

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

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 cyclicity 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.smm.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:

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)

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)

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.

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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	&nbs	