness, pay dividends, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. The Company is also required to comply with specified financial and other tests and ratios, each as defined in the U.S. Credit Agreement, including: a ratio of current assets to current liabilities, a fixed charge coverage ratio, a ratio of debt to stockholders' equity and a ratio of debt to 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 December 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 December 31, 2011, \$127,000 of term loans, \$132,000 of revolving loans and \$500 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 £100,000 revolving credit agreement with the Royal Bank of Scotland plc (RBS) and BMW Financial Services (GB) Limited, and an additional £10,000 demand overdraft line of credit with RBS (collectively, the U.K. credit agreement) to be used for working capital, acquisitions, capital expenditures, investments and general corporate purposes through November 2015. The revolving loans bear interest between defined LIBOR plus 1.35% and defined LIBOR plus 3.0% and the demand overdraft line of credit bears interest at the Bank of England Base Rate plus 1.75%. As of December 31, 2011, outstanding loans under the U.K. credit agreement amounted to £46,579 (\$72,393).

The U.K. Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Company's U.K. subsidiaries, and contains a number of significant covenants that, among other things, restrict the ability of our U.K. subsidiaries to pay dividends, dispose of assets, incur additional indebtedness, repay other indebtedness, create liens on assets, make investments or acquisitions and engage in mergers or consolidations. In addition, our U.K. subsidiaries are required to comply with defined ratios and tests, including: a ratio of earnings before interest, taxes, amortization, and rental payments (EBITAR) to interest plus rental payments, a measurement of maximum capital expenditures, and a debt to EBITDA ratio. A breach of these requirements would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of any amounts owed. As of December 31, 2011, the Company's U.K. subsidiaries were in compliance with all covenants under the U.K. credit agreement.

The U.K. credit agreement also contains typical events of default, including change of control and non-payment of obligations and cross-defaults to other material indebtedness of our U.K. subsidiaries. Substantially all of the Company's U.K. subsidiaries' assets are subject to security interests granted to lenders under the U.K. credit agreement.

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PENSKE AUTOMOTIVE GROUP, INC.

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

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

7.75% Senior Subordinated Notes

In December 2006, the Company issued \$375,000 aggregate principal amount of 7.75% senior subordinated notes (the 7.75% Notes) due 2016. The 7.75% Notes are unsecured senior subordinated notes and are subordinate to all existing and future senior debt, including debt under the Company's credit agreements, mortgages and floor plan indebtedness. The 7.75% Notes are guaranteed by substantially all of the Company's wholly-owned domestic subsidiaries on an unsecured senior subordinated basis. Those guarantees are full and unconditional and joint and several. The Company can redeem all or some of the 7.75% Notes at its option at specified redemption prices. 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 December 31, 2011, the Company was in compliance with all negative covenants and there were no events of default.

Senior Subordinated Convertible Notes

In January 2006, the Company issued \$375,000 aggregate principal amount of Convertible Notes, of which \$63,324 were outstanding at December 31, 2011. The 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 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. Those guarantees are full and unconditional and joint and several. The Convertible Notes also contain customary negative covenants and events of default. As of December 31, 2011, the Company was in compliance with all negative covenants and there were no events of default.

Holder of the Convertible Notes may convert them based on a conversion rate of 42.7796 shares of 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 the 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 the 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 related 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.

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The Company will pay additional cash interest 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. 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.

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 and 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.

The liability and equity components related to the Convertible Notes consist of the following:

	December 31,	
	2011	2010
Carrying amount of the equity component	\$ 36,936	\$ 36,936
Principal amount of the liability component	\$ 63,324	\$ 150,602
Unamortized debt discount		1,718
Net carrying amount of the liability component	\$ 63,324	\$ 148,884

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, on 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 December 31, 2011, we owed \$75,684 under our mortgage facilities.

10. 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 and maturing December 2014 pursuant to which the LIBOR portion of \$300,000 of the Company's floating rate floor plan debt is fixed at a rate of 2.135% and \$100,000 of the Company's floating rate floor plan debt is fixed at a rate of 1.55%. The Company may terminate these agreements at any time, subject to the settlement of the then current fair value of the swap arrangements.

During 2009, 2010 and into 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 December 31, 2011 and 2010, the fair value of the swaps designated as hedging instruments was estimated to be a liability of \$15,952 and \$1,016, respectively, which is recorded in

accrued expenses, and as of December 31, 2010, the fair value of the swaps not designated as hedging instruments was estimated to be a liability of \$35, which was recorded in accrued expenses.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

During 2011, there was no hedge ineffectiveness recorded in the Company's income statement. During the year ended December 31, 2010, the Company recognized a net gain in accumulated other comprehensive income of \$5,435 related to the effective portion of the interest rate swap agreements designated as hedging instruments, and reclassified \$8,157 of derivative losses from accumulated other comprehensive income into floor plan interest expense. During the year ended December 31, 2010, the swap increased the weighted average interest rate on the Company's floor plan borrowings by approximately 80 basis points.

11. 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 December 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 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 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 of between five and 20 years, and are typically structured to include renewal options at the Company's election. The Company estimates the total rent obligations under these leases, including any extension periods it may exercise at its discretion and assuming constant consumer price indices, to be \$4.7 billion. Pursuant to the leases for some of the Company's larger facilities, the Company is required to comply with specified financial ratios, including a rent coverage ratio and a debt to EBITDA ratio, each as defined. For these leases, non-compliance with the ratios may require the Company to post collateral in the form of a letter of credit. A breach of the other lease covenants gives rise to certain remedies by the landlord, the most severe of which include the termination of the applicable lease and acceleration of the total rent payments due under the lease.

Minimum future rental payments required under operating leases in effect as of December 31, 2011 are as follows:

2012	\$ 176,949
2013	174,566
2014	173,207
2015	170,359
2016	169,791
2017 and thereafter	3,826,677
	\$ 4,691,549

Rent expense for the years ended December 31, 2011, 2010, and 2009 amounted to \$171,328, \$163,234, and \$157,182, respectively. Of the total rental payments, \$385, \$436, and \$431, respectively, were made to related parties during 2011, 2010, and 2009, respectively (See Note 12).

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

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PENSKE AUTOMOTIVE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 aggregate rent paid by the tenants on those properties in 2011 was approximately \$11,655, and, in aggregate, the Company currently guarantees or is otherwise liable for approximately \$178,878 of these lease payments, including lease payments during available renewal periods.

12. Related Party Transactions

The Company currently is a tenant under a number of non-cancelable lease agreements with Automotive Group Realty, LLC and its subsidiaries (together AGR), which are subsidiaries of Penske Corporation. During the years ended December 31, 2011, 2010, and 2009, the Company paid \$385, \$436, and \$431, respectively, to AGR under these lease agreements. From time to time, the Company may sell AGR real property and improvements that are subsequently leased by AGR to the Company. In addition, the Company may purchase real property or improvements from AGR. Any such transaction is valued at a price that is independently confirmed. During 2011, the Company purchased land from AGR for \$1,400. There were no purchase or sale transactions with AGR in 2010 or 2009.

The Company sometimes pays to and/or receives fees from Penske Corporation and its affiliates for services rendered in the normal course of business, or to reimburse payments made to third parties on each others' behalf. These transactions and those relating to AGR mentioned above are reviewed periodically by the Company's Audit Committee and reflect the provider's cost or an amount mutually agreed upon by both parties. During the years ended December 31, 2011, 2010, and 2009, Penske Corporation and its affiliates billed the Company \$4,913, \$5,421, and \$3,368, respectively, and the Company billed Penske Corporation and its affiliates \$72, \$41, and \$24, respectively, for such services. As of December 31, 2011 and 2010, the Company had \$2 and \$6 of receivables from and \$546 and \$340 of payables to Penske Corporation and its subsidiaries, respectively.

The Company, Penske Corporation and certain affiliates have entered into a joint insurance agreement which provides that, with respect to any joint insurance (currently only our joint crime insurance policy), available coverage with respect to a loss shall be paid to each party per occurrence as stipulated in the policies. In the event of losses by the Company and Penske Corporation that exceed the limit of liability for any policy or policy period, the total policy proceeds will be allocated based on the ratio of premiums paid.

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. The Company is party to a partnership agreement among the other partners which, among other things, provides us with specified partner distribution and governance rights and restricts our ability to transfer our interests. In 2011, 2010, and 2009, the Company received \$7,751, \$8,804, and \$20,012, respectively, from PTL in pro rata cash dividends.

The Company is also party to an agreement pursuant to which PTL subleases a portion of our dealership location in New Jersey for \$60 per year plus its pro rata share of certain property expenses. A similar agreement to sublease a portion of our dealership location in Arizona was terminated at the end of April 2011. We collected \$20 in sublease rent prior to that termination. During 2010, and 2009, respectively, smart USA paid PTL \$592, and \$1,217 for assistance with roadside assistance and other services to smart fortwo owners, of which \$309 and \$863, respectively, were pass-through expenses to be paid by PTL to third-party vendors. In 2009, PTL began hosting the Company's disaster recovery site. Annual fees paid to PTL for this service are \$70. The Company paid \$70, \$70 and \$17 for these services in 2011, 2010 and 2009, respectively.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

From time to time the Company enters into joint venture relationships in the ordinary course of business, pursuant to which it owns and operates automotive dealerships together with other investors. The Company may also provide these dealerships with working capital and other debt financing at costs that are based on the Company's incremental borrowing rate. As of December 31, 2011, the Company's automotive joint venture relationships were as follows:

Location	Dealerships	Ownership Interest
Fairfield, Connecticut	Audi, Mercedes-Benz, Sprinter, Porsche, smart	86.56% (A) (B)
Las Vegas, Nevada	Ferrari, Maserati	50.00% (C)
Frankfurt, Germany	Lexus, Toyota	50.00% (C)
Aachen, Germany	Audi, Lexus, Skoda, Toyota, Volkswagen	50.00% (C)

- (A) An entity controlled by one of the Company's 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 the Company's financial statements.
- (C) Entity is accounted for using the equity method of accounting.

13. Stock-Based Compensation

Key employees, outside directors, consultants and advisors of the Company are eligible to receive stock-based compensation pursuant to the terms of the Company's 2002 Equity Compensation Plan (the Plan). The Plan originally allowed for the issuance of 4,200 shares for stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and other awards. As of December 31, 2011, 1,184 shares of common stock were available for grant under the Plan. Compensation expense related to the Plan was \$6,022, \$6,908, and \$5,631 during the years ended December 31, 2011, 2010, and 2009, respectively.

Restricted Stock

During 2011, 2010, and 2009, the Company granted 392, 391, and 114 shares, respectively, of restricted common stock at no cost to participants under the Plan. The restricted stock entitles the participants to vote their respective shares and receive dividends. The shares are subject to forfeiture and are non-transferable, which restrictions generally lapse over a four year period from the grant date. The grant date quoted market price of the underlying common stock is amortized as expense over the restriction period. As of December 31, 2011, there was \$8,627 of unrecognized compensation cost related to the restricted stock, which is expected to be recognized over the next 3.5 years.

Presented below is a summary of the status of the Company's restricted stock as of December 31, 2010 and changes during the year ended December 31, 2011:

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	Shares	Weighted Average Grant-Date Fair Value	Intrinsic Value
December 31, 2010	755	\$ 16.52	\$ 13,160
Granted	392	18.37	
Vested	(238)	18.61	
Forfeited	(45)	16.04	
December 31, 2011	864	\$ 16.81	\$ 14,517

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)****Stock Options**

Options were granted by the Company prior to 2006. These options generally vested over a three year period and had a maximum term of ten years. As of December 31, 2011, no stock options remain outstanding.

Presented below is a summary of the status of stock options held by participants during 2011, 2010, and 2009:

		2011		2010		2009
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock Options						
Options outstanding at beginning of year	236	\$ 9.82	291	\$ 9.29	324	\$ 9.01
Granted						
Exercised	236	9.82	55	6.99	33	6.65
Forfeited						
Options outstanding at end of year		\$	236	\$ 9.82	291	\$ 9.29

The total intrinsic value of stock options exercised was \$2,671, \$393, and \$325 in 2011, 2010, and 2009, respectively.

14. Equity**Share Repurchase**

During 2011 and 2010, respectively, the Company acquired 2,450 shares of our outstanding common stock for \$44,263, or an average of \$18.07 per share, and 68 shares of our outstanding common stock for \$751, or an average of \$10.97 per share, under a program approved by the Company's board of directors.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, follow:

Currency Translation	Other	Accumulated Other Comprehensive
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			Income (Loss)
Balance at January 1, 2009	\$ (43,046)	\$ (2,943)	\$ (45,989)
Change	47,920	7,118	55,038
Balance at December 31, 2009	4,874	4,175	9,049
Change	(16,852)	6,130	(10,722)
Balance at December 31, 2010	(11,978)	10,305	(1,673)
Change	(5,792)	(18,269)	(24,061)
Balance at December 31, 2011	\$ (17,770)	\$ (7,964)	\$ (25,734)

Other represents changes relating to other immaterial items, including: certain defined benefit plans in the U.K., changes in the fair value of interest rate swap agreements, and valuation adjustments relating to certain available for sale securities, each of which has been excluded from net income and reflected in equity.

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

15. Income Taxes

Income taxes relating to income from continuing operations consisted of the following:

	Year Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ 16,118	\$ 7,061	\$ (29,544)
State and local	3,694	2,392	869
Foreign	4,934	27,565	25,448
Total current	24,746	37,018	(3,227)
Deferred:			
Federal	34,237	21,355	37,646
State and local	863	5,455	7,549
Foreign	12,087	904	1,087
Total deferred	47,187	27,714	46,282
Income taxes relating to continuing operations	\$ 71,933	\$ 64,732	\$ 43,055

Income taxes relating to income from continuing operations varied from the U.S. federal statutory income tax rate due to the following:

	Year Ended December 31,		
	2011	2010	2009
Income taxes relating to continuing operations at federal statutory rate of 35%	\$ 86,936	\$ 65,526	\$ 43,274
State and local income taxes, net of federal taxes	1,925	6,075	5,701
Foreign	(944)	(6,001)	(7,115)
Uncertain tax positions	(16,061)		
Other	77	(868)	1,195
Income taxes relating to continuing operations	\$ 71,933	\$ 64,732	\$ 43,055

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

The components of deferred tax assets and liabilities at December 31, 2011 and 2010 were as follows:

	2011	2010
Deferred Tax Assets		
Accrued liabilities	\$ 51,323	\$ 46,562
Net operating loss carryforwards	12,133	23,164
Interest rate swap	6,215	297
Other	7,027	2,787
Total deferred tax assets	76,698	72,810
Valuation allowance	(11,839)	(7,335)
Net deferred tax assets	64,859	65,475
Deferred Tax Liabilities		
Depreciation and amortization	(121,723)	(94,742)
Partnership investments	(109,460)	(104,527)
Convertible notes	(21,335)	(17,454)
Other	(3,357)	(2,421)
Total deferred tax liabilities	(255,875)	(219,144)
Net deferred tax liabilities	\$ (191,016)	\$ (153,669)

The Company does not provide for U.S. taxes relating to undistributed earnings or losses of its foreign subsidiaries. Income from continuing operations before income taxes of foreign subsidiaries (which subsidiaries are predominately in the U.K.) was \$98,158, \$98,754 and \$93,138 during the years ended December 31, 2011, 2010, and 2009, respectively. It is the Company's belief that such earnings will be indefinitely reinvested in the companies that produced them. At December 31, 2011, the Company has not provided U.S. federal income taxes on a total of \$700,356 of earnings of individual foreign subsidiaries. If these earnings were remitted as dividends, the Company would be subject to U.S. income taxes in excess of foreign taxes paid and certain foreign withholding taxes.

At December 31, 2011, the Company has \$151,067 of state net operating loss carryforwards in the U.S. that expire at various dates beginning in 2012 through 2030, state credit carryforwards of \$1,452 that will not expire, U.K. net operating loss carryforwards of \$1,772 that will not expire, U.K. capital loss carryforwards of \$5,109 that will not expire, and German net operating loss carryforwards of \$8,529 that will not expire. The Company utilized \$41,232 of federal net operating loss carryforwards, \$90,121 of state net operating loss carryforwards and \$3,987 of alternative minimum tax and general business credits in the U.S in 2011.

A valuation allowance of \$2,979 has been recorded against the state net operating loss carryforwards in the U.S. and a valuation allowance of \$235 has been recorded against the state credit carryforwards in the U.S. A valuation allowance of \$2,024 has been recorded in 2011 against German net operating losses and a valuation allowance of \$6,601 has been recorded in 2011 against U.K. deferred tax assets related to buildings.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

Generally accepted accounting principles relating to uncertain income tax positions prescribe a minimum recognition threshold a tax position is required to meet before being recognized, and provides guidance on the derecognition, measurement, classification, and disclosure relating to income taxes. The movement in uncertain tax positions for the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Uncertain tax positions January 1	\$ 36,097	\$ 36,887	\$ 32,901
Gross increase tax position in prior periods	679	1,493	2,411
Gross decrease tax position in prior periods	(19,077)	(288)	(165)
Gross increase current period tax position	17		
Settlements	(2,201)	(125)	
Lapse in statute of limitations	(541)	(756)	(1,227)
Foreign exchange	(116)	(1,114)	2,967
Uncertain tax positions December 31	\$ 14,858	\$ 36,097	\$ 36,887

The Company has elected to include interest and penalties in its income tax expense. The total interest and penalties included within uncertain tax positions at December 31, 2011 was \$3,678. The Company does not expect a significant change to the amount of uncertain tax positions within the next twelve months. The Company's U.S. federal returns remain open to examination for 2004 to 2010 and various foreign and U.S. states jurisdictions are open for periods ranging from 2002 through 2010. During the year a settlement was reached with the U.K. tax authorities in relation to tax enquiries for the years 2004 to 2009 in relation to one of the U.K. companies. The portion of the total amount of uncertain tax positions as of December 31, 2011 that would, if recognized, impact the effective tax rate was \$14,531.

The Company has classified its tax reserves as a long term obligation on the basis that management does not expect to make payments relating to those reserves within the next twelve months.

16. 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 non-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 accounting policies of the segments are the same and are described in Note 1.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

The following table summarizes revenues, floor plan interest expense, other interest expense, debt discount amortization, depreciation and amortization, equity in earnings of affiliates, and income (loss) 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 (loss), for each of the Company's reportable segments. Adjusted segment income excludes the items in the table below in order to enhance the comparability of segment income from period to period.

	Retail	PAG Investments	Total
Revenues			
2011	\$ 11,556,232	\$	\$ 11,556,232
2010	10,328,385		10,328,385
2009	9,012,217		9,012,217
Floor plan interest expense			
2011	\$ 28,515	\$	\$ 28,515
2010	33,779		33,779
2009	34,097		34,097
Other interest expense			
2011	\$ 45,020	\$	\$ 45,020
2010	49,176		49,176
2009	55,085		55,085
Debt discount amortization			
2011	\$ 1,718	\$	\$ 1,718
2010	8,637		8,637
2009	13,043		13,043
Depreciation			
2011	\$ 48,903	\$	\$ 48,903
2010	46,253		46,253
2009	51,401		51,401
Equity in earnings of affiliates			
2011	\$ 2,196	\$ 23,255	\$ 25,451
2010	2,577	17,992	20,569
2009	2,617	11,191	13,808
Adjusted segment income			
2011	\$ 225,133	\$ 23,255	\$ 248,388
2010	169,722	17,992	187,714
2009	101,620	11,191	112,811

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

Year Ended December 31,

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	2011	2010	2009
Adjusted segment income	\$ 248,388	\$ 187,714	\$ 112,811
Gain on debt repurchase		1,634	10,429
Income (loss) from continuing operations before income taxes	\$ 248,388	\$ 189,348	\$ 123,240

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)**

Total assets, equity method investments, and capital expenditures by reporting segment are as set forth in the table below.

	Retail	PAG Investments	Total
Total assets			
2011	\$ 4,253,570	\$ 248,729	\$ 4,502,299
2010	3,833,530	236,302	4,069,832
Equity method investments			
2011	\$ 49,911	\$ 248,729	\$ 298,640
2010	52,104	236,302	288,406
Capital expenditures			
2011	\$ 133,115	\$	\$ 133,115
2010	75,699		75,699
2009	89,203		89,203

The following table presents certain data by geographic area:

	Year Ended December 31,		
	2011	2010	2009
Sales to external customers:			
U.S.	\$ 7,294,981	\$ 6,460,046	\$ 5,546,551
Foreign	4,261,251	3,868,339	3,465,666
Total sales to external customers	\$ 11,556,232	\$ 10,328,385	\$ 9,012,217
Long-lived assets, net:			
U.S.	\$ 846,108	\$ 738,779	
Foreign	325,005	280,726	
Total long-lived assets	\$ 1,171,113	\$ 1,019,505	

The Company's foreign operations are predominantly based in the U.K.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

17. Summary of Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011(1)(2)				
Total revenues	\$ 2,779,690	\$ 2,874,905	\$ 2,942,520	\$ 2,959,117
Gross profit	442,188	461,646	465,736	455,820
Net income	33,997	40,059	56,045	48,157
Net income attributable to Penske Automotive Group common stockholders	33,927	39,560	55,707	47,687
Diluted earnings per share attributable to Penske Automotive Group common stockholders	\$ 0.37	\$ 0.43	\$ 0.61	\$ 0.53
2010(1)(2)(3)				
Total revenues	\$ 2,402,149	\$ 2,596,383	\$ 2,659,549	\$ 2,670,304
Gross profit	396,747	413,883	416,557	416,928
Net income	20,332	29,684	30,260	29,071
Net income attributable to Penske Automotive Group common stockholders	20,354	29,441	29,977	28,509
Diluted earnings per share attributable to Penske Automotive Group common stockholders	\$ 0.22	\$ 0.32	\$ 0.33	\$ 0.31

- (1) As discussed in Note 4, the Company has treated the operations of certain entities as discontinued operations. The results for all periods have been restated to reflect such treatment.
- (2) Per share amounts are calculated independently for each of the quarters presented. The sum of the quarters may not equal the full year per share amounts due to rounding.
- (3) Results for the year ended December 31, 2010 include first, second, and third quarter pre-tax gains of \$605, \$422, and \$607, respectively, relating to the repurchase of \$155,658 aggregate principal amount of the Convertible Notes.

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)****18. Condensed Consolidating Financial Information**

The following tables include condensed consolidating financial information as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010, and 2009 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**December 31, 2011**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 29,116	\$	\$	\$ 27,035	\$ 2,081
Accounts receivable, net	444,673	(297,782)	305,386	283,281	153,788
Inventories	1,605,280			904,820	700,460
Other current assets	80,307		2,306	40,412	37,589
Assets held for sale	33,224			21,073	12,151
Total current assets	2,192,600	(297,782)	307,692	1,276,621	906,069
Property and equipment, net	858,975		6,730	548,985	303,260
Intangible assets	1,138,586			701,717	436,869
Equity method investments	298,640		246,658		51,982
Other long-term assets	13,498	(1,360,808)	1,369,182	3,389	1,735
Total assets	\$ 4,502,299	\$ (1,658,590)	\$ 1,930,262	\$ 2,530,712	\$ 1,699,915
Floor plan notes payable	\$ 988,650	\$	\$	\$ 560,998	\$ 427,652
Floor plan notes payable non-trade	713,635		90,892	345,674	277,069
Accounts payable	223,313		1,633	112,955	108,725
Accrued expenses	202,761	(297,782)		99,528	401,015
Current portion of long-term debt	3,414			3,414	
Liabilities held for sale	17,899			6,465	11,434
Total current liabilities	2,149,672	(297,782)	92,525	1,129,034	1,225,895
Long-term debt	846,777	(38,073)	697,324	77,060	110,466
Deferred tax liabilities	217,902			198,348	19,554
Other long-term liabilities	147,535			93,328	54,207
Total liabilities	3,361,886	(335,855)	789,849	1,497,770	1,410,122
Total equity	1,140,413	(1,322,735)	1,140,413	1,032,942	289,793
Total liabilities and equity	\$ 4,502,299	\$ (1,658,590)	\$ 1,930,262	\$ 2,530,712	\$ 1,699,915

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET****December 31, 2010**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Cash and cash equivalents	\$ 19,688	\$	\$	\$ 15,211	\$ 4,477
Accounts receivable, net	382,382	(269,021)	269,021	228,306	154,076
Inventories	1,443,284			873,795	569,489
Other current assets	68,225		1,127	32,547	34,551
Assets held for sale	133,019			124,480	8,539
Total current assets	2,046,598	(269,021)	270,148	1,274,339	771,132
Property and equipment, net	716,427		4,957	445,322	266,148
Intangible assets	1,003,729			482,953	520,776
Equity method investments	288,406		234,214		54,192
Other long-term assets	14,672	(1,212,538)	1,222,168	3,088	1,954
Total assets	\$ 4,069,832	\$ (1,481,559)	\$ 1,731,487	\$ 2,205,702	\$ 1,614,202
Floor plan notes payable	\$ 911,548	\$	\$	\$ 562,581	\$ 348,967
Floor plan notes payable non-trade	497,074		25,000	293,303	178,771
Accounts payable	251,960		2,186	86,190	163,584
Accrued expenses	201,714	(269,021)	564	95,978	374,193
Current portion of long-term debt	10,593			1,264	9,329
Liabilities held for sale	88,117			81,854	6,263
Total current liabilities	1,961,006	(269,021)	27,750	1,121,170	1,081,107
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	115,282			99,238	16,044
Total liabilities	3,023,979	(346,614)	685,634	1,435,763	1,249,196
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	\$ 2,205,702	\$ 1,614,202

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**Year Ended December 31, 2011**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 11,556,232	\$	\$	\$ 6,788,576	\$ 4,767,656
Cost of sales	9,730,842			5,661,749	4,069,093
Gross profit	1,825,390			1,126,827	698,563
Selling, general, and administrative expenses	1,478,297		18,978	900,362	558,957
Depreciation	48,903		1,369	26,490	21,044
Operating income (loss)	298,190		(20,347)	199,975	118,562
Floor plan interest expense	(28,515)		(1,364)	(14,434)	(12,717)
Other interest expense	(45,020)		(25,464)	(3,276)	(16,280)
Debt discount amortization	(1,718)		(1,718)		
Equity in earnings of affiliates	25,451		23,044		2,407
Equity in earnings of subsidiaries		(272,860)	272,860		
Income from continuing operations before income taxes	248,388	(272,860)	247,011	182,265	91,972
Income taxes	(71,933)	79,461	(71,933)	(53,097)	(26,364)
Income from continuing operations	176,455	(193,399)	175,078	129,168	65,608
Loss from discontinued operations, net of tax	1,803	(1,803)	1,803	2,608	(805)
Net income	178,258	(195,202)	176,881	131,776	64,803
Less: Income attributable to the non- controlling interests	1,377				1,377
Net income attributable to Penske Automotive Group common stockholders	\$ 176,881	\$ (195,202)	\$ 176,881	\$ 131,776	\$ 63,426

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Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**Year Ended December 31, 2010**

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 10,328,385	\$	\$	\$ 5,923,698	\$ 4,404,687
Cost of sales	8,684,270			4,934,474	3,749,796
Gross profit	1,644,115			989,224	654,891
Selling, general, and administrative expenses	1,339,125		17,182	803,007	518,936
Depreciation	46,253		1,116	25,236	19,901
Operating income (loss)	258,737		(18,298)	160,981	116,054
Floor plan interest expense	(33,779)		(576)	(23,539)	(9,664)
Other interest expense	(49,176)		(30,237)	(2,220)	(16,719)
Debt discount amortization	(8,637)		(8,637)		
Equity in earnings of affiliates	20,569		18,367		2,202
Gain on debt repurchase	1,634		1,634		
Equity in earnings of subsidiaries		(226,029)	226,029		
Income from continuing operations before income taxes	189,348	(226,029)	188,282	135,222	91,873
Income taxes	(64,732)	77,710	(64,732)	(51,534)	(26,176)
Income from continuing operations	124,616	(148,319)	123,550	83,688	65,697
Loss from discontinued operations, net of tax	(15,269)	15,269	(15,269)	(15,548)	279
Net income	109,347	(133,050)	108,281	68,140	65,976
Less: Income attributable to the non- controlling interests	1,066				1,066
Net income attributable to Penske Automotive Group common stockholders	\$ 108,281	\$ (133,050)	\$ 108,281	\$ 68,140	\$ 64,910

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2009

	Total Company	Eliminations	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Revenues	\$ 9,012,217	\$	\$	\$ 5,103,635	\$ 3,908,582
Cost of sales	7,505,088			4,214,692	3,290,396
Gross profit	1,507,129			888,943	618,186
Selling, general, and administrative expenses	1,254,500		18,259	749,693	486,548
Depreciation	51,401		1,160	30,980	19,261
Operating income (loss)	201,228		(19,419)	108,270	112,377
Floor plan interest expense	(34,097)			(23,804)	(10,293)
Other interest expense	(55,085)		(41,036)	(140)	(13,909)
Debt discount amortization	(13,043)		(13,043)		
Equity in earnings of affiliates	13,808			11,087	2,721
Gain on debt repurchase	10,429		10,429		
Equity in earnings of subsidiaries		(174,763)	174,763		
Income from continuing operations before income taxes	123,240	(174,763)	122,781	84,326	90,896
Income taxes	(43,055)	61,283	(43,055)	(35,394)	(25,889)
Income from continuing operations	80,185	(113,480)	79,726	48,932	65,007
Loss from discontinued operations, net of tax	(3,265)	3,265	(3,265)	(981)	(2,284)
Net income	76,920	(110,215)	76,461	47,951	62,723
Less: Income attributable to the non- controlling interests	459				459
Net income attributable to Penske Automotive Group common stockholders	\$ 76,461	\$ (110,215)	\$ 76,461	\$ 47,951	\$ 62,264

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Year Ended December 31, 2011**

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In thousands)		
Net cash from continuing operating activities	\$ 122,617	\$ (39,449)	\$ 188,463	\$ (26,397)
Investing activities:				
Purchase of property and equipment	(133,115)	(1,280)	(81,482)	(50,353)
Dealership acquisitions, net	(232,106)		(230,426)	(1,680)
Other	2,865			2,865
Net cash from continuing investing activities	(362,356)	(1,280)	(311,908)	(49,168)
Financing activities:				
Repayment under U.S. credit agreement term loan	(7,000)	(7,000)		
Repurchase 3.5% senior subordinated convertible notes	(87,278)	(87,278)		
Net borrowings (repayments) of long-term debt	158,395	132,000	54,494	(28,099)
Net (repayments) borrowings of floor plan notes payable non-trade	216,561	65,892	44,821	105,848
Proceeds from exercises of options, including excess tax benefit	3,370	3,370		
Repurchase of common stock	(44,263)	(44,263)		
Dividends	(21,992)	(21,992)		
Distributions from (to) parent			6,139	(6,139)
Net cash from continuing financing activities	217,793	40,729	105,454	71,610
Net cash from discontinued operations	31,374		29,815	1,559
Net change in cash and cash equivalents	9,428		11,824	(2,396)
Cash and cash equivalents, beginning of period	19,688		15,211	4,477
Cash and cash equivalents, end of period	\$ 29,116	\$	\$ 27,035	\$ 2,081

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**Year Ended December 31, 2010**

	Total Company	Penske Automotive Group (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Net cash from continuing operating activities	\$ 198,440	\$ 133,059	\$ 40,532	\$ 24,849
Investing activities:				
Purchase of property and equipment	(75,699)	(66)	(51,261)	(24,372)
Dealership acquisitions, net	(22,232)		(22,232)	
Other	13,822	13,822		
Net cash from continuing investing activities	(84,109)	13,756	(73,493)	(24,372)
Financing activities:				
Repayment under U.S. credit agreement term loan	(15,000)	(15,000)		
Repurchase 3.5% senior subordinated convertible notes	(156,604)	(156,604)		
Net borrowings (repayments) of long-term debt	(15,402)		(13,613)	(1,789)
Net (repayments) borrowings of floor plan notes payable non-trade	80,151	25,000	51,384	3,767
Proceeds from exercises of options, including excess tax benefit	540	540		
Repurchase of common stock	(751)	(751)		
Distributions from (to) parent			1,365	(1,365)
Net cash from continuing financing activities	(107,066)	(146,815)	39,136	613
Net cash from discontinued operations	(5,796)		(3,283)	(2,513)
Net change in cash and cash equivalents	1,469		2,892	(1,423)
Cash and cash equivalents, beginning of period	18,219		12,319	5,900
Cash and cash equivalents, end of period	\$ 19,688	\$	\$ 15,211	\$ 4,477

Table of Contents**PENSKE AUTOMOTIVE GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except per share amounts) (Continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Year Ended December 31, 2009**

	Total Company	Penske Automotive Group	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
		(In thousands)		
Net cash from continuing operating activities	\$ 302,334	\$ 42,525	\$ 85,374	\$ 174,435
Investing activities:				
Purchase of property and equipment	(89,203)	(240)	(65,310)	(23,653)
Proceeds from sale-leaseback transactions	2,338		2,338	
Dealership acquisitions, net	(8,517)		(597)	(7,920)
Other	17,994	11,485	(206)	6,715
Net cash from continuing investing activities	(77,388)	11,245	(63,775)	(24,858)
Financing activities:				
Repayment under U.S. credit agreement term loan	(60,000)	(60,000)		
Repurchase 3.5% senior subordinated convertible notes	(51,424)	(51,424)		
Net borrowings (repayments) of long-term debt	(17,402)	57,305	(126)	(74,581)
Net (repayments) borrowings of floor plan notes payable non-trade	(82,799)		(11,608)	(71,191)
Proceeds from exercises of options, including excess tax benefit	349	349		
Distributions from (to) parent			317	(317)
Net cash from continuing financing activities	(211,276)	(53,770)	(11,417)	(146,089)
Net cash from discontinued operations	(11,266)		(12,534)	1,268
Net change in cash and cash equivalents	2,404		(2,352)	4,756
Cash and cash equivalents, beginning of period	15,815		14,671	1,144
Cash and cash equivalents, end of period	\$ 18,219	\$	\$ 12,319	\$ 5,900

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Schedule II

SCHEDULE

PENSKE AUTOMOTIVE GROUP, INC.

VALUATION AND QUALIFYING ACCOUNTS

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Additions	Deductions, Recoveries, & Other	Balance at End of Year
	(In thousands)			
Year Ended December 31, 2011				
Allowance for doubtful accounts	\$ 1,884	\$ 1,142	\$ (770)	\$ 2,256
Tax valuation allowance	7,335	8,831	(4,327)	11,839
Year Ended December 31, 2010				
Allowance for doubtful accounts	\$ 1,644	\$ 948	\$ (708)	\$ 1,884
Tax valuation allowance	6,073	3,213	(1,951)	7,335
Year Ended December 31, 2009				
Allowance for doubtful accounts	\$ 2,081	\$ 1,211	\$ (1,648)	\$ 1,644
Tax valuation allowance	3,378	3,649	(954)	6,073

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