AUTONATION, INC.
Form 424B2
April 01, 2010
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Filed Pursuant to Rule 424(b)(2)

Registration No. 333-157354 and

333-157354-01 through -458

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Amount to be Registered	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
6.750% Senior Notes due 2018	$ 400,000,000	98.488%	$393,952,000	$28,088.78
Guarantees of 6.750% Senior Notes due 2018(2)				

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended.
(2) Pursuant to Rule 457(n), no separate registration fee is payable in respect of the registration of the guarantees.

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PROSPECTUS SUPPLEMENT

(To prospectus dated February 23, 2010)

$400,000,000

AutoNation, Inc.

6.750% Senior Notes due 2018

We are offering $400.0 million aggregate principal amount of 6.750% Senior Notes due 2018 (the notes). Interest on the notes will be payable on April 15 and October 15 of each year, beginning on October 15, 2010. The notes will mature on April 15, 2018. We may redeem some or all of the notes at any time prior to their maturity at the applicable redemption price described in this prospectus supplement, plus accrued and unpaid interest to, but not including, the date of redemption. We may also redeem up to 35% of the notes prior to April 15, 2013 with the net cash proceeds we receive from certain public equity offerings. If a change of control, as described in this prospectus supplement under the heading Description of the Notes Repurchase Upon Change of Control Repurchase Event occurs, we will be required to offer to purchase the notes from the holders under certain circumstances.

The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our other existing and future senior indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. The notes will be effectively subordinated to any of our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness. The notes will be guaranteed on a senior unsecured basis by substantially all of our subsidiaries. The notes will be issued only in registered form in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

Investing in the notes involves risks that are described under Risk Factors beginning on page S-9 of this prospectus supplement.

	Per note	Total
Public offering price (1)	98.488%	$ 393,952,000
Underwriting discount	1.750%	$ 7,000,000
Proceeds, before expenses, to us (1)	96.738%	$ 386,952,000

(1) Plus accrued interest from April 14, 2010, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, on or about April 14, 2010.

Joint Book-Running Managers

BofA Merrill Lynch J.P. Morgan Wells Fargo Securities

Co-Lead Managers

Comerica Securities SunTrust Robinson Humphrey

Co-Managers

Fifth Third Securities, Inc. Mitsubishi UFJ Securities

Mizuho Securities USA Inc. Santander

The date of this prospectus supplement is March 31, 2010

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with additional or different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any time subsequent to the date of such information.

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Prospectus Supplement

Prospectus

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, other than statements of historical fact, included or incorporated by reference herein regarding our strategy, future operations, financial position, estimated financial results, planned transactions, projected costs, prospects, goals and objectives are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as anticipate, believe, estimate, expect, intend, may, plan, seek, project, will, would, and similar expressions or expressions of the negative of these terms. Such sta only predictions and, accordingly, are subject to substantial risks, uncertainties and assumptions.

We intend 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. 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, but are not limited to, the following:

The automotive retailing industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.

Our results of operations and financial condition have been and could continue to be adversely affected by the unfavorable economic conditions in the United States.

Our revolving credit facility, term loan facility, mortgage facility, and the indenture relating to our outstanding senior unsecured notes contain certain financial ratios and other restrictions on our ability to conduct our business.

We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.

Our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.

Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our intangible assets for impairment at least annually, which may result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and stockholders equity.

Our new vehicle sales are impacted by the consumer incentive and marketing programs of vehicle manufacturers.

Natural disasters and adverse weather events can disrupt our business.

We are subject to restrictions imposed by and significant influence from vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.

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- We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.

- Our operations are subject to extensive governmental laws and regulations. If we are found to be in violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.

- We are subject to interest rate risk in connection with our floorplan payable, revolving credit facility, term loan facility, and floating rate senior unsecured notes that could have a material adverse effect on our profitability.

- Our largest stockholder, as a result of its voting ownership, may have the ability to exert substantial influence over actions to be taken or approved by our stockholders.

- We may be unable to complete the tender offers and consent solicitations for our Old Notes (as defined below) or the contemplated amendment of our existing credit agreement described in this prospectus supplement.

Please refer to our most recent Annual Report on Form 10-K and to our subsequent filings with the Securities and Exchange Commission (the SEC) for additional discussion of the foregoing risks. Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which contains the terms of this offering of notes. The second part is the accompanying prospectus dated February 23, 2010, which is part of our Registration Statement on Form S-3 (Registration No. 333-157354), which gives more general information, some of which may not apply to this offering.

This prospectus supplement and the information incorporated by reference in this prospectus supplement may add to, update or change the information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with information in the accompanying prospectus, the information in this prospectus supplement will apply and will supersede the information in the accompanying prospectus.

It is important for you to read and consider all information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in Where You Can Find Additional Information in the accompanying prospectus.

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this prospectus supplement and the accompanying prospectus, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in our affairs since the date of this prospectus supplement, or that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is correct as of any time subsequent to the date of such information.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. This prospectus supplement and the accompanying prospectus do not constitute an offer, or an invitation on our behalf or the underwriters or any of them, to subscribe to or purchase any of the notes, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. See Underwriting.

For convenience, the terms AutoNation, the Company, we, us, and our are used in this prospectus to refer to AutoNation, Inc. and its subsidiaries, unless otherwise indicated or the context otherwise requires. Our dealership operations are conducted by our subsidiaries.

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NON-GAAP FINANCIAL MEASURES

We have included financial measures of adjusted EBITDA in this prospectus supplement, which is a non-GAAP financial measure as defined under the rules of the SEC. Adjusted EBITDA represents net income before interest expense, income tax expense, depreciation and amortization expense, loss from discontinued operations (net of income taxes), goodwill and franchise rights impairments, gain on senior note repurchases and certain other items. Adjusted EBITDA is not required by, or presented in accordance with, generally accepted accounting principles in the United States, or GAAP. Adjusted EBITDA is a performance measure that is used by our management, and we believe is commonly reported and widely used by investors and other interested parties, to evaluate a company s operating performance on a consistent basis after removing the impact of capital structure, asset base, items beyond the control of management (such as income taxes) and certain other items.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect, among other things:
  - our cash expenditures or future requirements for capital expenditures or contractual commitments;
  - changes in, or cash requirements for, our working capital needs;
  - the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; and
  - any cash income taxes that we may be required to pay;
- Assets are depreciated or amortized over estimated useful lives and often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Adjusted EBITDA does not adjust for all non-cash income or expense items that are reflected in our statements of cash flows.

Because of these limitations, adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the operation and growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using adjusted EBITDA as a supplement.

In evaluating adjusted EBITDA, you should be aware that in the future we may incur expenses similar to those for which adjustments are made in calculating adjusted EBITDA. Our presentation of adjusted EBITDA should not be construed as a basis to infer that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA does not reflect the impact of earnings or charges resulting from certain matters we consider to be indicative of our ability to service our debt over the period such debt is expected to remain outstanding.

The non-GAAP measure of adjusted EBITDA used in this prospectus supplement may be different from similar measures used by other companies, limiting their usefulness as comparable measures. This non-GAAP financial measure should not be considered as an alternative to net income, as an indicator of operating performance or liquidity.

See footnote (3) to the summary consolidated financial information under Prospectus Supplement Summary Summary Consolidated Financial Information for a description of the calculation of adjusted EBITDA and an unaudited reconciliation of adjusted EBITDA to net income.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about us and this offering. It does not contain all of the information that may be important to you in deciding whether to purchase the notes. We encourage you to read the entire prospectus supplement, the accompanying prospectus and the documents that we have filed with the SEC that are incorporated by reference herein.

Our Company

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of December 31, 2009, we owned and operated 246 new vehicle franchises from 203 stores located in major metropolitan markets, predominantly in the Sunbelt region of the United States. Our stores, which we believe are some of the most recognizable and well-known in our key markets, sell 33 different brands of new vehicles. The core brands of vehicles that we sell, representing approximately 96% of the new vehicles that we sold in 2009, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes, BMW, and Chrysler.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, parts and automotive services and automotive finance and insurance products. We also arrange financing for vehicle purchases through third-party finance sources. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets by, among other things, leveraging our market brands and advertising, improving asset management, implementing standardized processes and increasing productivity across all of our stores.

We were incorporated in Delaware in 1991. Our principal executive offices are located at 200 SW 1st Ave, Fort Lauderdale, FL 33301, and our telephone number at that address is (954) 769-6000. We maintain a web site at www.autonation.com. Information contained in or accessed through our web site does not constitute a part of this prospectus supplement.

The Transactions

The Tender Offers and Consent Solicitations

On March 31, 2010, we commenced cash tender offers (each an Offer and collectively, the Offers) for any and all of our outstanding (i) Floating Rate Notes due 2013 (the Floating Rate Notes) and (ii) 7% Senior Notes due 2014 (the Fixed Rate Notes and, together with the Floating Rate Notes, the Old Notes). In conjunction with the Offers, we also are soliciting consents to shorten the notice period required to undertake an optional redemption of the notes and to eliminate substantially all of the restrictive covenants and certain events of default contained in the indenture governing the Old Notes.

The total consideration payable in respect of the Floating Rate Notes that are validly tendered, and for which the related consents are delivered prior to the consent deadline, is $1,010.00 per $1,000 principal amount of the Floating Rate Notes, plus accrued but unpaid interest up to but excluding the settlement date. The total consideration payable in respect of the Fixed Rate Notes that are validly tendered, and for which the related consents are delivered prior to the consent deadline, is $1,035.00 per $1,000 principal amount of the Fixed Rate Notes, plus accrued but unpaid interest up to but excluding the settlement date. To be eligible to receive the total consideration for the Floating Rate Notes or the Fixed Rate Notes, as applicable, which includes a consent payment of $30.00 per $1,000 principal amount of Floating Rate Notes or Fixed Rate Notes, as applicable, holders must tender their Old Notes, and deliver the related consents, prior to the consent deadline, which is 5:00 p.m., New York City time, on April 13, 2010, unless extended. The Offers are scheduled to expire at 11:59 p.m., New York City time, on April 27, 2010 (the Expiration Time), unless we choose to extend or earlier terminate the Offers. This prospectus supplement is not an offer to purchase the Old Notes and the tender offers and consent solicitations are made only by and pursuant to the terms of the Offer to Purchase and Consent Solicitation Statement dated March 31, 2010, as the same may be amended or supplemented.

The Old Notes are currently redeemable. On April 15, 2010, the Floating Rate Notes will be redeemable at $1,010.00 per $1,000 principal amount of Floating Rate Notes plus accrued and unpaid interest and the Fixed Rate Notes will be redeemable at $1,035.00 per $1,000 principal amount of Fixed Rate Notes plus accrued and unpaid interest. Following the Expiration Time, we may elect to redeem and satisfy and discharge, in accordance with the terms and conditions of the indenture governing the Old Notes, any or all Old Notes not tendered and accepted for purchase pursuant to the Offers. This prospectus supplement does not constitute a notice of redemption of the Old Notes or an obligation to issue a notice of redemption of Old Notes. In the event that we elect to exercise our redemption rights in respect of the Old Notes, the appropriate notice or notices of redemption will be issued at a later date or dates upon the terms and conditions set forth in the indenture governing the Old Notes.

Amendment to Existing Credit Agreement

We are seeking consents from our existing lenders under our existing credit agreement, which we refer to as the existing credit agreement, to (i) extend the maturity date from July 18, 2012 to July 18, 2014 of all or a portion of the term loan facility and all or a portion of the revolving credit facility, (ii) reduce the size of the term loan facility (and make a corresponding prepayment) from $600.0 million to not less than approximately $520.0 million, (iii) reduce the size of the revolving credit facility from $700.0 million to not less than $616.0 million and (iv) amend certain other provisions. We refer to the existing credit agreement, as it may be amended by the contemplated amendments, as the amended credit agreement. Our amended credit agreement will provide for a bifurcation of the current term loan facility into a tranche maturing on July 18, 2012 and a tranche maturing on July 18, 2014 (provided that if all term loan lenders agree to extend the maturity date of their term loans, the term loan facility will not be bifurcated and will consist solely of a tranche maturing on July 18, 2014) and a bifurcation of the current revolving credit facility into a tranche terminating on July 18, 2012 and a tranche terminating on July 18, 2014 (provided that if all revolving lenders agree to extend the maturity date of their revolving loans, the revolving credit facility will not be bifurcated and will consist solely of a tranche maturing on July 18, 2014). We are also seeking consents from our existing lenders under our existing credit agreement to modify the capitalization ratio covenant and change the maximum leverage ratio covenant from 2.75x to 3.25x. We may not be able to amend our existing credit agreement at all or to the full extent described above. This offering is not conditioned on an amendment and extension of the existing credit agreement. If we are unable to amend the existing credit agreement or are only able to amend certain provisions of the existing credit agreement, the descriptions of the various amendments described above may be subject to change.

In this prospectus supplement, the term transactions refers to, collectively, (i) the offering of the notes pursuant to this prospectus supplement, (ii) the Offers and related consent solicitations for each series of Old Notes, including the assumed purchase of all Old Notes pursuant to the Offers for the total consideration offered pursuant thereto and (iii) the amendment of our existing credit agreement described above and the associated paydown of a portion of the term loan facility thereunder.

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Recent Developments

Estimated Financial Results for the Quarter Ending March 31, 2010

On March 31, 2010, the Company issued a press release announcing estimated financial results for the first quarter of 2010. Based on preliminary information, the Company currently expects first quarter 2010 revenue to be approximately $2.8 billion and first quarter 2010 earnings per share from continuing operations to be in the range of $0.29 to $0.32. The Company also expects new vehicle sales to be approximately 45,000 units, or up approximately 18% as compared to the same period in 2009, and used vehicle sales to be approximately 38,000 units, or up approximately 12% as compared to the same period in 2009.

The foregoing estimates are based on preliminary information about the first quarter of 2010. The Company cautions that it has not completed its normal quarter-end closing and review processes for the first quarter of 2010, and that actual results could differ materially from the foregoing estimates.

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The Offering

Issuer	AutoNation, Inc.
Notes Offered	$400.0 million aggregate principal amount of the notes.
Maturity	April 15, 2018.
Interest Rate	The notes will bear interest at 6.750% per annum. Interest on the notes will accrue from April 14, 2010.
Interest Payment Dates	Interest will be payable on the notes on April 15 and October 15 of each year, beginning on October 15, 2010.
Subsidiary Guarantees	The notes will be jointly and severally guaranteed on a senior unsecured basis by substantially all of our domestic subsidiaries as described under Description of the Notes Guarantees.
	The guarantees will rank equal in right of payment to all of the existing and future unsecured senior indebtedness of the guarantors and senior in right of payment to all existing and future subordinated indebtedness of the guarantors. The guarantees will be effectively subordinated in right of payment to all existing and future senior secured debt of the guarantors to the extent of the value of the assets securing such debt.
Ranking	The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior and unsecured indebtedness. The notes will be effectively subordinated in right of payment to any of our existing and future secured indebtedness to the extent of the assets securing such indebtedness and to any future indebtedness of our non-guarantor subsidiaries.
	The assets of any subsidiary that does not guarantee the notes will be subject to the prior claims of all creditors of that subsidiary, including trade creditors. In addition, in the event that our senior secured creditors exercise remedies with respect to the collateral securing such senior secured debt, the proceeds of the liquidation of that collateral will first be applied to repay obligations secured by such liens.
	As of December 31, 2009, after giving pro forma effect to the transactions, we and the guarantors would have had approximately $2.5 billion of total indebtedness (including borrowings under our mortgage facility and floorplan financing arrangements), of which approximately $1.6 billion would have been secured. In addition, also after giving pro forma effect to the transactions we would have had approximately $551.3 million of undrawn capacity under the revolving facility of our existing credit agreement, of which we would have had the ability to borrow $438.2 million due to limitations imposed by a

	leverage ratio test.
Change of Control Repurchase Event	Upon the occurrence of a Change of Control Repurchase Event, as defined under Description of the Notes Repurchase Upon Change

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	of Control Repurchase Event in this prospectus supplement, we will be required to make an offer to repurchase the notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to, but not including, the date of repurchase.
Optional Redemption	We may redeem some or all of the notes at any time or from time to time, as a whole or in part, at our option, at the make-whole redemption price plus accrued and unpaid interest, if any, to the applicable redemption date. See Description of the Notes Optional Redemption Optional Make-Whole Redemption. In addition, at any time prior to April 15, 2013, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds from certain public equity offerings at the redemption price described in Description of the Notes Optional Redemption Optional Redemption With Proceeds from Public Equity Offerings, plus accrued and unpaid interest, if any, to the applicable redemption date.
Covenants	We will issue the notes under an indenture with Wells Fargo Bank, N.A., as trustee. The indenture will, among other things, restrict our ability and the ability of certain of our subsidiaries to: create or assume certain liens; engage in sale and leaseback transactions; and consolidate, merge or transfer all or substantially all of our assets. These covenants are subject to important exceptions and qualifications that are described in Description of the Notes Covenants.
Additional Notes	The indenture governing the notes will provide for unlimited issuances of additional notes. See Description of the Notes Additional Issuances.
Book-Entry Form Only	The notes will be issued in book-entry form and will be represented by one or more permanent global certificates deposited with, or on behalf of, DTC and registered in the name of a nominee of DTC. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated securities.
Use of Proceeds	The net proceeds from the sale of the notes in this offering are estimated to be approximately $386.1 million, after deducting underwriting discounts and our estimated expenses. We intend to use the net proceeds from the sale of the notes to (i) pay the consideration required to purchase Old Notes tendered in connection with the Offers and consent solicitations, (ii) if we so elect, to redeem any Old Notes that remain outstanding following completion of the Offers, including the payment of any applicable accrued and unpaid interest

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	on such Old Notes, (iii) to reduce borrowings under the term loan facility of our existing credit agreement, (iv) to pay transaction fees and expenses and (v) for general corporate purposes. See Use of Proceeds.
Risk Factors	See Risk Factors and the other information included or incorporated by reference in this prospectus supplement for a discussion of certain factors you should carefully consider before deciding to invest in the notes.

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Summary Consolidated Financial Information

The following table sets forth our summary consolidated financial information as of and for the fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005. The information was derived from our audited annual consolidated financial statements. You should read the following summary consolidated financial information together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements, including the related notes, in each case, contained in our Annual Report on Form 10-K for the year ended December 31, 2009 (the Form 10-K) filed with the SEC on February 17, 2010, which is incorporated by reference in the accompanying prospectus.

	As of and for the Year Ended December 31,				
	2009	2008	2007 (In millions)	2006	2005
Consolidated Statements of Operations Data:					
Revenue	$ 10,757.8	$ 13,376.4	$ 16,385.2	$ 17,107.2	$ 16,616.8
Operating income (loss)	410.2	(1,279.7)	683.0	752.3	742.7
Floorplan interest expense	(36.1)	(81.1)	(118.1)	(119.6)	(87.6)
Operating income (loss) less floorplan interest expense (1)	374.1	(1,360.8)	564.9	632.7	655.1
Income (loss) from continuing operations before income taxes (2)	351.0	(1,401.4)	452.9	520.4	582.2
Net income (loss) (2)	198.0	(1,243.1)	278.7	316.9	496.5
Consolidated Balance Sheets Data:					
Total assets	$ 5,407.3	$ 6,014.1	$ 8,479.6	$ 8,601.4	$ 8,824.5
Long-term debt, net of current maturities	1,105.0	1,225.6	1,751.9	1,557.9	484.4
Shareholders equity	2,303.2	2,198.1	3,473.5	3,712.7	4,669.5
Other Data:					
Adjusted EBITDA (3)	$ 464.4	$ 552.4	$ 766.6		

(1) Management uses operating income (loss) less floorplan interest expense, which is calculated by subtracting floorplan interest expense from operating income (loss), as a key measure of profitability. This non-GAAP financial measure should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP.

(2) During 2008, we recorded impairment charges of $1.76 billion ($1.46 billion after-tax) associated with goodwill and franchise rights. During 2009, we reclassified impairment charges related to franchise rights of $19.1 million ($11.7 million after-tax) that were recorded during 2008 to Loss from Discontinued Operations in our Consolidated Statements of Operations for the year ended December 31, 2008, as the stores associated with these impairment charges were reclassified to discontinued operations during 2009. See Notes 5 and 13 of the Notes to Consolidated Financial Statements for more information.

(3) Adjusted EBITDA represents net income before interest expense, income tax expense, depreciation and amortization expense, loss from discontinued operations (net of income taxes), goodwill and franchise rights impairments, gain on senior note repurchases and certain other items as detailed in the reconciliation included below. See Non-GAAP Financial Measures for the discussion of our use of adjusted EBITDA. We did not calculate, and the table does not disclose, adjusted EBITDA for the years ended December 31, 2006 or December 31, 2005.

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The following table sets forth an unaudited reconciliation of net income to adjusted EBITDA:

	As of and for the Year Ended December 31,		
	2009	2008	2007
		(In millions)	
Net income (loss)	**$ 198.0**	**$ (1,243.1)**	**$ 278.7**
Loss (income) from discontinued operations, net of income taxes	36.2	30.7	5.3
Income tax provision (benefit)	116.8	(189.0)	168.9
Depreciation and amortization	77.5	85.0	84.0
Goodwill impairment		1,610.0	
Franchise rights impairment	1.5	127.4	
Floorplan interest expense	36.1	81.1	118.1
Other interest expense	42.6	89.4	114.1
Gain on senior note repurchases	(13.0)	(51.3)	
Interest income	(1.1)	(2.2)	(3.4)
Other expenses (income), net	(24.8)	9.7	(0.4)
Other (gains) losses, net	(5.4)	4.7	1.3
Adjusted EBITDA	**$ 464.4**	**$ 552.4**	**$ 766.6**

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RISK FACTORS

An investment in the notes involves a high degree of risk. Before deciding to purchase any notes, you should carefully consider the risks and uncertainties set forth below and the risks and uncertainties incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information included under Risk Factors in our Form 10-K and in other documents that we subsequently file with the SEC.

These risks and uncertainties are not the only ones facing us. There may be other risks that a prospective investor should consider that are relevant to that investor s own particular circumstances or generally.

Risks Related to the Notes

Our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations under the notes.

As of December 31, 2009, after giving pro forma effect to the transactions, we and the guarantors would have had approximately $2.5 billion of total indebtedness (including amounts outstanding under our existing credit agreement, mortgage facility, capital leases and floorplan financing arrangements). In addition, also after giving pro forma effect to the transactions, we would have had approximately $551.3 million of undrawn capacity under the revolving facility of our existing credit agreement, of which we would have had the ability to borrow $438.2 million due to limitations imposed by a leverage ratio test. Our substantial indebtedness could have important consequences. For example:

- We may have difficulty satisfying our debt service obligations and, if we fail to comply with these requirements, an event of default could result;
- We may be required to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions and other general corporate activities;
- Covenants relating to our indebtedness may limit our ability to obtain financing for working capital, capital expenditures, acquisitions and other general corporate activities;
- Covenants relating to our indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- We may be more vulnerable to the impact of economic downturns and adverse developments in our business;
- We may be placed at a competitive disadvantage against any less leveraged competitors; and
- Our variable interest rate debt will fluctuate with changing market conditions and, accordingly, our interest expense will increase if interest rates rise.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to service our debt obligations.

Despite our substantial indebtedness, we may still be able to incur more debt, intensifying the risks described above.

Subject to restrictions in our existing credit agreement (and restrictions in the indenture governing the Old Notes, which will be eliminated if the consent solicitations relating to the Old Notes are completed), we may

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incur additional indebtedness, which could increase the risks associated with our already substantial indebtedness. Subject to certain limitations, we have the ability to borrow additional funds under our existing credit agreement. We are seeking consents from the lenders under our existing credit agreement to increase the leverage ratio from 2.75x to 3.25x. If we incur any additional indebtedness or obligations that rank equally with the notes, including trade payables, the holders of those obligations may be entitled to share ratably with you in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of us, which may reduce the amount of proceeds paid to you. As of December 31, 2009, after giving pro forma effect to the transactions, we and the guarantors would have had approximately $2.5 billion of indebtedness (including borrowings under our mortgage facility, capital leases and floorplan financing arrangements), of which approximately $1.6 billion would have been secured. In addition, also after giving pro forma effect to the transactions, we would have had approximately $551.3 million of undrawn capacity under the revolving facility of our existing credit agreement, of which we would have had the ability to borrow $438.2 million due to limitations imposed by a leverage ratio test.

We may not be able to generate sufficient cash flows to meet our debt service obligations.

Our ability to make scheduled payments on, or to refinance our obligations with respect to, our indebtedness, including the notes, will depend on our financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond our control. There can be no assurance that our future cash flow will be sufficient to meet our obligations and commitments. If we are unable to generate sufficient cash flow from operations in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our debt or equity capital or engaging in asset sales. There can be no assurance that any of these actions could be effected on a timely basis or on satisfactory terms or that these actions would enable us to continue to satisfy our capital requirements. In addition, the terms of our existing or future franchise and framework agreements with vehicle manufacturers and our debt agreements, including the indenture that will govern the notes and our existing credit agreement, whether or not amended, may prohibit us from adopting any of these alternatives.

The notes and the guarantees are unsecured obligations.

The notes will be senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior debt, including our existing credit agreement, and senior in right of payment to all of our existing and future subordinated debt. The notes will be guaranteed on an unsecured basis by substantially all of our existing and future restricted subsidiaries. In the event any of our other senior debt is secured by liens on our assets and the lenders under such debt exercise remedies with respect to the pledged assets, the proceeds of the liquidation of the pledged assets will first be applied to repay obligations secured by the pledges. As of December 31, 2009, after giving pro forma effect to the transactions, we and the guarantors would have had approximately $2.5 billion of indebtedness (including borrowings under our mortgage facility, capital leases and floorplan financing arrangements), of which approximately $1.6 billion would have been secured. In addition, also after giving pro forma effect to the transactions, we would have had approximately $551.3 million of undrawn capacity under the revolving facility of our existing credit agreement, of which we would have had the ability to borrow $438.2 million due to limitations imposed by a leverage ratio test. The exercise of default rights (other than rights to demand payment in the event of default or bring suit for payment of amounts due and payable) under certain of the guarantees will be subject to requirements of advance notice to certain of the automotive manufacturers, as set forth in the indenture.

We conduct substantially all of our operations through subsidiaries.

We are a holding company and conduct substantially all of our operations through subsidiaries. As a holding company, we are dependent on distributions of funds from our subsidiaries to meet our debt service and other obligations, including the payment of principal and interest on the notes. Our subsidiaries may not generate sufficient cash from operations to enable us to make payments on our indebtedness, including the notes. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, applicable state

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corporate laws, other laws and regulations and contractual restrictions. If we are unable to obtain funds from our subsidiaries as a result of restrictions under our other debt instruments, state law or otherwise, we may not be able to pay interest or principal on the notes when due, or to redeem the notes upon a change of control repurchase event, and we cannot assure you that we will be able to obtain the necessary funds from other sources.

Not all of our subsidiaries are guarantors, and our claims will be subordinated to all of the creditors of the non-guarantor subsidiaries.

The notes will be guaranteed by most, but not all, of our subsidiaries. In the event of insolvency, liquidation, dissolution, reorganization, or similar proceeding of any of our nonguarantor subsidiaries, any creditors of each of these subsidiaries would be entitled to payment in full from that subsidiary s assets and earnings before such assets and earnings may be distributed to us to service payments on the notes. For the year ended December 31, 2009, our non-guarantor subsidiaries represented less than 1% of our total assets, total revenue, income from continuing operations before income taxes and cash flows from operating activities. See Description of the Notes Guarantees.

Federal and state statutes may allow courts to void the guarantees, subordinate the guarantees or require noteholders to return payments received from guarantors.

Various applicable fraudulent conveyance laws have been enacted for the protection of creditors. A court may use these laws to subordinate or void the guarantees of the notes issued by any of our subsidiary guarantors. It is also possible that under certain circumstances a court could hold that the direct obligations of a subsidiary guaranteeing the notes could be superior to the obligations under that guarantee.

A court could void or subordinate the guarantee of the notes by any of our subsidiaries in favor of that subsidiary s other debts or liabilities to the extent that the court determined that either of the following was true at the time the subsidiary issued the guarantee:

- that subsidiary incurred the guarantee with the intent to hinder, delay or defraud any of its present or future creditors or that such subsidiary contemplated insolvency with a design to favor one or more creditors to the total or partial exclusion of others; or

- that subsidiary did not receive fair consideration or reasonable equivalent value for issuing the guarantee and, at the time it issued the guarantee, that subsidiary:

  - was insolvent or rendered insolvent by reason of the issuance of the guarantee;

  - was engaged or about to engage in a business or transaction for which the remaining assets of that subsidiary constitute unreasonable small capital; or

  - intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured.

In addition, any payment by such subsidiary guarantor pursuant to any guarantee could be voided and required to be returned to such subsidiary guarantor, or to a fund for the benefit of the creditors of such subsidiary guarantor.

Among other things, a legal challenge of a subsidiary s guarantee of the notes on fraudulent conveyance grounds may focus on the benefits, if any, realized by that subsidiary as a result of our issuance of the notes. To the extent a subsidiary s guarantee of the notes is voided as a result of fraudulent conveyance or held unenforceable for any other reason, the noteholders would cease to have any claim in respect of that guarantee and would be creditors solely of us.

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There is no assurance that we will be able to purchase the notes upon a change of control repurchase event.

If certain change of control events occur, we may need to refinance large amounts of our debt, including the notes, the debt under our existing credit agreement, our floorplan financing arrangements and our mortgage facility. Upon a change of control repurchase event, as defined in the indenture, we must offer to buy back the notes for a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of purchase. We would fund any repurchase obligation with our available cash, borrowings, sales of equity or debt or funds provided by a new controlling person. We cannot assure you that there will be sufficient funds available for any required repurchases of the notes if a change of control repurchase event occurs. In addition, the terms of our existing credit agreement will limit our ability to repurchase your notes and provide that certain change of control events constitute an event of default thereunder. Our future debt agreements may contain similar restrictions and provisions. If the holders of the notes exercise their right to require us to repurchase all the notes upon a change of control repurchase event, the financial effect of this repurchase could cause a default under our other debt, even if the change of control repurchase event itself would not cause a default. Accordingly, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of our other debt and the notes or that restrictions in our existing credit agreement would allow such repurchases. In addition, certain corporate events, such as leveraged capitalizations that would increase the level of our indebtedness, would not constitute a Change of Control under the indenture. See Description of the Notes Repurchase Upon Change of Control Repurchase Event.

Our credit ratings may not reflect all risks of your investment in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. In addition, if any of our outstanding debt that is rated is downgraded, raising capital will become more difficult for us and borrowing costs under our existing credit agreement and other future borrowings may increase. Agency ratings are not a recommendation to buy, sell or hold any security and may be revised or withdrawn at any time by the issuing organization. Each agency s rating should be evaluated independently of any other agency s rating.

There is currently no public market for the notes, and we do not know if a market will ever develop or, if a market does develop, whether it will be sustained.

The notes are a new issue of securities and there is no existing trading market for the notes. Although the underwriters have informed us that they intend to make a market in the notes, they have no obligation to do so and may discontinue making a market at any time without notice. As a result, we cannot assure you that a liquid market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell the notes will be favorable. We cannot assure you that an active trading market will develop for the notes. We do not intend to apply for listing of the notes on any securities exchange. If a market for the notes does not develop, you may not be able to resell your notes for an extended period of time, if at all. Moreover, if markets for the notes do develop in the future, we cannot assure you that these markets will continue indefinitely or that the notes can be sold at a price equal to or greater than their initial offering price. In addition, in response to prevailing interest rates and market conditions generally, as well as our performance, the notes could trade at a price lower than their initial offering price.

Our significant shareholders may support strategies that are opposed to the interests of our noteholders or with which you disagree.

Certain of our shareholders, including certain of our directors, have the power to significantly influence the results of shareholder votes and the election of our board of directors, as well as transactions involving a potential change of control. These shareholders may support strategies and directions, such as share repurchases, that are in their best interests or in the interests of our equity holders in general, but that are not in the interests of our noteholders or with which you disagree. We cannot assure you that these shareholders will not increase their ownership percentage in the future.

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We may pursue acquisitions, dispositions, investments, dividends, share repurchases and/or other corporate transactions that we believe will maximize equity returns of our shareholders but may involve risks to holders of the notes.

From time to time, we consider opportunities for acquisitions of businesses or other assets and other strategic transactions. These transactions may involve risks, such as risks of integration of acquired businesses and loss of cash flows and market positions of disposed businesses. In addition, the indenture that will govern the notes will allow us substantial flexibility to pay dividends on, or make significant repurchases of, our common stock. These transactions will be subject to the discretion of our board of directors. There can be no assurance that we will effect any of these transactions, but, if we do, risks to the holders of the notes may be increased, possibly materially.

Our existing credit agreement and mortgage facility contain certain financial ratios and other restrictions on our ability to conduct our business.

The existing credit agreement relating to our revolving credit facility and term loan facility contain, and future debt agreements will likely contain, numerous financial and operating covenants that limit the discretion of our management with respect to various business matters. The indenture governing the Old Notes also contains numerous financial and operating covenants, which covenants will be eliminated if the consent solicitations relating to the Old Notes are completed. The covenants contained in the Company s debt instruments place significant restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to make certain payments (including dividends and repurchases of our shares) and investments, and to sell or otherwise dispose of assets and to merge or consolidate with other entities. A failure by us to comply with the obligations contained in our existing credit agreement could result in an event of default under our existing credit agreement, which could permit acceleration of the related debt as well as acceleration of debt under other instruments, including under the indenture that will govern the notes, that contain cross-acceleration or cross-default provisions. If any debt is accelerated, our liquid assets may not be sufficient to repay in full such indebtedness and our other indebtedness. Additionally, we have granted certain vehicle manufacturers the right to acquire, at fair market value, our automotive stores franchised by those manufacturers in specified circumstances in the event of our default under the indenture that will govern the notes or the existing credit agreement for our revolving credit facility and term loan facility.

Under our existing credit agreement, we are required to remain in compliance with a maximum consolidated leverage ratio and a maximum capitalization ratio. We are seeking consents from the lenders under our existing credit agreement to increase the leverage ratio from 2.75x to 3.25x, which will allows us greater flexibility to make certain payments, including dividends and share repurchases. If our earnings decline or if we are required to record impairment charges in the future, we may be unable to comply with the financial ratios required by our existing credit agreement. In such case, we would seek an amendment or waiver of our existing credit agreement or consider other options, such as raising capital through an equity issuance to pay down debt, which could be dilutive to stockholders. There can be no assurance that our lenders would agree to an amendment or waiver of our existing credit agreement. In the event we obtain an amendment or waiver of our existing credit agreement, we would likely incur additional fees and higher interest expense.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $386.1 million after deducting underwriting discounts and our estimated expenses related to the offering. We intend to use the net proceeds of this offering (i) to pay the consideration required to purchase Old Notes tendered in connection with the Offers for any and all of our outstanding Old Notes, including in each case the payment of any applicable accrued and unpaid interest on such Old Notes, (ii) if we so elect, to redeem any Old Notes that may remain outstanding following completion of the Offers, including the payment of any applicable accrued and unpaid interest on such Old Notes, (iii) to reduce borrowings under the existing credit agreement term loan facility, (iv) to pay related fees and expenses and (v) for general corporate purposes.

The following table sets forth our estimated sources and uses of funds:

Sources and Uses
(in millions)

Sources		**Uses**	
Notes offered hereby	$ 394.0	Tender for Floating Rate Notes (1)	$ 146.1
		Tender for Fixed Rate Notes (1)	132.6
		Paydown Term Loan Facility (2)	80.4
		Tender Premium	6.1
		Fees and Expenses (3)	23.1
		Cash to Balance Sheet	5.7
Total Sources	$ 394.0	Total Uses	$ 394.0

(1) These figures assume that all Old Notes are tendered and accepted for payment and we pay the total consideration for each such Old Note tendered pursuant to the Offers. No assurance can be given as to the principal amount of Old Notes to be tendered in the Offers or whether the total consideration offered will be payable with respect to all Old Notes tendered. Our Floating Rate Notes due 2013 bear interest at 3-month LIBOR plus 2%, reset quarterly. Our Fixed Rate Notes due 2014 bear interest at 7%.

(2) The term loan, which is currently scheduled to mature on July 18, 2012, currently bears interest at LIBOR plus 0.875%. See Description of Other Indebtedness Credit Agreement for further discussion regarding interest options and maturity. We are seeking consents from our existing lenders under our existing credit agreement to (i) extend the maturity date from July 18, 2012 to July 18, 2014 of all or a portion of the term loan facility, (ii) reduce the size of the term loan facility (and make a corresponding prepayment) from $600.0 million to not less than approximately $520.0 million and (iii) amend certain other provisions. We may not be able to amend our existing credit agreement at all or to the full extent described above. This offering is not conditioned on an amendment and extension of the existing credit agreement. If we are unable to amend the existing credit agreement or are only able to amend certain provisions of the existing credit agreement, the descriptions of the various amendments described above may be subject to change.

(3) Fees and expenses include (i) estimated underwriting discounts related to the offering of notes pursuant to this prospectus, (ii) the consent fees paid in connection with the Offers, (iii) the expected amendment fee in connection with the proposed amendment to our existing credit agreement and (iv) estimated expenses associated therewith.

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CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2009:

- on an actual basis; and

- as adjusted to give effect to the sale of the notes offered hereby and the use of the net proceeds therefrom, as described following the caption Use of Proceeds.

You should read the information in this table in conjunction with the information set forth following the caption Use of Proceeds and our consolidated financial statements and the notes thereto, which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

	At December 31, 2009	
	Actual	As Adjusted
	(In millions)	
Cash and cash equivalents	$ 173.7	$ 179.4
Short-term debt:		
Floorplan notes payable	$ 1,388.0	$ 1,388.0
Current maturities of long-term debt	7.6	7.6
Long-term debt, net of current maturities:		
Term loan facility, due 2012 (1)	600.0	519.6
Revolving credit facility, due 2012		
Mortgage facility	226.4	226.4
Notes offered hereby		394.0
Floating rate senior notes due 2013	146.1	
7% senior notes due 2014	132.6	
Other debt, due from 2010 to 2025	7.5	7.5
Less: current maturities	(7.6)	(7.6)
Total Debt	$ 2,500.6	$ 2,535.5
Shareholders equity:		
Total shareholders equity	$ 2,303.2	$ 2,290.5
Total capitalization	$ 4,803.8	$ 4,826.0

(1) We are seeking consents from our existing lenders under our existing credit agreement to (i) extend the maturity date from July 18, 2012 to July 18, 2014 of all or a portion of the term loan facility, (ii) reduce the size of the term loan facility (and make a corresponding prepayment) from $600.0 million to not less than approximately $520.0 million and (iii) amend certain other provisions. We may not be able to amend our existing credit agreement at all or to the full extent described above. This offering is not conditioned on an amendment and extension of the existing credit agreement. If we are unable to amend the existing credit agreement or are only able to amend certain provisions of the existing credit agreement, the descriptions of the various amendments described above may be subject to change.

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DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a description of the principal terms of certain of our indebtedness:

Old Notes

At December 31, 2009, we had outstanding $146.1 million of Floating Rate Notes and $132.6 million of Fixed Rate Notes, in each case at par. The Floating Rate Notes bear interest at a rate equal to three-month LIBOR plus 2.0% per annum, adjusted quarterly, and may be redeemed by us currently at 102% of principal, at 101% of principal on or after April 15, 2010, and at 100% of principal on or after April 15, 2011. The Fixed Rate Notes may be redeemed by us currently at 105.25% of principal, at 103.5% of principal on or after April 15, 2010, at 101.75% of principal on or after April 15, 2011, and at 100% of principal on or after April 15, 2012.

Concurrently with the filing of this prospectus supplement, we commenced the Offers to purchase for cash any and all of the outstanding $146.1 million principal amount of the Floating Rate Notes for $1,010.00 for each $1,000 principal amount of Floating Rate Notes and any and all of the outstanding $132.6 million aggregate principal amount of the Fixed Rate Notes for $1,035.00 for each $1,000 principal amount of Fixed Rate Notes. The indenture governing the Old Notes currently contains significant covenants, including covenants limiting the incurrence of indebtedness, the making of restricted payments and the conduct of transactions with affiliates and asset sales. In connection with the Offers, we also commenced solicitations of consents to amend the indenture relating to the Old Notes, to eliminate most of the restrictive covenants and certain of the events of default contained in the indenture. We intend to use a portion of the net proceeds from this offering to purchase any and all of such Old Notes and make related consent payments pursuant to the Offers.

Following the expiration of the Offers, we may elect to redeem and satisfy and discharge, in accordance with the terms and conditions of the indenture governing the Old Notes, all Old Notes not tendered and accepted for purchase pursuant to the Offers. This prospectus supplement does not constitute a notice of redemption of the Old Notes or an obligation to issue a notice of redemption of Old Notes. In the event that we elect to exercise our redemption rights in respect of the Old Notes, the appropriate notice or notices of redemption will be issued at a later date or dates upon the terms and conditions set forth in the indenture governing the Old Notes.

Credit Agreement

Concurrently with the completion of this offering, we plan to amend our existing credit agreement in order to (i) extend the maturity date of all or a portion of the term loan facility and all or a portion of the revolving credit facility, (ii) reduce the size of the term loan facility (and make a corresponding prepayment) from $600.0 million to not less than approximately $520.0 million, (iii) reduce the size of the revolving credit facility from $700.0 million to not less than $616.0 million and (iv) amend certain other provisions. Our amended credit agreement will provide for a bifurcation of the current term loan facility into a tranche maturing on July 18, 2012 (the Existing Term Loan Facility) and a tranche maturing on July 18, 2014 (the Extended Term Loan Facility) (provided that if all term loan lenders agree to extend the maturity date of their term loans, the term loan facility will not be bifurcated and will consist of solely of a tranche maturing on July 18, 2014) and a bifurcation of the current revolving credit facility into a tranche terminating on July 18, 2012 (the Existing Revolving Facility) and a tranche terminating on July 18, 2014 (the Extended Revolving Facility) (provided that if all revolving lenders agree to extend the maturity date of their revolving loans, the revolving credit facility will not be bifurcated and will consist solely of a tranche maturing on July 18, 2014). We may not be able to amend our existing credit agreement at all or to the full extent described above and in the subsequent paragraphs. This offering is not conditioned on an amendment and extension of the existing credit agreement. If we are unable to amend the existing credit agreement or are only able to amend certain provisions of the existing credit agreement, the descriptions of the various amendments described below may be subject to change.

We will have a letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility will be reduced on a dollar-for-dollar basis by the cumulative

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amount of any outstanding letters of credit, which totaled $64.7 million at December 31, 2009. As of December 31, 2009, we had no borrowings outstanding under the revolving credit facility, leaving $635.3 million of borrowing capacity. As of December 31, 2009, this borrowing capacity was limited under the maximum consolidated leverage ratio contained in our existing credit agreement to approximately $164 million.

Interest and interest options

Our revolving credit facility currently provides for various interest rates on borrowings generally at LIBOR plus 0.725% or the higher of (i) the JPMorgan Chase Bank prime rate and (ii) the Federal Funds rate plus 0.50%, at our election.

Our term loan facility currently provides for various interest rates generally at LIBOR plus 0.875% or the higher of (i) the JPMorgan Chase Bank prime rate and (ii) the Federal Funds rate plus 0.50%, at our election.

Swing line loans under the current revolving credit facility bear interest at the higher of (i) the JPMorgan Chase Bank prime rate and (ii) the Federal Funds rate plus 0.50% plus the applicable credit spread.

The Existing Revolving Facility under the amended credit agreement will provide for various interest rates generally at LIBOR plus 0.725% or the highest of (i) the JPMorgan Chase Bank prime rate,(ii) the Federal Funds rate plus 0.50% and (iii) LIBOR plus 1.00%, at our election.

The Existing Term Loan Facility under the amended credit agreement will provide for various interest rates generally at LIBOR plus 0.875% or the highest of (i) the JPMorgan Chase Bank prime rate,(ii) the Federal Funds rate plus 0.50% and (iii) LIBOR plus 1.00%, at our election.

The Extended Revolving Facility under the amended credit agreement will provide for various interest rates on borrowings generally at LIBOR plus 2.25% or the highest of (i) the JPMorgan Chase Bank prime rate**,** (ii) the Federal Funds rate plus 0.50% and (iii) LIBOR plus 1.00%, at our election.

The Extended Term Loan Facility under the amended credit agreement will provide for various interest rates generally at LIBOR plus 2.25% or the highest of (i) the JPMorgan Chase Bank prime rate,(ii) the Federal Funds rate plus 0.50% and (iii) LIBOR plus 1.00%, at our election.

Swing line loans under the amended credit agreement will bear interest at the highest of (i) the JPMorgan Chase Bank prime rate,(ii) the Federal Funds rate plus 0.50% and (iii) LIBOR plus 1.00% plus the applicable credit spread for the Existing Revolving Facility or Extended Revolving Facility, as applicable.

The credit spread charged for the current revolving credit facility and the current term loan facility is, and the credit spread charged for the Existing Revolving Facility and Existing Term Loan Facility under the amended credit agreement will be, affected by our senior unsecured credit ratings from Standard & Poor s (BB+, with stable outlook) and Moody s (Ba2, with stable outlook). For instance, under the current terms of our existing credit agreement, a one-notch downgrade of our senior unsecured credit rating by either Standard & Poor s or Moody s would result in a 25 basis point increase in the credit spread under our term loan facility, a 20 basis point increase in the credit spread under our revolving credit facility, and a 5 basis point increase in the facility fee applicable to our revolving credit facility. Credit ratings and/or outlook could be lowered if new vehicle demand worsens significantly, threatening our earnings and cash flow, or if we increase our financial leverage through acquisitions or share repurchases. Credit ratings and/or outlook could improve if market demand increases or if we demonstrate our ability to reduce our financial leverage and preserve our ability to

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generate cash flow while maintaining moderate financial policies. The credit spread charged for the Extended Revolving Facility and Extended Term Loan Facility will be affected by our total leverage ratio calculated using our most recently delivered financial statements. For instance, under the terms of the proposed amended credit agreement, a one-notch downgrade of our total leverage ratio from greater than or equal to 1.5 to 1.0 but less than 2.0 to 1.0 to greater than or equal to 2.00 to 1.0 but less than 3.0 to 1.0 would result in a 25 basis point increase in the credit spread under our term loan facility, a 25 basis point increase in the credit spread under our revolving credit facility, and a 12.5 basis point increase in the commitment fee applicable to our revolving credit facility**.**

We may select interest periods of one week or one, two, three, six or twelve months, subject to availability with the participating lenders. We will be required to pay interest on loans bearing interest at the LIBOR rate at the end of the selected interest period, but no less frequently than quarterly. For all other loans, we will be required to pay interest quarterly.

Maturity. Our existing credit agreement provides for maturity of the term loans on July 18, 2012 and termination of the revolving credit facility and payment of all amounts outstanding thereunder on July 18, 2012. Our amended credit agreement will provide for maturity of the term loans under the Existing Term Loan Facility and termination of the revolving credit facility and payment of all amounts outstanding thereunder on July 18, 2012, and maturity of the term loans under the Extended Term Loan Facility and termination of the Extended Revolving Facility and payment of all amounts outstanding thereunder on July 18, 2014.

Guarantees. Our existing credit agreement is, and the amended credit agreement will be, guaranteed by substantially all of our direct and indirect, existing and future domestic subsidiaries, with certain limited exceptions.

Optional prepayments and commitment reductions. Under the existing credit agreement, we are able to prepay amounts outstanding under the existing credit agreement in whole or in part at any time without premium or penalty, subject to reimbursement of the lenders breakage and redeployment costs in the case of a prepayment of LIBOR borrowings. Under the existing credit agreement, we are also able to cancel the unutilized portion of any commitment under the revolving credit facility in excess of the competitive bid loans, the swing line loans and the stated amount of all letters of credit in whole or in part without premium or penalty.

Under the amended credit agreement, we will be able to prepay amounts outstanding under the amended credit agreement in whole or in part at any time without premium or penalty, subject to reimbursement of the lenders breakage and redeployment costs in the case of a prepayment of LIBOR borrowings. Under the amended credit agreement, we will also be able to cancel the unutilized portion of any commitment under the revolving credit facility in excess of the competitive bid loans, the swing line loans and the stated amount of all letters of credit in whole or in part without premium or penalty.

Negative Covenants. Under the existing credit agreement we are, and under the amended credit agreement we will be, subject to covenants that restrict our ability to, among other things:

- incur additional indebtedness, guarantee indebtedness and create or incur liens;
- engage in mergers, consolidations and other fundamental corporate changes;
- change our fiscal year; and
- engage in certain transactions with affiliates.

Financial Covenants. Under the existing credit agreement, we are subject to financial covenants including a maximum leverage ratio of 2.75x and a maximum capitalization ratio of no more than 65%. Under

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the amended credit agreement, we will be subject to financial covenants including a maximum leverage ratio of 3.25x and a maximum capitalization ratio of no more than 60%. In addition, unlike our existing credit agreement, the maximum capitalization ratio under the amended credit agreement will be calculated excluding goodwill, franchise rights and long-lived asset impairments subsequent to 2007.

Floorplan facilities

We maintain secured used floorplan facilities primarily collateralized by used vehicle inventories and related receivables. At December 31, 2009, the aggregate capacity under these facilities was $170.0 million. As of that date, $80.8 million had been borrowed under these facilities. The remaining borrowing capacity under these facilities of $89.2 million was limited to $53.1 million based on the eligible used vehicle inventory that could have been pledged as collateral.

Vehicle floorplan payable-trade totaled $1.0 billion at December 31, 2009. Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with manufacturers captive finance subsidiaries. Vehicle floorplan payable-non-trade totaled $357.6 million at December 31, 2009, and represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders. All the floorplan facilities generally utilize LIBOR-based interest rates.

Floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally require that the manufacturer have the ability to draft against the new floorplan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Mortgage facility

At December 31, 2009, we had $226.4 million outstanding under a mortgage facility with an automotive manufacturer s captive finance subsidiary. The mortgage facility was refinanced under a new facility in November 2007 to provide a fixed interest rate (5.864%) and provide financing secured by 10-year mortgages on certain of our store properties. The mortgage facility requires monthly principal and interest payments of $1.7 million based on a fixed amortization schedule with a balloon payment of $155.4 million due November 2017.

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DESCRIPTION OF THE NOTES

The notes will be issued under a senior indenture to be dated as of April 14, 2010, as amended and supplemented by a supplemental indenture, to be dated as of April 14, 2010, between us and Wells Fargo Bank, N.A., as trustee (as so amended, the indenture). Throughout this summary, we refer to both the senior indenture and supplemental indenture together as the indenture. The indenture is subject to and is governed by the Trust Indenture Act of 1939, as amended. We have filed a form of the senior indenture as an exhibit to the registration statement of which the accompanying prospectus forms a part. The following description summarizes selected provisions of the indenture and the notes. It does not restate the indenture or the terms of the notes in their entirety. We urge you to read the forms of the indenture and the notes because the indenture and the notes, and not this description, define the rights of noteholders. Copies of the indenture and the notes are available from us upon request. See Where You Can Find Additional Information in the accompanying prospectus. In this Description of the Notes, the terms Company, we, us, our and similar words refer only to AutoNation, Inc. and its successors under the indenture, in each case excluding its subsidiaries.

General

The notes:

- will be our senior unsecured obligations, ranking equally in right of payment to any existing or future senior unsecured Indebtedness of the Company;
- will mature on April 15, 2018;
- will be subject to earlier redemption at our option as described following the caption Optional Redemption;
- will not have the benefit of any sinking fund;
- will not be convertible into any other security;
- will be issued in denominations of $2,000 and in integral multiples of $1,000 thereof;
- will be represented by one or more registered notes in global form but in certain limited circumstances may be represented by notes in certificated form. See Book-entry Issuance; and
- will be fully and unconditionally guaranteed by the Guarantors.

Interest on the notes will:

- accrue at the rate of 6.750% per annum;
- accrue from April 14, 2010 or the most recent interest payment date on which interest was paid;

- be payable in cash semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2010;
- be payable to the holders of record on April 1 and October 1 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

If any interest payment date or maturity date falls on a day that is not a business day, the required payment of principal or interest will be made on the next business day as if made on the date that payment was due, and no interest will accrue on that payment for the period from and after the interest payment date or maturity date, as the case may be, to the date of the payment on the next business day.

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Guarantees

The indenture will provide that the Company s payment obligations under the notes will be jointly and severally, fully and unconditionally, guaranteed (the Subsidiary Guarantees) on a senior basis by the Guarantors. The Guarantors are comprised of substantially all of the direct and indirect Domestic Subsidiaries of the Company. The notes will be effectively subordinated in right of payment to all of the liabilities of the Subsidiaries of the Company that do not guarantee the notes. For the year ended December 31, 2009, our non-guarantor Subsidiaries represented less than 1% of our total assets, total revenues, income from continuing operations before income taxes and cash flows from operating activities.

In addition, if any Domestic Subsidiary of the Company becomes a guarantor or obligor in respect of any other Indebtedness of the Company or any of the Guarantors, the Company shall cause such Domestic Subsidiary to enter into a supplemental indenture in which such Domestic Subsidiary shall agree to guarantee the Company s obligations under the notes.

If the Company defaults in payment of the principal or interest on the notes, each of the Guarantors will be unconditionally, jointly and severally, obligated to duly and punctually pay the principal and interest on the notes.

The obligations of each Guarantor under its Subsidiary Guarantee are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such Guarantor, and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Subsidiary Guarantee or pursuant to its contribution obligations under the indenture, will result in the obligations of such Guarantor under its Subsidiary Guarantee not constituting a fraudulent conveyance or fraudulent transfer under Federal or state law. Each Guarantor that makes a payment or distribution under its Subsidiary Guarantee will be entitled to a contribution from any other Guarantor in a pro rata amount based on the net assets of each Guarantor determined in accordance with GAAP. The enforcement of certain rights with respect to the Subsidiary Guarantees is also subject to the terms of the Manufacturers Letter Agreements.

Notwithstanding the foregoing, in certain circumstances a Subsidiary Guarantee of a Guarantor may be released pursuant to the provisions under Covenants Limitation on Issuances of Guarantees of Indebtedness. The Company also may, at any time, cause a Domestic Subsidiary to become a Guarantor by executing and delivering a supplemental indenture providing for the guarantee of payment of the notes by such Domestic Subsidiary on the basis provided in the indenture.

Ranking

The notes will be unsecured senior obligations of the Company, and the Indebtedness represented by the notes and the payment of principal of and interest on the notes will rank equally in right of payment with all other existing and future unsubordinated unsecured Indebtedness of the Company and senior in right of payment to all existing and future subordinated Indebtedness of the Company. In the event that our senior secured creditors exercise remedies with respect to the collateral securing such senior secured debt, the proceeds of the liquidation of that collateral will first be applied to repay obligations secured by such liens before any such proceeds can be applied to repay any senior unsecured obligations, including the notes.

The Indebtedness evidenced by each Subsidiary Guarantee (including the payment of principal of and interest on the notes) is unsecured, ranks equally in right of payment with all other existing and future unsubordinated unsecured Indebtedness of such Guarantor and ranks senior in right of payment to all subordinated Indebtedness of such Guarantor.

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As of December 31, 2009, on a pro forma basis after giving effect to (i) the purchase of all of the $146.1 million in aggregate principal amount of Floating Rate Notes, including accrued and unpaid interest, and all of the $132.6 million in aggregate principal amount of the Fixed Rate Notes, including accrued and unpaid interest, in each case pursuant to the Offers, and the payment of related consents in connection therewith, (ii) the issuance of the notes and the application of the net proceeds therefrom and (iii) the paydown of approximately $80.0 million of borrowings under the term loan facility under our existing credit agreement, the Company and the Guarantors would have had approximately $2.5 billion of Indebtedness (including borrowings under our existing credit agreement, mortgage facility, capital leases and floorplan financing arrangements), of which approximately $1.6 billion would have been secured.

Additional Issuances

We may issue additional notes, without limitation and without your consent. If we issue additional notes under the indenture, they will have the same terms and conditions as the notes being offered by this prospectus supplement in all respects (except for the payment of interest accruing prior to the issue date of the additional notes) so that the additional notes may be consolidated and form a single series with the notes of that series issued under this prospectus supplement.

Optional Redemption

Optional Redemption With Proceeds from Public Equity Offerings

At any time prior to April 15, 2013, we may redeem up to 35% of the principal amount of the notes with the net cash proceeds of one or more Public Equity Offerings of our common stock at a redemption price (expressed as a percentage of principal amount) of 106.75%, plus accrued and unpaid interest to the redemption date; provided that at least 65% of the aggregate principal amount of notes originally issued on the closing date remains outstanding after each such redemption and notice of any such redemption is mailed within 60 days of each such Public Equity Offering.

For the purposes of this redemption provision, a Public Equity Offering means an underwritten public offering of common stock (other than redeemable capital stock) of the Company with gross cash proceeds to the Company of at least $50.0 million pursuant to an effective registration statement filed pursuant to the Securities Act (other than a registration statement on Form S-4 (or any successor form covering substantially the same transactions), Form S-8 (or any successor form covering substantially the same transactions) or otherwise relating to equity securities issuable under any employee benefit plan of the Company).

Optional Make-Whole Redemption

We may redeem the notes, at our option, at any time in whole, or from time to time in part, at a make-whole redemption price equal to the greater of:

- 100% of the principal amount of the notes to be redeemed; and

- the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, exclusive of interest accrued to the date of redemption, discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield plus 50 basis points, plus accrued interest to the date of redemption

For purposes of determining the optional make-whole redemption price, the following definitions are applicable:

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term (as measured from the date of redemption) of the notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining terms of the notes.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations obtained by us for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, (ii) if we are unable to obtain at least four such Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations obtained by us, or (iii) if only one Reference Treasury Dealer Quotation is received, such quotation.

Independent Investment Banker means Banc of America Securities LLC, or, if such firm is unwilling or unable to select the applicable Comparable Treasury Issue, an independent investment banking institution of national standing appointed by us.

Reference Treasury Dealer means Banc of America Securities LLC and its successors, and at least two other primary U.S. government securities dealers in New York City (each, a Primary Treasury Dealer) selected by the Independent Investment Banker; *provided, however*, that if any of the foregoing shall cease to be a Primary Treasury Dealer, we shall substitute therefor another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date for the notes, an average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue for the notes, expressed in each case as a percentage of its principal amount, quoted in writing to the us by the Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding the redemption date.

Treasury Yield means, with respect to any redemption date applicable to the notes, the rate per annum equal to the semi-annual equivalent yield to maturity, computed as of the third business day immediately preceding the redemption date, of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue, expressed as a percentage of its principal amount, equal to the applicable Comparable Treasury Price for the redemption date.

General

The notes called for redemption become due on the date fixed for redemption. Notices of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address. The notice of redemption for the notes will state the amount to be redeemed. On and after the redemption date, interest will cease to accrue on any notes that are redeemed. If less than all of the notes are redeemed at any time, the notes to be redeemed shall be selected by lot by DTC, in the case of notes represented by a global security, or by the trustee by a method the trustee deems fair and appropriate, in the case of notes that are not represented by a global security. No note of $2,000 in principal amount or less shall be redeemed in part. If any note is to be redeemed in part only, the notice of redemption relating to such note will state the portion of the principal amount to be redeemed. A new note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original note.

No Sinking Fund

The notes will not be entitled to the benefit of any sinking fund.

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Repurchase Upon Change of Control Repurchase Event

If a Change of Control Repurchase Event occurs, unless the Company has exercised its right to redeem the notes as described above under Optional Redemption, the Company will be required to make an offer to each holder of the notes to repurchase all or any part (equal to $2,000 or an integral multiple of $1,000 in excess thereof) of that holder s notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the notes repurchased plus any accrued and unpaid interest on the notes repurchased to, but not including, the date of repurchase; *provided* that after giving effect to the purchase, any notes that remain outstanding shall have a denomination of $2,000 and integral multiples of $1,000 above that amount.

Within 30 days following any Change of Control Repurchase Event or, at the option of the Company, prior to any Change of Control, but after the public announcement of the transaction that constitutes or may constitute the Change of Control, the Company will be required to mail a notice (a Change of Control Offer) to each holder, with a copy to the trustee, describing the transaction or transactions that constitute or may constitute the Change of Control Repurchase Event and offering to repurchase the notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on a Change of Control Repurchase Event occurring on or prior to the payment date specified in the notice. The Company will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions of the notes, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Repurchase Event provisions of the notes by virtue of such conflict.

On the repurchase date following a Change of Control Repurchase Event, the Company will, to the extent lawful:

(1) accept for payment all the notes or portions of the notes properly tendered pursuant to the applicable Change of Control Offer;

)

(1
)
Balance as of end of period
$
5

$
5

Inventories

Inventories consist primarily of materials, supplies, and fuel. Materials and supplies inventories are used in operations and maintenance and capital activities, and are recorded at average cost. Fuel inventories include natural gas, coal, and oil and are used in PGE’s generating plants. Natural gas is recorded at the lower of average cost or market, with coal and oil recorded at average cost.

Electric Utility Plant, Net

Electric utility plant, net consists of the following (in millions):

	March 31, 2011	December 31, 2010

Electric utility plant	$6,340	$6,279
Construction work in progress	153	125
Total cost	6,493	6,404
Less: accumulated depreciation and amortization	(2,314)	(2,271)
Electric utility plant, net	$4,179	$4,133

Accumulated depreciation and amortization in the table above includes accumulated amortization related to intangible assets of $138 million and $133 million as of March 31, 2011 and December 31, 2010, respectively. Amortization expense related to intangible assets was $5 million and $3 million for the three months ended March 31, 2011 and 2010, respectively.

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PORTLAND GENERAL ELECTRIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued
(Unaudited)

Regulatory Assets and Liabilities

Regulatory assets and liabilities consist of the following (in millions):

	March 31, 2011		December 31, 2010	
	Current	Noncurrent	Current	Noncurrent
Regulatory assets:				
Price risk management	$169	$163	$175	$185
Pension and other postretirement plans	—	210	—	213
Deferred income taxes	—	94	—	95
Deferred broker settlements	23	—	24	—
Renewable energy deferral	17	—	22	—
Debt reacquisition costs	—	23	—	23
Other	5	22	—	28
Total regulatory assets	$214	$512	$221	$544
Regulatory liabilities:				
Asset retirement removal costs	$—	$598	$—	$588
Asset retirement obligations	—	34	—	33
Regulatory treatment of income taxes (SB 408)	11	—	5	9
Trojan ISFSI pollution control tax credits	13	5	18	4
Other	1	31	2	23
Total regulatory liabilities	$25	$668	$25	$657

Other Current Liabilities

Other current liabilities consist of the following (in millions):

	March 31, 2011	December 31, 2010
Accrued interest payable	$36	$26
Accrued taxes payable	25	22
Other	34	30
Total other current liabilities	$95	$78

Other Noncurrent Liabilities

During the first quarter of 2011, an updated decommissioning study for the Company’s Boardman coal-fired plant was completed. As a result, PGE increased its asset retirement obligation related to Boardman by approximately $23 million during the first quarter of 2011, with a corresponding increase in the cost basis of the plant, included in Electric utility plant, net on the condensed consolidated balance sheet.

Credit Facilities

PGE has the following unsecured revolving credit facilities:

- A $370 million syndicated credit facility, with $10 million and $360 million scheduled to terminate in July 2012 and July 2013, respectively;

- A $200 million syndicated credit facility, which is scheduled to terminate in December 2012; and

- A $30 million credit facility, which is scheduled to terminate in June 2013.

Pursuant to the individual terms of the agreements, all credit facilities may be used for general corporate purposes and as backup for commercial paper borrowings. The $370 million and $30 million credit facilities also permit the issuance of standby letters of credit. All credit facilities contain customary covenants and default provisions, including a requirement that limits consolidated indebtedness, as defined in the agreements, to 65% of total capitalization. As of March 31, 2011, PGE was in compliance with this covenant with a 52.3% debt ratio.

The Company has a commercial paper program under which it may issue commercial paper for terms of up to 270 days, limited to the unused amount of credit under the credit facilities.

Pursuant to an order issued by the Federal Energy Regulatory Commission (FERC), the Company is authorized to issue short-term debt up to $750 million through February 6, 2012. The authorization contains a standard provision which provides that if utility assets financed by unsecured debt are divested, then a proportionate share of the unsecured debt must also be divested.

As of March 31, 2011, PGE had $147 million of letters of credit and no commercial paper or borrowings outstanding under the credit facilities. As of March 31, 2011, the aggregate unused credit available under the credit facilities was $453 million.

Long-term Debt

During the three months ended March 31, 2011, PGE elected to have $10 million of Port of St. Helens Pollution Control Revenue Bonds redeemed and retired.

In 2008, PGE repurchased $5.8 million of Pollution Control Revenue Bonds Series 1996 (Bonds) issued through the Port of Morrow, which was paid to Lehman Brothers Inc. (Lehman) as remarketing agent for the Bonds, who in turn paid off the beneficial owner of the Bonds. As a result of the payment, PGE became the beneficial owner of the Bonds and requested that Lehman safe-keep the Bonds in Lehman’s Depository Trust Company participant account until such time as the Bonds could be remarketed. After repurchase of the Bonds, PGE removed the liability for the Bonds from its financial statements.

In September 2008, Lehman filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. PGE subsequently filed a claim for return of the Bonds from Lehman. On November 9, 2009, the trustee appointed to liquidate the assets of Lehman (Trustee) allowed PGE’s claim as a net equity claim for securities. At the time, PGE believed it would receive back the entire amount of the Bonds at some point during the bankruptcy proceedings.

It is not certain that the Company will receive the full amount of the Bonds but could, along with other claimants, potentially receive a pro-rata share of certain assets. The timing and extent of distributions on claims are subject to the ultimate disposition of numerous claims in the proceedings and certain major contingencies which the Trustee must resolve. PGE cannot currently estimate how much of the value of the Bonds will ultimately be returned to the Company or the timing of the distribution from Lehman. Management does not expect this to have a material effect on the Company's financial position but it could have a material effect on results of operations for a future interim period.

Pension and Other Postretirement Benefits

Components of net periodic benefit cost are as follows for the three months ended March 31, (in millions):

	Defined Benefit Pension Plan		Other Postretirement Benefit Plans		Non-Qualified Benefit Plans	
	2011	2010	2011	2010	2011	2010
Service cost	$3	$3	$1	$1	$—	$—
Interest cost	7	7	1	1	1	1
Expected return on plan assets	(10)	(10)	—	—	—	—
Amortization of net actuarial gain	2	1	—	—	—	—
Net periodic benefit cost	$2	$1	$2	$2	$1	$1

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company determines the fair value of financial instruments, both assets and liabilities recognized and not recognized in PGE's condensed consolidated balance sheets, for which it is practicable to estimate fair value based on the following inputs as of March 31, 2011 and December 31, 2010:

- Derivative instruments are recorded at fair value and are based on published market indices as adjusted for other market factors such as location pricing differences or internally developed models;

- Certain trust assets, consisting of money market funds and fixed income securities included in the Nuclear decommissioning trust and marketable securities included in the Non-qualified benefit plan trust, are recorded at fair value and are based on quoted market prices; and

- The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to PGE for debt of similar remaining maturities. As of March 31, 2011, the estimated aggregate fair value of PGE's long-term debt was $1,944 million, compared to its $1,798 million carrying amount. As of December 31, 2010, the estimated aggregate fair value of PGE's long-term debt was $1,968 million, compared to its $1,808 million carrying amount.

A fair value hierarchy is used to prioritize the inputs to the valuation techniques used to measure fair value. The three broad levels and application to the Company are discussed below.

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and U.S. government treasury securities.

Level 2 - Pricing inputs are other than quoted market prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards and swaps.

Level 3 - Pricing inputs include significant inputs that are generally less observable than objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. At each balance sheet date, the Company performs an analysis of all instruments subject to fair value measurement and includes in Level 3 all of those instruments whose fair value is based on significant unobservable inputs.

The Company's financial assets and liabilities whose values were recognized at fair value are as follows by level within the fair value hierarchy (in millions):

	As of March 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust [1]:				
Money market funds	$—	$13	$—	$13
Debt securities:				
U.S. treasury securities	6	—	—	6
Corporate debt securities	—	6	—	6
Mortgage-backed securities	—	6	—	6
Municipal securities	—	2	—	2
Asset-backed securities	—	1	—	1
Non-qualified benefit plan trust [2]:				
Equity securities:				
Mutual funds	14	1	—	15
Common stocks	3	—	—	3
Debt securities - mutual funds	3	—	—	3
Assets from price risk management activities [1] [3]:				
Electricity	—	7	1	8
Natural gas	—	10	1	11
	$26	$46	$2	$74
Liabilities - Liabilities from price risk management activities [1] [3]:				
Electricity	$—	$107	$23	$130
Natural gas	—	125	95	220
	$—	$232	$118	$350

(1) Activities are subject to regulation, with certain gains and losses deferred pursuant to regulatory accounting and included in Regulatory assets or Regulatory liabilities as appropriate.
(2) Excludes insurance policies of $23 million, which are recorded at cash surrender value.
(3) For further information, see Note 4, Price Risk Management.

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	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust [1]:				
Money market funds	$—	$13	$—	$13
Debt securities:				
U.S. treasury securities	3	—	—	3
Corporate debt securities	—	6	—	6
Mortgage-backed securities	—	7	—	7
Municipal securities	—	4	—	4
Asset-backed securities	—	1	—	1
Non-qualified benefit plan trust [2]:				
Equity securities:				
Mutual funds	16	1	—	17
Common stocks	2	—	—	2
Debt securities - mutual funds	2	—	—	2
Assets from price risk management activities [1] [3]:				
Electricity	—	4	1	5
Natural gas	—	11	—	11
	$23	$47	$1	$71
Liabilities - Liabilities from price risk management activities [1] [3]:				
Electricity	$—	$102	$17	$119
Natural gas	—	153	104	257
	$—	$255	$121	$376

(1) Activities are subject to regulation, with certain gains and losses deferred pursuant to regulatory accounting and included in Regulatory assets or Regulatory liabilities as appropriate.
(2) Excludes insurance policies of $23 million, which are recorded at cash surrender value.
(3) For further information, see Note 4, Price Risk Management.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Nuclear decommissioning trust assets reflect the assets held in trust to fund general decommissioning costs and operation of the Independent Spent Fuel Storage Installation (ISFSI) and consist of money market funds and fixed income securities. Non-qualified benefit plan trust reflects the assets held in trust to fund a portion of the obligations of PGE’s non-qualified benefit plans and consist primarily of marketable securities.

Assets and liabilities from price risk management activities represent derivative transactions entered into by PGE to manage its exposure to commodity price risk and minimize net power costs for service to the Company’s retail customers and may consist of forward, swap, and option contracts for electricity, natural gas, oil, and foreign currency, and futures contracts for natural gas and oil. PGE applies a market-based approach to the fair value measurement of its derivative transactions. Inputs into the valuation of derivative activities include forward commodity and foreign exchange pricing, interest rates, volatility and correlation. PGE utilizes the Black-Scholes

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and Monte Carlo pricing models for commodity option contracts. Forward pricing, which employs the mid-point of the market's bid-ask spread, is derived using observed transactions in active markets, as well as historical experience as a participant in those markets, and is validated against nonbinding quotes from brokers with whom the Company transacts. Interest rates used to calculate the present value of derivative valuations incorporate PGE's borrowing ability. The Company also considers the liquidity of delivery points of executed transactions when determining where in the fair value hierarchy a transaction should be classified. PGE considers its creditworthiness and the creditworthiness of its counterparties when determining the appropriateness of a particular transaction's assigned Level in the fair value hierarchy.

Changes in the fair value of net liabilities from price risk management activities (net of assets from price risk management activities) classified as Level 3 in the fair value hierarchy were as follows (in millions):

Three months ended March 31, 2011:		
Net liabilities from price risk management activities as of December 31, 2010	$(120	)
Realized and unrealized gains and (losses), net	2	
Purchases	1	
Settlements	1	
Net liabilities from price risk management activities as of March 31, 2011	$(116	)
Three months ended March 31, 2010:		
Net liabilities from price risk management activities as of December 31, 2009	$(154	)
Realized and unrealized gains and (losses), net	(57	)
Purchases, issuances and settlements, net	(10	)
Net liabilities from price risk management activities as of March 31, 2010	$(221	)

The Level 3 net realized and unrealized gains (losses) presented in the preceding table are recorded in Purchased power and fuel expense in the condensed consolidated statements of income and have been fully offset by the effects of regulatory accounting. Transfers into Level 3 occur when significant inputs used to value the Company's derivative instruments become less observable, such as a delivery location becoming significantly less liquid. Transfers out of Level 3 occur when the significant inputs become more observable, such as the time between the valuation date and the delivery term of a transaction becomes shorter. PGE records transfers in and transfers out of Level 3 at the end of the reporting period for all of its financial instruments.

NOTE 4: PRICE RISK MANAGEMENT

PGE participates in the wholesale marketplace in order to balance its supply of power, which consists of its own generating resources combined with wholesale market transactions, to meet the needs of its retail customers, manage risk, and administer its existing long-term wholesale contracts. Such activities include power purchases and sales resulting from economic dispatch decisions for Company-owned generation. As a result of this ongoing business activity, PGE is exposed to commodity price risk and foreign currency exchange rate risk, where adverse changes in prices and/or rates may affect the Company’s financial position, results of operations, or cash flow.

PGE utilizes derivative instruments in its wholesale electric utility activities to manage its exposure to commodity price risk and foreign currency exchange rate risk, mitigate the effects of market fluctuations, and minimize net power costs for service to its retail customers. These derivative instruments may include forward, swap, and option contracts for electricity, natural gas, oil, and foreign currency, and futures contracts for natural gas and oil and are recorded at fair value on the balance sheet, with changes in fair value recorded in the statement of income. However, as a regulated entity, PGE recognizes a regulatory asset or liability in order to defer gains and losses from derivative activity until realized, in accordance with the ratemaking and cost recovery process authorized by the OPUC. This accounting treatment defers the mark-to-market gains and losses on derivative activities until settlement. PGE may designate certain derivative instruments as cash flow hedges or may use derivative instruments as purely economic hedges. PGE does not engage in trading activities for non-retail purposes.
PGE has elected not to net on the balance sheet the positive and negative exposures resulting from derivative instruments entered into with counterparties where a master netting arrangement exists. As of March 31, 2011 and December 31, 2010, the Company had $23 million and $31 million, respectively, in collateral posted with these counterparties, consisting entirely of letters of credit.

PGE’s net volumes related to its Assets and Liabilities from price risk management activities resulting from its derivative transactions were as follows (in millions):

	March 31, 2011		December 31, 2010	
Commodity contracts:				
Electricity	10	MWh	9	MWh
Natural gas	82	Decatherms	93	Decatherms
Foreign currency	$8	Canadian	$7	Canadian

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The fair value of PGE's Assets and Liabilities from price risk management activities consists of the following (in millions):

	March 31, 2011		December 31, 2010	
Current assets:				
Commodity contracts:				
Electricity	$7		$4	
Natural gas	8		9	
Total current derivative assets	15	(1)	13	(1)
Noncurrent assets:				
Commodity contracts:				
Electricity	1		1	
Natural gas	3		2	
Total noncurrent derivative assets	4	(2)	3	(2)
Total derivative assets not designated as hedging instruments	$19		$16	
Total derivative assets	$19		$16	
Current liabilities:				
Commodity contracts:				
Electricity	$81		$77	
Natural gas	102		111	
Total current derivative liabilities	183		188	
Noncurrent liabilities:				
Commodity contracts:				
Electricity	49		42	
Natural gas	118		146	
Total noncurrent derivative liabilities	167		188	
Total derivative liabilities not designated as hedging instruments	$350		$376	
Total derivative liabilities	$350		$376	

(1) Included in Other current assets on the condensed consolidated balance sheets.
(2) Included in Other noncurrent assets on the condensed consolidated balance sheets.

Net realized and unrealized gains (losses) on derivative transactions not designated as hedging instruments are classified in Purchased power and fuel, net of deferrals in the condensed consolidated statements of income and were as follows (in millions):

	Three Months Ended March 31, 2011		2010	
Commodity contracts:				
Electricity	$(31	)	$(53	)
Natural Gas	6		(91	)

Unrealized gains and losses and certain realized gains and losses presented in the table above are offset within the statements of income by the effects of regulatory accounting. Of the net gain (loss) recognized in net income for the

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(Unaudited)

three months ended March 31, 2011 and 2010, net losses of $25 million and $141 million, respectively, have been offset.

Assuming no changes in market prices and interest rates, the following table indicates the year in which the net unrealized loss recorded as of March 31, 2011 related to PGE's derivative activities would become realized as a result of the settlement of the underlying derivative instrument (in millions):

	2011	2012	2013	2014	Total
Commodity contracts:					
Electricity	$64	$36	$16	$6	$122
Natural gas	71	91	41	6	209
Net unrealized loss	$135	$127	$57	$12	$331

The Company's secured and unsecured debt is currently rated at investment grade by Moody's Investors Service (Moody's) and Standard and Poor's Ratings Services (S&P). Should Moody's and/or S&P reduce their rating on the Company's unsecured debt to below investment grade, PGE could be subject to requests by certain wholesale counterparties to post additional performance assurance collateral, in the form of cash or letters of credit, based on total portfolio positions with each of those counterparties and certain other counterparties would have the right to terminate their agreements with the Company.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position as of March 31, 2011 was $284 million, for which the Company has $126 million in posted collateral, consisting entirely of letters of credit. If the credit-risk-related contingent features underlying these agreements were triggered at March 31, 2011, the cash requirement to either post as collateral or settle the instruments immediately would have been $270 million.

Counterparties representing 10% or more of Assets and Liabilities from price risk management activities as of March 31, 2011 or December 31, 2010 were as follows:

	March 31, 2011		December 31, 2010	
Assets from price risk management activities:				
Counterparty A	24	%	22	%
Counterparty B	19		23	
Counterparty C	8		10	
Counterparty D	6		11	
	57	%	66	%
Liabilities from price risk management activities:				
Counterparty B	25	%	24	%
Counterparty E	12		12	
	37	%	36	%

See Note 3 for additional information concerning the determination of fair value for the Company's Assets and Liabilities from price risk management activities.

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NOTE 5: EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows:

	Three Months Ended March 31,	
	2011	2010
Numerator (in millions):		
Net income attributable to Portland General Electric Company common shareholders	$69	$27
Denominator (in thousands):		
Weighted-average common shares outstanding - basic	75,318	75,229
Dilutive effect of unvested restricted stock units and employee stock purchase plan shares	19	17
Weighted-average common shares outstanding - diluted	75,337	75,246
Earnings per share - basic and diluted	$0.92	$0.36

Unvested performance stock units and related dividend equivalent rights are not included in the computation of dilutive securities because vesting of these instruments is dependent upon three-year performance periods and the vesting criteria have not been met as of the end of the reporting period presented.

Basic and diluted earnings per share amounts are calculated based on actual amounts rather than the rounded amounts presented in the table above and on the condensed consolidated statements of income. Accordingly, calculations using the rounded amounts presented for net income and weighted average shares outstanding may yield results that vary from the earnings per share amounts presented in the table above.

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NOTE 6: EQUITY

The activity in equity during the three months ended March 31, 2011 and 2010 is as follows (dollars in millions):

	Portland General Electric Company Shareholders' Equity				
	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests' Equity
	Shares	Amount			
Balances as of December 31, 2010	75,316,419	$831	$(5)	$766	$7
Vesting of restricted stock units	9,184	—	—	—	—
Stock-based compensation	—	1	—	—	—
Dividends declared	—	—	—	(20)	—
Capital distribution	—	—	—	—	(4)
Net income	—	—	—	69	—
Balances as of March 31, 2011	75,325,603	$832	$(5)	$815	$3
Balances as of December 31, 2009	75,210,580	$829	$(6)	$719	$1
Vesting of restricted and performance stock units	64,932	—	—	—	—
Dividends declared	—	—	—	(19)	—
Net income	—	—	—	27	—
Other comprehensive income	—	—	1	—	—
Balances as of March 31, 2010	75,275,512	$829	$(5)	$727	$1

Effective April 1, 2011, PGE implemented a Dividend Reinvestment and Direct Stock Purchase Plan (the Plan), under which the Company may issue up to 2,500,000 shares of common stock. The Plan provides a way for all interested investors to invest in shares of common stock of the Company. Participation in the Plan is strictly voluntary and is open to all interested parties, regardless of whether they are already shareholders of the Company.

NOTE 7: COMPREHENSIVE INCOME

Comprehensive income is as follows (in millions):

	Three Months Ended March 31,	
	2011	2010
Net income	$69	$27
Pension and other postretirement plans' funded position, net of taxes	2	2
Reclassification of defined benefit pension plan and other benefits to a regulatory asset, net of taxes	(2)	(1)
Comprehensive income and Comprehensive income attributable to Portland General Electric Company	$69	$28

NOTE 8: CONTINGENCIES

Trojan Investment Recovery

Background. In 1993, PGE closed the Trojan Nuclear Plant (Trojan) and sought full recovery of, and a rate of return on, its Trojan costs in a general rate case filing with the OPUC. The OPUC issued a general rate order that granted the Company recovery of, and a rate of return on, 87% of its remaining investment in Trojan.

Court Proceedings on OPUC Authority to Grant Recovery of Return on Trojan Investment. Numerous challenges, appeals, and reviews were subsequently filed in various state courts on the issue of the OPUC's authority under Oregon law to grant recovery of, and a return on, the Trojan investment. The primary plaintiffs in the litigation were the Citizens' Utility Board (CUB) and the Utility Reform Project (URP). In 1998, the Oregon Court of Appeals upheld the OPUC's order authorizing PGE's recovery of the Trojan investment, but held that the OPUC did not have the authority to allow PGE to recover a return on the Trojan investment and remanded the case to the OPUC for reconsideration.

In 2000, PGE, CUB, and the staff of the OPUC entered into agreements to settle the litigation related to PGE's recovery of, and return on, its investment in Trojan. The URP did not participate in the settlement and filed a complaint with the OPUC challenging the settlement agreements.

In March 2002, the OPUC issued an order (2002 Order) denying all of the URP's challenges, and approving the accounting and ratemaking elements of the 2000 settlement. In 2007, following several appeals by various parties, the Oregon Court of Appeals issued an opinion that remanded the 2002 Order to the OPUC for reconsideration.

The OPUC then issued an order on September 30, 2008 that required PGE to refund $15.4 million, plus interest at 9.6% from September 30, 2000, to customers who received service from PGE during the period October 1, 2000 to September 30, 2001. The Company recorded a charge of $33.1 million as of September 30, 2008 related to the refund and accrued additional interest expense on the liability until refunds to customers were completed in the first quarter of 2010. The URP and the plaintiffs in the class actions described below have separately appealed the September 30, 2008 order to the Oregon Court of Appeals. Appellants have filed their opening briefs, and in March 2011, PGE and the state Attorney General's Office, on behalf of the OPUC, filed answering briefs. Amicus briefs in support of PGE's position were subsequently filed by CUB and a group of northwest utilities. PGE anticipates that appellants will file reply briefs later this year, after which the court will set a date for oral argument.

Class Actions. In a separate legal proceeding, two class action lawsuits were filed in Marion County Circuit Court against PGE in 2003 on behalf of two classes of electric service customers (the Class Action Plaintiffs). The lawsuits seek damages of $260 million, plus interest, as a result of PGE's inclusion, in prices charged to customers, of a return on its investment in Trojan.

In August 2006, the Oregon Supreme Court issued a ruling ordering the abatement of the class action proceedings until the OPUC responded to the 2002 Order (described above). The Oregon Supreme Court concluded that the OPUC has primary jurisdiction to determine what, if any, remedy it can offer to PGE customers, through price reductions or refunds, for any amount of return on the Trojan investment PGE collected in prices for the period from April 1, 1995 through October 1, 2000.

The Oregon Supreme Court further stated that if the OPUC determined that it can provide a remedy to PGE's customers, then the class action proceedings may become moot in whole or in part. The Oregon Supreme Court added that, if the OPUC determined that it cannot provide a remedy, the court system may have a role to play. The Oregon Supreme Court also ruled that the plaintiffs retain the right to return to the Marion County Circuit Court for disposition of whatever issues remain unresolved from the remanded OPUC proceedings.

In October 2006, the Marion County Circuit Court abated the class actions in response to the ruling of the Oregon Supreme Court. In October 2007, the Class Action Plaintiffs filed a motion to lift the abatement. However, in February 2009, the Circuit Court denied the motion.

Management cannot predict the ultimate outcome of the above matters. Management believes, however, that these matters will not have a material adverse impact on the financial condition of the Company, but may have a material adverse impact on the results of operations and cash flows in future reporting periods.

Complaint and Application for Deferral - Income Taxes

On October 5, 2005, the URP and another party (together, the Complainants) filed a Complaint and an Application for Deferred Accounting with the OPUC alleging that, since the September 2, 2005 effective date of SB 408, PGE's rates were not just and reasonable and were in violation of SB 408 because they contained approximately $92.6 million in annual charges for state and federal income taxes that are not being paid to any governmental entity. The Complaint and Application for Deferred Accounting requested that the OPUC order the creation of a deferred account for all amounts charged to customers since September 2, 2005 for state and federal income taxes, less amounts actually paid for income taxes by or on behalf of PGE to the federal and state governments.

In August 2007, the OPUC issued an order granting the Application for Deferred Accounting for the period from October 5, 2005 through December 31, 2005 (Deferral Period). The OPUC's order also dismissed the Complaint, on grounds that it was superfluous to the Complainants' application for deferred accounting. The order required that PGE calculate the amounts applicable to the Deferral Period, along with calculations of PGE's earnings and the effect of the deferral on the Company's return on equity.

In December 2007, PGE filed its report as required by the OPUC. In the report, PGE determined that: (i) the amount of any deferral would be between zero and $26.6 million; and (ii) PGE's earnings over the twelve-month period ended September 30, 2006 would preclude any refund.

In August 2009, the OPUC issued an order that denied amortization of any deferral in this matter, based on a review of PGE's earnings over the twelve month period ended September 30, 2006.

On October 16, 2009, Complainants filed an appeal of the August 2009 order with the Oregon Court of Appeals, which remains pending.

Management cannot predict the ultimate outcome of this matter. Management believes, however, that this matter will not have a material adverse effect on PGE's financial condition, results of operations or cash flows.

Turlock Irrigation District Claim

PGE and Power Resources Cooperative (PRC) are parties to an Ownership and Operation Agreement (OOA), pursuant to which PRC is entitled to ten percent of the power generated at Boardman. In 1992, PRC entered into a power purchase agreement with Turlock Irrigation District (Turlock) in which PRC agreed to provide Turlock with its share of the Boardman output. In October 2005, Boardman experienced an outage that extended into 2006.

Turlock subsequently filed a lawsuit against PGE in Multnomah County Circuit Court in the state of Oregon, alleging breach of contract, negligence, and gross negligence, and seeking damages in excess of $15 million as a result of having to purchase power in the open market to replace lost output from Boardman during the outage.

PGE sought and received an order joining PRC as a necessary party to the litigation. PRC intervened as a plaintiff, also alleging breach of contract and damages in the amount alleged by Turlock, for the purpose of reimbursing Turlock for those expenses.

In the first quarter of 2011, the parties reached a settlement agreement that did not have a material adverse impact on the Company’s financial condition, results of operations or cash flows.

Lawsuit filed by Sierra Club and Other Environmental Groups

On September 30, 2008, the Sierra Club and other environmental groups filed suit against PGE in the U.S. District Court for the District of Oregon (Court) for alleged violations at PGE's Boardman Coal Plant of the federal Clean Air Act (CAA), Oregon’s Regional Haze State Implementation Plan (SIP), the plant’s CAA Title V permit, and additional alleged violations of various environmental related regulations.

The plaintiffs seek injunctive relief that includes permanently enjoining PGE from operating Boardman except in accordance with the CAA, Oregon’s SIP, and the plant’s Title V Permit. In addition, plaintiffs seek civil penalties against PGE including $27,500 per day per alleged violation for violations occurring before March 15, 2004 and $32,500 per day per alleged violation occurring thereafter. The total amount of monetary penalties and damages asserted in the complaint cannot be determined with certainty. However, based solely on the complaint, the Company estimates that the amount asserted could be up to approximately $60 million.

On September 30, 2009, the Court granted PGE’s motion with respect to certain of the plaintiff’s claims. The principal claims that remain are: (i) that PGE constructed Boardman without complying with the 1974 and 1977 federal pre-construction permitting requirements; (ii) that PGE modified Boardman in the 1990s without complying with Oregon’s pre-construction permitting requirements; and (iii) that certain modifications to Boardman triggered New Source Performance Standards (NSPS). Discovery in the case continues, with a tentative trial date set for December 2011.

Management cannot predict the ultimate outcome of the above matters or estimate a range of potential liability. Management believes, however, that these matters will not have a material adverse impact on the financial condition of the Company, but may have a material adverse impact on the results of operations and cash flows in future reporting periods.

EPA Notice of Violation

In September 2010, PGE received a Notice of Violation (NOV) from the U.S. Environmental Protection Agency (EPA). The NOV states that the EPA has determined that PGE is violating the NSPS under the CAA, and Operating Permit requirements under Title V of the CAA, at the Boardman plant. In the NOV, the EPA asserts that certain projects at the Boardman plant in 1998 and in 2004 triggered the NSPS, that PGE did not meet the emissions standards required by the regulations and that, therefore, PGE has operated the boiler at the Boardman plant in violation of the CAA. The NOV states the maximum civil penalties the EPA is authorized to impose under the CAA for violations of the NSPS (which range from $25,000 to $37,500 per day), but does not impose any penalties, or specify the amount of any proposed penalties with respect to the alleged violations.

Accordingly, management cannot estimate the range of potential liability for the violations asserted in the NOV. However, based solely on the maximum penalties authorized under the CAA, management believes that the maximum penalty that could be imposed for the alleged violations is approximately $60 million. The projects alleged to have triggered the NSPS in the NOV are also included in the Sierra Club's NSPS claim in the litigation described above. To the extent the Company incurs liability for such claims in connection with one of these proceedings, liability for the same claims could not be imposed pursuant to the other proceeding. PGE believes that it has strong defenses to these claims. During the first quarter of 2011, PGE met with the EPA to confer about the

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violations cited and to present information on the specific findings of the EPA. PGE and the EPA agreed to continue the discussions.

Management cannot predict the ultimate outcome of these matters. Management believes, however, that these matters will not have a material adverse impact on the financial condition of the Company, but may have a material adverse impact on the results of operations and cash flows in future reporting periods.

Pacific Northwest Refund Proceeding

In July 2001, the FERC called for a hearing to explore whether there may have been unjust and unreasonable charges for spot market sales of electricity in the Pacific Northwest from December 25, 2000 through June 20, 2001 (Pacific Northwest Refund proceeding). During that period, PGE both sold and purchased electricity in the Pacific Northwest. In June 2003, the FERC issued an order terminating the proceeding and denying the claims for refunds. Parties appealed various aspects of the FERC order to the U.S. Ninth Circuit Court of Appeals (Ninth Circuit).

In August 2007, the Ninth Circuit issued its decision, concluding that the FERC failed to adequately explain how it considered or examined new evidence showing intentional market manipulation in California and its potential ties to the Pacific Northwest and that the FERC should not have excluded from the Pacific Northwest Refund proceeding purchases of energy made by the California Energy Resources Scheduling (CERS) division in the Pacific Northwest spot market. The Ninth Circuit remanded the case to the FERC to: (i) address the new market manipulation evidence in detail and account for it in any future orders regarding the award or denial of refunds in the proceedings; (ii) include sales to CERS in its analysis; and (iii) further consider its refund decision in light of related, intervening opinions of the court. The Ninth Circuit offered no opinion on the FERC’s findings based on the record established by the administrative law judge and did not rule on the FERC’s ultimate decision to deny refunds. After denying requests for rehearing, the Ninth Circuit in April 2009 issued a mandate giving immediate effect to its August 2007 order remanding the case to the FERC.

Since issuance of the mandate, certain parties proposing refunds have filed pleadings with the FERC suggesting procedures on remand, attempting to initiate new proceedings, and containing additional evidence that they assert shows market-wide manipulation that justifies refunds from early in 2000. Parties opposing refunds, including PGE, have filed various pleadings that contest allegations of market-wide manipulation and urge the FERC to reaffirm, with a more detailed explanation of its consideration of market manipulation claims, its previous decision not to initiate proceedings to order refunds.

The settlement between PGE and certain other parties in the California refund case in Docket No. EL00-95, et seq., approved by the FERC in May 2007, resolved all claims between PGE and the California parties named in the settlement as to transactions in the Pacific Northwest during the settlement period, January 1, 2000 through June 21, 2001, but did not settle potential claims from other market participants relating to transactions in the Pacific Northwest.

Management cannot predict the ultimate outcome of the Pacific Northwest Refund proceeding, whether the FERC will order refunds in this proceeding, which contracts would be subject to refunds, or how such refunds, if any, would be calculated. Management cannot estimate a range of potential loss. Management believes, however, that the outcome will not have a material adverse impact on the financial condition of the Company, but may have a material adverse impact on PGE’s results of operations and cash flows in future reporting periods.

EPA Investigation of Portland Harbor

A 1997 investigation by the EPA of a segment of the Willamette River known as the Portland Harbor revealed significant contamination of river sediments. The EPA subsequently included Portland Harbor on the National

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Priority List pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act as a federal Superfund site and listed 69 Potentially Responsible Parties (PRPs). PGE was included among the PRPs as it has historically owned or operated property near the river.

The Portland Harbor site is currently undergoing a remedial investigation and feasibility study (RI/FS) pursuant to an Administrative Order on Consent (AOC) between the EPA and several PRPs, not including PGE. In the AOC, the EPA determined that the RI/FS would focus on a segment of the river approximately 5.7 miles in length.

In January 2008, the EPA requested information from various parties, including PGE, concerning properties in or near the 5.7 mile segment of the river being examined in the RI/FS, as well as several miles beyond. Subsequently, the EPA has listed additional PRPs, which now number over one hundred.

The EPA will determine the boundaries of the site at the conclusion of the RI/FS in a Record of Decision in which it will document its findings and select a preferred cleanup alternative. The EPA expects to issue the Record of Decision in 2012.

Sufficient information is currently not available to determine the total cost of any required investigation or remediation of the Portland Harbor site or the liability of PRPs, including PGE. Management cannot predict the ultimate outcome of this matter or estimate a range of potential loss. Management believes, however, that the outcome will not have a material adverse impact on the financial condition of the Company, but may have a material adverse impact on PGE’s results of operations and cash flows in future reporting periods.

EPA Investigation of Harbor Oil

Harbor Oil, Inc. (Harbor Oil), located in north Portland, was utilized by PGE to process used oil from the Company’s power plants and electrical distribution system from at least 1990 until 2003. Harbor Oil continues to be utilized by other entities for the processing of used oil and other lubricants.

In 1974 and 1979, major oil spills occurred at the Harbor Oil site. Elevated levels of contaminants, including metals, pesticides, and polychlorinated biphenyls, have been detected at the site. In September 2003, the EPA included the Harbor Oil facility on the National Priority List as a federal Superfund site.

PGE received a Special Notice Letter for RI/FS from the EPA, dated June 27, 2005, in which the Company was named as one of fourteen PRPs with respect to the Harbor Oil site. In May 2007, an AOC was signed by the EPA and six other parties, including PGE, to implement an RI/FS at the Harbor Oil site. The draft remedial investigation was completed with the resulting report submitted to the EPA.

Sufficient information is currently not available to determine the total cost of investigation and remediation of the Harbor Oil site or the liability of the PRPs, including PGE. Management cannot predict the ultimate outcome of this matter or estimate a range of potential loss. Management believes, however, that the outcome of this matter will not have a material adverse impact on the financial condition of the Company, but may have a material adverse impact on PGE’s results of operations and cash flows in future reporting periods.

Other Matters

PGE is subject to other regulatory, environmental, and legal proceedings that arise from time to time in the ordinary course of its business, which may result in adverse judgments against the Company. Although management currently believes that resolution of such matters will not have a material adverse effect on its financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

NOTE 9: GUARANTEES

PGE enters into financial agreements and power and natural gas purchase and sale agreements that include indemnification provisions relating to certain claims or liabilities that may arise relating to the transactions contemplated by these agreements. Generally, a maximum obligation is not explicitly stated in the indemnification provisions and, therefore, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. PGE periodically evaluates the likelihood of incurring costs under such indemnities based on PGE's historical experience and the evaluation of the specific indemnities. As of March 31, 2011, management believes the likelihood is remote that PGE would be required to perform under such indemnification provisions or otherwise incur any significant losses with respect to such indemnities. The Company has not recorded any liability on the condensed consolidated balance sheets with respect to these indemnities.

NOTE 10: VARIABLE INTEREST ENTITIES

PGE has determined that its interests in three variable interest entities (VIEs) contain the obligation to absorb the variability of the entities that could potentially be significant to the VIEs, and the power to direct the activities that most significantly affect the entities' economic performance. Accordingly, the VIEs are consolidated within the Company's condensed consolidated financial statements. All three arrangements were formed for the sole purpose of designing, developing, constructing, owning, maintaining, operating, and financing photovoltaic solar power facilities located on real property owned by third parties and selling the energy generated by the facilities. PGE is the Managing Member in each of the Limited Liability Companies (LLCs), holding less than 1% equity interest in each entity, and a financial institution is the Investor Member, holding more than 99% equity interest in each entity. As the primary beneficiary, PGE consolidates the VIEs.

Determining whether PGE is the primary beneficiary of a VIE is complex, subjective and requires the use of judgments and assumptions. Significant judgments and assumptions made by PGE in determining it is the primary beneficiary of these LLCs include the following: (1) PGE has the expertise to own and operate electric generating facilities and is authorized to operate the LLCs pursuant to the operating agreements, and, therefore, PGE has control over the most significant activities of the LLCs; (2) PGE expects to own 100% of the LLCs shortly after five years have elapsed, at which time the facilities will have approximately 75% of their estimated useful life remaining; and (3) based on projections prepared in accordance with the operating agreements, PGE expects to absorb a majority of the expected losses of the LLCs.

Included in PGE's condensed consolidated balance sheet are LLC net assets as follows (in millions):

	March 31, 2011	December 31, 2010
Cash and cash equivalents	$1	$1
Accounts receivable	—	4
Electric utility plant, net	5	5

These assets can only be used to settle the obligations of the consolidated VIEs.

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

Forward-Looking Statements

The information in this report includes statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements that relate to expectations, beliefs, plans, assumptions and objectives concerning future operations, business prospects, expected changes in future loads, the outcome of litigation and regulatory proceedings, future capital expenditures, market conditions, future events or performance and other matters. Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will likely result," "will continue," "should," or similar expr intended to identify such forward-looking statements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed. PGE's expectations, beliefs and projections are expressed in good faith and are believed by PGE to have a reasonable basis including, but not limited to, management's examination of historical operating trends and data contained in records and other data available from third parties, but there can be no assurance that PGE's expectations, beliefs or projections will be achieved or accomplished.

In addition to any assumptions and other factors and matters referred to specifically in connection with such forward-looking statements, factors that could cause actual results or outcomes for PGE to differ materially from those discussed in forward-looking statements include:

- governmental policies and regulatory audits, investigations and actions, including those of the FERC and OPUC with respect to allowed rates of return, financings, electricity pricing and price structures, acquisition and disposal of facilities and other assets, construction and operation of plant facilities, transmission of electricity, recovery of power costs and capital investments, and current or prospective wholesale and retail competition;

- the effects of weak economies in the state of Oregon and the United States, including decreased demand for electricity, reduced revenue from sales of excess energy during periods of low wholesale market prices, impaired financial stability of vendors and service providers and elevated levels of uncollectible customer accounts;

- the outcome of legal and regulatory proceedings and issues including, but not limited to, the matters described in Note 8, Contingencies, in the Notes to Condensed Consolidated Financial Statements;

- unseasonable or extreme weather and other natural phenomena, which can affect customers' demand for power and could significantly affect PGE's ability and cost to procure adequate power and fuel supplies to serve its customers, and could increase the Company's costs to maintain its generating facilities and transmission and distribution systems;

- operational factors affecting PGE's power generation facilities, including forced outages, hydro and wind conditions, and disruption of fuel supply, which may cause the Company to incur replacement power costs and repair costs;

- declines in wholesale power and natural gas prices, which could require the Company to issue additional letters of credit or post additional cash as collateral with counterparties pursuant to existing power and natural gas purchase agreements;

- capital market conditions, including access to capital, interest rate volatility, reductions in demand for investment-grade commercial paper and the availability and cost of capital, as well as changes in PGE's credit ratings, which could have an impact on the Company's cost of capital and its ability to access the

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capital markets to support requirements for working capital, construction costs, and the repayments of maturing debt;

- future laws, regulations, and proceedings that could increase the Company's costs or affect the operations of the Company's thermal generating plants by imposing requirements for additional pollution control equipment or significant emissions fees or taxes, particularly with respect to coal-fired generation facilities, in order to mitigate carbon dioxide, mercury and other gas emissions;
- changes in wholesale prices for natural gas, coal, oil, and other fuels and the impact of such changes on the Company's power costs and the availability and price of wholesale power in the western United States;
- changes in residential, commercial, and industrial growth, and in demographic patterns, in PGE's service territory;
- the effectiveness of PGE's risk management policies and procedures and the creditworthiness of customers and counterparties;
- the failure to complete capital projects on schedule and within budget;
- the effects of Oregon law related to regulatory treatment of income taxes, which may result in earnings volatility and affect PGE's results of operations;
- declines in the fair value of equity securities held by defined benefit pension plans and other benefit plans, which could result in increased funding requirements for such plans;
- changes in, and compliance with, environmental and endangered species laws and policies;
- the effects of climate change, including changes in the environment that may affect energy costs or consumption, increase the Company's costs, or adversely affect its operations;
- new federal, state, and local laws that could have adverse effects on operating results;
- employee workforce factors, including aging, potential strikes, work stoppages, and transitions in senior management;
- general political, economic, and financial market conditions;
- natural disasters and other risks, such as earthquake, flood, drought, lightning, wind, and fire;
- financial or regulatory accounting principles or policies imposed by governing bodies; and
- acts of war or terrorism.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, PGE undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

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Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide an understanding of the business environment, results of operations, and financial condition of PGE. MD&A should be read in conjunction with the Company's condensed consolidated financial statements contained in this report as well as the consolidated financial statements and disclosures in its Annual Report on Form 10-K for the year ended December 31, 2010, and other periodic and current reports filed with the SEC.

Operating Activities - PGE is a vertically integrated electric utility engaged in the generation, purchase, transmission, distribution, and retail sale of electricity in the state of Oregon, as well as the wholesale sale of electricity and natural gas in the western United States and Canada. The Company generates revenues and cash flows primarily from the sale and distribution of electricity to customers in its service territory.

The Company's revenues and income from operations can fluctuate during the year from seasonal weather conditions on demand for electricity, retail and wholesale price changes, customer usage patterns (which can be affected by the economy), and the availability and price of purchased power and fuel. PGE is a winter-peaking utility that typically experiences its highest retail energy sales during the winter heating season, with a slightly lower peak in the summer that generally results from air conditioning demand.

Customers and Demand - Retail energy deliveries for the first quarter of 2011 increased 10% from the same period last year primarily as a result of cooler temperatures. On a weather adjusted basis, energy deliveries to retail customers for the first quarter of 2011 increased 3.1%, due to the effects of production increases by paper and high tech industrial customers and an increase in the average number of customers of approximately 4,100.

The following table presents deliveries, by customer class, including those to customers who chose to purchase their energy from an Electricity Service Supplier (ESS), for the periods indicated:

	Three Months Ended March 31,					
	2011		2010			
	Average Number of Customers	Energy Deliveries *	Average Number of Customers	Energy Deliveries *	Increase in Energy Deliveries	
Residential	719,615	2,291	716,181	2,046	12.0	%
Commercial	101,018	1,831	100,378	1,736	5.5	
Industrial	258	1,024	272	913	12.2	
Total	820,891	5,146	816,831	4,695	9.6	

* In thousands of MWh.

PGE projects that weather adjusted retail energy deliveries for 2011 will be approximately 1.0% above 2010 levels, including the anticipated effects of energy efficiency measures. The increase in deliveries reflects expected higher residential demand and growth in commercial and industrial deliveries, particularly paper production and high tech customers.

The average seasonally adjusted unemployment rates for the first quarters of 2011 and 2010 are as follows:

	United States	Oregon	Portland/ Salem

First quarter 2011	8.9 %	10.2 %	10.0 %
First quarter 2010	9.7	10.6	10.3

Power Operations - To meet the energy needs of its customers, the Company utilizes a combination of its own generating resources and wholesale market transactions. Based on numerous factors, including plant availability, customer demand, and current wholesale prices, PGE makes economic dispatch decisions continuously throughout a given period in an effort to minimize power costs for its retail customers. As a result, the proportion of power generated and purchased in the wholesale market to meet the Company's retail load requirement can vary from period to period. PGE's total system load for the three months ended March 31, 2011 increased 6% relative to that for the three months ended March 31, 2010, while the relative volume of power generated decreased 38%. During the first quarter of 2011, a significant amount of thermal generation was economically displaced by purchased power and increased energy from hydro generating resources.

Energy received from PGE-owned hydroelectric plants and under contracts from mid-Columbia projects increased 40% in the first quarter of 2011 compared to the first quarter of 2010. These resources provided approximately 26% of the Company's retail load requirement for the first quarter of 2011, compared to 20% for the first quarter of 2010. Energy received from these sources exceeded projections (or 'normal') included in the Company's Annual Power Cost Update Tariff (AUT) by approximately 16% during the first quarter of 2011, compared to falling short of such projections by approximately 21% during the first quarter of 2010. Such projections, which are finalized and filed with the OPUC in November each year, establish the power cost component of retail prices for the following calendar year. 'Normal' represents the level of energy forecasted to be received from hydroelectric resources for the year and is based on average regional hydro conditions. Any excess in hydro generation from that projected in the AUT generally displaces power from higher cost sources, while any shortfall is generally replaced with power from higher cost sources. Energy from hydro resources is expected to exceed normal for 2011.

Pursuant to the Company's power cost adjustment mechanism (PCAM), actual NVPC for the first quarter of 2011 was approximately \$19 million below baseline NVPC, with PGE recording an estimated refund to customers of approximately \$4 million as of March 31, 2011. Actual NVPC for the first quarter of 2010 was approximately \$7 million above baseline NVPC, with no collection from customers recorded as actual NVPC were within the established deadband range.

During the first quarter of 2011, the Company's generating plants provided approximately 42% of its retail load requirement, compared to 68% in the first quarter of 2010. Availability of the plants PGE operates approximated 98% and 95% for the first quarters of 2011 and 2010, respectively, with the availability of Colstrip, which PGE does not operate, approximating 94% and 97%, respectively.

Capital Requirements and Financing - PGE's capital requirements for 2011 are related primarily to ongoing expenditures for the upgrade, replacement, and expansion of transmission, distribution and generation infrastructure, and technology enhancements, as well as expenditures related to hydro licensing and construction. Capital and preliminary engineering expenditures are expected to approximate \$328 million in 2011, of which \$69 million has been incurred during the first quarter. See the Capital Requirements section of this Item 2.

For 2011, the Company expects to meet capital requirements with cash from ongoing operations, with no issuances of long-term debt or equity expected. In subsequent years, the Company expects to fund its capital requirements with a combination of cash from operations and funds from the capital markets as internal liquidity needs and market conditions warrant. The Company also expects that the borrowing capacity under credit facilities will continue to be available to manage working capital requirements during those periods. For further information, see the Debt and Equity Financings section of this Item 2.

PGE's 2009 Integrated Resource Plan (IRP), as amended, was acknowledged by the OPUC in November 2010 and includes the Company's strategy for acquiring new resources through 2015 and a 20-year strategy outlining long-term expectations for resource needs and portfolio management. To meet projected energy requirements, the IRP includes energy efficiency measures, new renewable resources, new transmission capability, new generating plants, and improvements to existing generating plants.

In accordance with the IRP acknowledgement and pursuant to the OPUC's competitive bidding guidelines, the

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Company will begin to implement the IRP by issuing up to three requests for proposals (RFPs) in 2011 for additional resources. In April 2011, the OPUC approved the selection of an Independent Evaluator for the RFPs to be issued in 2011.

The first RFP will seek approximately 200 MW of year-round flexible and peaking resources to help supply customers with electricity during peak demand periods and integrate increasing system levels of variable energy resources such as wind and solar power. In addition, the RFP will seek two seasonal peaking resources:

- approximately 200 MW of bi-seasonal (winter and summer) peaking supply; and

- approximately 150 MW of winter-only peaking supply.

The OPUC has issued a schedule that calls for PGE to submit a final draft RFP to the OPUC in late May 2011. The OPUC will accept comments and a recommendation from its staff before deciding whether to allow the RFP to proceed in late July 2011. Subject to the OPUC decision, PGE anticipates selection of successful bidders would be completed by the first quarter of 2012 with these resources available in the 2013 to 2015 time frame.

The two additional RFPs consist of:

- approximately 120 MWa of new renewable resources to help meet Oregon's renewable energy standard, for which the RFP is expected to be issued in the 2011 or 2012 time frame; and

- approximately 300 to 500 MW of baseload energy resources, for which the RFP is expected to be issued in 2011.

PGE expects to submit self-build proposals in each competitive bidding process for new resources and, if awarded the bids, would expect to need significant capital to fund the projects. For additional information, see the Capital Requirements section of Liquidity and Capital Resources in this Item 2.

PGE's current IRP includes a proposal for a double-circuit, 200-mile, 500 kV transmission project, the Cascade Crossing Transmission Project, or Cascade Crossing, that would help meet growing electricity demand and ensure future grid reliability by interconnecting new and existing energy resources in eastern Oregon to the Company's service territory. PGE continues to work with other stakeholders in the region in planning the project and is actively engaged in the federal, state, and tribal permitting process. The Company has signed Memorandums of Understanding with certain parties, including the Bonneville Power Administration, PacifiCorp, and Idaho Power Company concerning Cascade Crossing.

Legal, Regulatory, and Environmental Matters - PGE is a party to certain proceedings, the ultimate outcome of which may have a material impact on the results of operations and cash flows in future reporting periods. Such proceedings include, but are not limited to, matters related to:

- Recovery of the Company's investment in its closed Trojan plant;

- Claims for refunds related to wholesale energy sales during 2000 - 2001 in the Pacific Northwest Refund proceeding;

- Investigation of environmental matters at Portland Harbor;

- Claims asserted by the Sierra Club and other plaintiffs regarding the operation of Boardman; and

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A notice of violation issued by the EPA in September 2010, alleging that Boardman operation has violated various environmental regulations.

For additional information regarding the above and other matters, see Note 8, Contingencies, in the Notes to Condensed Consolidated Financial Statements.

Certain regulatory items, including those discussed below, impacted the Company's revenues, results of operations,

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or cash flows for the three months ended March 31, 2011 and in some cases have affected customer prices, as authorized by the OPUC. In some cases, the Company deferred the related expenses or benefits as regulatory assets or liabilities, respectively, for later amortization and inclusion in customer prices, pending OPUC review and authorization.

- General Rate Case—Effective January 1, 2011, the OPUC approved an increase in PGE's annual revenues of $65 million, which includes a reduction in NVPC of $35 million and represents an approximate 3.9% overall increase in customer prices.

The OPUC also approved a tariff that provides a mechanism for future consideration of customer price changes related to the recovery of the Company's remaining investment in the Boardman generating plant over a shortened operating life. The Company anticipates ceasing coal-fired operation at Boardman in 2020, consistent with revised rules approved by the Oregon Environmental Quality Commission in December 2010. The revised rules are subject to EPA approval, with its decision expected in May 2011.

On April 4, 2011, the Company submitted an advice filing to the OPUC requesting recovery of increased depreciation expense reflecting a change in the retirement date of Boardman from 2040 to 2020. The advice filing also incorporates the results of a new site-specific decommissioning study that increases the estimated asset retirement obligation by $23 million. The Company is expecting an effective date of July 1, 2011, with an incremental revenue requirement for the last six months of 2011 of approximately $8 million.

- Power Costs—Pursuant to the AUT process, PGE files an annual estimate of power costs for the following year, with new prices to become effective January 1st each year. As required, the Company's initial forecast of 2012 power costs was submitted to the OPUC on April 1, 2011. Such forecast will be updated during the year and finalized in November. Based upon the final forecast, new prices, as approved by the OPUC, would become effective January 1, 2012.

- Renewable Resource Costs—Pursuant to a renewable adjustment clause mechanism (RAC), PGE can recover in customer prices prudently incurred costs of renewable resources that are expected to be placed in service in the current year. The Company may submit a filing to the OPUC by April 1st each year, with prices to become effective January 1st of the following year. Under the RAC, in 2010, PGE filed for recovery of, among other things, the deferral of eligible costs and a return on its investment related to Biglow Canyon Phase III. The OPUC approved recovery over a one-year period beginning January 1, 2011 of $22.1 million, which includes a residual balance from the deferral of Biglow Canyon Phase II. In addition, effective January 1, 2011, the annual revenue requirement related to the investment in Biglow Canyon Phase III is reflected in retail prices through the Company's 2011 General Rate Case. The Company did not submit a RAC filing in April 2011 as it did not, at that time, have an approved renewable resource addition that would be placed into service during 2011.

- Regulatory Treatment of Income Taxes (SB 408)—

- In April 2011, the OPUC issued its order on the Company's 2009 SB 408 report, authorizing the previously stipulated refund to customers of $9 million, including interest, over a one-year period beginning June 1, 2011.

- For 2010, PGE has estimated a collection from customers of less than $1 million based on temporary rules issued by the OPUC in February 2011, which are effective for 180 days. The OPUC is currently conducting a permanent rulemaking proceeding to replace the temporary rules, with a decision expected in the third quarter of 2011. The 2010 SB 408 report is expected to be filed with the OPUC no later than October 15, 2011, with the OPUC's decision on such report expected no later than April 2012 and any resulting change in customer prices effective June 1, 2012. The Company has not recorded any amount for SB 408 related to 2010; and

- For 2011, PGE has estimated a collection from customers of less than $1 million based on the temporary rules, but has not recorded any amount under SB 408.

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In March 2011, Oregon Senate Bill 967 (SB 967) was introduced, which, if enacted into law, would repeal existing statutes governing the adjustment of public utility rates to account for differences in taxes paid by electricity and natural gas utilities and amounts collected from customers for taxes (collectively, known as 'SB 408'), effective with the 2010 calendar year. Among other matters, SB 967 would require the OPUC to consider taxes paid by electricity and natural gas utilities when conducting ratemaking proceedings.

If SB 967 as currently written is enacted into law and made effective for the 2010 and 2011 SB 408 reports, the filing of such reports would no longer be required and no price adjustment would occur relating to these years. SB 967 would not affect the Company's 2009 SB 408 report. PGE cannot predict whether SB 967 will ultimately be enacted into law, but will monitor the status of the bill as it progresses through the legislative process.

- Decoupling—The decoupling mechanism is intended to provide for recovery of reduced revenues resulting from a reduction in electricity sales attributable to energy efficiency and conservation efforts by residential and certain commercial customers. The mechanism provides for customer collection or refund if weather adjusted use per customer is less than or more than the levels approved in the Company's most recent general rate case.

- In 2010, the Company recorded an estimated collection of $8 million, as weather adjusted use per customer was less than levels included in the 2009 General Rate Case. Pending review and approval by the OPUC, any resulting collections from customers would be expected over a one-year period beginning June 1, 2011.

- In the first quarter of 2011, the Company recorded an estimated collection of less than $1 million primarily related to a true-up for 2010.

Critical Accounting Policies

PGE's critical accounting policies are outlined in Item 7 of the Company's Annual Report on Form 10 K for the year ended December 31, 2010, filed with the SEC on February 25, 2011.

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Results of Operations

The following table contains condensed consolidated statements of income information for the periods presented (dollars in millions):

	Three Months Ended March 31,					
	2011			2010		
Revenues, net	$484	100	%	$449	100	%
Purchased power and fuel	194	40		224	50	
Gross margin	290	60		225	50	
Operating expenses:						
Production and distribution	42	9		39	8	
Administrative and other	52	11		45	10	
Depreciation and amortization	56	11		57	13	
Taxes other than income taxes	25	5		23	5	
Total operating expenses	175	36		164	36	
Income from operations	115	24		61	14	
Other income:						
Allowance for equity funds used during construction	1	—		4	1	
Miscellaneous income, net	2	1		1	—	
Other income, net	3	1		5	1	
Interest expense	27	6		29	7	
Income before income taxes	91	19		37	8	
Income taxes	22	5		10	2	
Net income and Net income attributable to Portland General Electric Company	$69	14	%	$27	6	%

Net income attributable to Portland General Electric Company was $69 million, or $0.92 per diluted share, for the first quarter of 2011 compared to $27 million, or $0.36 per diluted share, for the first quarter of 2010. The $42 million increase in net income was largely driven by the combination of a 10% increase in total retail energy deliveries and a 19% decrease in average variable power cost. Increased retail energy deliveries were driven by colder temperatures in the first quarter of 2011 relative to the first quarter of 2010 and increased production by certain customers in the paper and high technology sectors.

The decrease in average variable power cost resulted from a 41% decline in the average price of purchased power and a 40% increase in energy from hydro resources in the first quarter of 2011 relative to the first quarter of 2010. During the first quarter of 2011, a significant amount of thermal generation was economically displaced with lower-cost power purchased in the wholesale market and the increased energy received from hydro and wind generation. During the first quarter of 2011, favorable hydro conditions resulted in a 16% increase from normal in power received from hydro resources, while during the first quarter of 2010 unfavorable hydro conditions resulted in a 21% decline from normal.

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Revenues, energy deliveries (based in MWh), and average number of retail customers consist of the following for the periods presented:

	Three Months Ended March 31,					
	2011			2010		
Revenues [1] (dollars in millions):						
Retail:						
Residential	$256	53	%	$219	49	%
Commercial	156	32		144	32	
Industrial	54	11		50	11	
Subtotal	466	96		413	92	
Other - accrued revenues	(3)	(1)		7	2	
Total retail revenues	463	95		420	94	
Wholesale revenues	13	3		21	4	
Other operating revenues	8	2		8	2	
Total revenues	$484	100	%	$449	100	%
Energy deliveries [2] (MWh in thousands):						
Retail:						
Residential	2,291	41	%	2,046	39	%
Commercial	1,831	33		1,736	33	
Industrial	1,024	18		913	17	
Total retail energy deliveries	5,146	92		4,695	89	
Wholesale energy deliveries	477	8		580	11	
Total energy deliveries	5,623	100	%	5,275	100	%
Average number of retail customers:						
Residential	719,615	88	%	716,181	88	%
Commercial	101,018	12		100,378	12	
Industrial	258	—		272	—	
Total	820,891	100	%	816,831	100	%

(1) Includes both revenues from customers who purchase their energy supplies from the Company and revenues from the delivery of energy to those commercial and industrial customers that purchase their energy from ESSs.

(2) Includes both energy sold to retail customers and energy deliveries to those commercial and industrial customers that purchase their energy from ESSs.

Revenues increased $35 million, or 8%, in the first quarter of 2011 compared to the first quarter of 2010 primarily as a result of the items described below.

Retail revenues are generated by the sale and delivery of energy to retail customers as well as from the delivery of energy that certain commercial and industrial customers purchase from ESSs. Retail revenues also include certain accrued revenues, comprised primarily of amounts related to SB 408, the decoupling mechanism, the PCAM, and deferrals related to the Company’s RAC filings.

Total retail revenues increased $43 million, or 10%, in the first quarter of 2011 compared to the first quarter of 2010, primarily due to the net effect of the following:

- A $41 million increase resulted from the increase in volume of energy sold consisting of:

  A 12% increase in residential energy deliveries primarily driven by the impact of cooler temperatures and the addition of 3,400 customers; and

An 8% increase in commercial and industrial energy deliveries largely due to improvement by

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certain customers in the paper production and technology sectors and the addition of 600 customers.

- A $14 million increase related to a 3% increase in the average retail price, resulting primarily from the January 1, 2011 price increase authorized by the OPUC in the Company's 2011 General Rate Case;

- A $6 million decrease attributable to certain customer credits, primarily driven by the refund in customer prices, which began January 1, 2011, of a previously recorded deferred liability for Trojan ISFSI pollution control tax credits. The overall reduction in revenues is offset by a $5 million reduction in Depreciation and amortization expense and a $1 million reduction in Income taxes;

- A $5 million decrease related to the decoupling mechanism as a $5 million collection from customers was recorded in the first quarter of 2010, which is included in Other - accrued revenues. For further information on the decoupling mechanism, see "Legal, Regulatory and Environmental Matters" in "Overview" of this Item 2; and

- A $4 million decrease related to an estimated refund to customers, pursuant to the PCAM, recorded in the first quarter of 2011 and included in Other - accrued revenues.

Heating degree-days are an indication of the likelihood that customers will use heating and are used to measure the effects of weather on the demand for electricity. During the first quarter of 2011, cooler than normal temperatures increased the demand for electricity over 2010, as heating degree-days were 21% higher than the first quarter of 2010, which was warmer than normal.

The following table indicates the number of heating degree-days for the periods presented, along with 15-year averages provided by the National Weather Service, as measured at Portland International Airport:

	Heating Degree-days	
	2011	2010
January	714	609
February	683	510
March	577	510
1st quarter	1,974	1,629
15-year average for the quarter	1,845	1,849

On a weather adjusted basis, energy deliveries to retail customers increased by 3.1% in the first quarter of 2011 compared to the first quarter of 2010.

Wholesale revenues result from sales of electricity to utilities and power marketers, which are made in conjunction with the Company's effort to secure reasonably priced power for its retail customers, manage risk, and administer its long-term wholesale contracts. Such sales can vary significantly period to period. Wholesale revenues in the first quarter of 2011 declined $8 million, or 38%, compared to the first quarter of 2010, as the result of both an 18% decrease in sales volume and a 32% decrease in average price.

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Purchased power and fuel expense decreased $30 million, or 13%, in the first quarter of 2011 compared to the first quarter of 2010, with $43 million related to a 19% decrease in average variable power cost, partially offset by $13 million related to a 6% increase in total system load. The average variable power cost was $33.94 per MWh in the first quarter of 2011 compared to $41.65 per MWh in the first quarter of 2010.

The decrease in Purchased power and fuel expense consisted of:

- A $28 million decrease in the cost of generation, primarily driven by a decrease in the proportion of power provided by Company-owned thermal generating resources. A significant amount of thermal generation was economically displaced during the first quarter of 2011 by purchased power and increased energy from hydro and wind generating resources. The average cost of power generated increased 4% in the first quarter of 2011 relative to the first quarter of 2010; and

- A $2 million decrease in the cost of purchased power, consisting of $92 million related to a 41% decrease in average cost, partially offset by $90 million related to a 68% increase in total energy purchases. The decrease in average cost was primarily driven by lower wholesale power prices resulting from favorable hydro conditions.

PGE's sources of energy, including total system load and retail load requirement, are as follows for the periods presented:

	Three Months Ended March 31,					
	2011			2010		
Sources of energy (MWh in thousands):						
Generation:						
Thermal:						
Coal	1,133	20	%	1,397	26	%
Natural gas	268	4		1,322	24	
Total thermal	1,401	24		2,719	50	
Hydro	570	10		479	9	
Wind	217	4		88	2	
Total generation	2,188	38		3,286	61	
Purchased power:						
Term	1,561	28		1,201	22	
Hydro	802	14		503	9	
Wind	73	1		56	1	
Spot	1,088	19		343	7	
Total purchased power	3,524	62		2,103	39	
Total system load	5,712	100	%	5,389	100	%
Less: wholesale sales	(477	)		(580	)	
Retail load requirement	5,235			4,809		

Energy from PGE-owned wind generating resources (Biglow Canyon Wind Farm), increased 147%, and represented 4% of the Company's retail load requirement in the first quarter of 2011, compared to 2% in the first quarter of 2010. The increase was due to the completion of the third and last phase of Biglow Canyon in August 2010.

Hydroelectric energy during the first quarter of 2011, from both PGE-owned plants and from mid-Columbia projects, exceeded both normal levels and the first quarter of 2010 by 16% and 40%, respectively. Although total hydroelectric energy in the first quarter of 2010 was 21% below normal, improved regional hydro conditions during the remainder of 2010 resulted in only an 8% reduction from normal for the year. Energy from hydro resources is

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expected to be above normal for 2011.

The following table presents the forecast of the April-to-September 2011 runoffs (issued April 21, 2011) at particular points of major rivers relevant to PGE's hydro resources, with actual runoffs for 2010 (as a percentage of normal, as measured over the 30-year period from 1971 through 2000):

Location	Runoff as a Percent of Normal * 2011 Forecast		2010 Actual	
Columbia River at The Dalles, Oregon	121	%	79	%
Mid-Columbia River at Grand Coulee, Washington	118		78	
Clackamas River at Estacada, Oregon	120		124	
Deschutes River at Moody, Oregon	112		104	

* Volumetric water supply forecasts for the Pacific Northwest region are prepared by the Northwest River Forecast Center in conjunction with the Natural Resources Conservation Service and other cooperating agencies.

Under the PCAM, customer prices can be adjusted to reflect a portion of the difference between each year's forecasted NVPC included in prices (baseline NVPC) and actual NVPC for the year, to the extent such difference is outside of a pre-determined "deadband," subject to a regulated earnings test. For 2011, the deadband ranges from $15 million below to $30 million above baseline NVPC. For 2010, the deadband ranged from $17 million below to $35 million above baseline NVPC. Pursuant to the PCAM, 90% of the actual NVPC above or below the deadband is to be collected from or refunded to, respectively, retail customers when the Company meets or exceeds the regulated earnings test.

Actual NVPC for the first quarter of 2011 was approximately $19 million below baseline NVPC, with PGE recording an estimated refund to customers of approximately $4 million as of March 31, 2011. Actual NVPC for the year ending December 31, 2011 is currently estimated to be below the baseline NVPC and the lower deadband threshold, with the Company exceeding its regulated earnings test. Actual NVPC was approximately $7 million above baseline NVPC in the first quarter of 2010. Actual NVPC for 2010 was $12 million below baseline NVPC, but within the established deadband range; accordingly, no refund to customers was recorded in 2010.

Gross margin, which represents the difference between Revenues, net and Purchased power and fuel expense, is among those performance indicators utilized by management in the analysis of financial and operating results and is intended to supplement the understanding of PGE's operating performance. It provides a measure of income available to support other operating activities and expenses of the Company and serves as a useful measure for understanding and analyzing changes in operating performance between reporting periods. It is considered a "non-GAAP financial measure," as defined in accordance with SEC rules, and is not intended to replace operating income as determined in accordance with GAAP.

Gross margin was 60% in the first quarter of 2011, compared to 50% in the first quarter of 2010. The increase in Gross margin was driven by the increase in customer retail prices resulting from the 2011 General Rate Case which became effective January 1, 2011, combined with lower wholesale electricity prices and favorable hydro conditions, the effects of which economically displaced thermal generation.

Production and distribution expense increased $3 million, or 8%, in the first quarter of 2011 compared to the first quarter of 2010. The increase was due primarily to increased distribution repair and restoration activities as well as higher tree trimming and other delivery system expenses. Also contributing to the increase were higher operating and maintenance expenses at the Company's generating plants, including Biglow Canyon, the final phase of which was completed in August 2010. Such increased expenses were partially offset by the insurance recovery of $3 million in certain prior year costs related to the Selective Water Withdrawal system on the Company's Pelton/Round Butte project on the Deschutes River.

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Administrative and other expense increased $7 million, or 16%, in the first quarter of 2011 compared to the first quarter of 2010. A $4 million increase in incentive compensation, related to improved corporate financial performance in the first quarter of 2011, was accompanied by higher pension and information technology costs.

Depreciation and amortization expense decreased $1 million, or 2%, in the first quarter of 2011 compared to the first quarter of 2010. A $5 million decrease related to the amortization of certain Oregon tax credits (offset in Revenues) was partially offset by an increase in depreciation related to Biglow Canyon and the smart meter project.

Taxes other than income taxes increased $2 million, or 9%, in the first quarter of 2011 compared to the first quarter of 2010, due primarily to higher property taxes (resulting from both increased property values and tax rates) and higher city franchise fees.

Other income, net was $3 million in the first quarter of 2011 compared to $5 million in the first quarter of 2010. The decrease was due primarily to a reduction in the allowance for equity funds used during construction, as a result of lower construction work in progress balances during the first quarter of 2011, related primarily to the August 2010 completion of Phase III of Biglow Canyon.

Interest expense decreased $2 million, or 7%, in the first quarter of 2011 compared to the first quarter of 2010. The decrease was due primarily to a lower average interest rate on outstanding long-term debt and lower interest on regulatory liabilities, consisting primarily of customer refunds related to the Trojan regulatory proceeding.

Income taxes increased $12 million in the first quarter of 2011 compared to the first quarter of 2010, primarily due to higher income before taxes in 2011. The effective tax rates (24% and 27% in the first quarters of 2011 and 2010, respectively) are lower than the federal statutory rate primarily due to benefits from federal wind production tax credits, related to increased generation from Biglow Canyon, and state tax credits.

Liquidity and Capital Resources

Capital Requirements

The following table presents PGE’s estimated cash requirements for the years indicated (in millions):

	2011		2012	2013	2014	2015
Ongoing capital expenditures	$250		$225	$216	$237	$268
Boardman emissions controls [1]	22		1	15	3	—
Hydro licensing and construction	35		20	13	27	28
Total capital expenditures	$307	[2]	$246	$244	$267	$296
Preliminary engineering	$21		$2	$—	$—	$—
Long-term debt maturities	$10		$100	$100	$63	$70

(1) Represents 80% of estimated total costs based on installation of nitrogen oxide and mercury controls to meet regulatory requirements. In 1985, PGE sold an undivided 15% interest in Boardman to a third party, reducing the Company’s ownership interest from 80% to 65%. The purchaser has certain rights to participate in the financing of the portion of the total capital cost attributable to its interest. If the purchaser does not exercise its rights to finance the portion of the total cost attributable to its interest, PGE’s share of the total cost for the emissions controls at Boardman is expected to be 80%.

(2) Amounts shown include removal costs, which are included in other net operating activities in the condensed consolidated statements of cash flows.

Ongoing capital expenditures—Consists of upgrades to and replacement of transmission, distribution and generation infrastructure, as well as new customer connections.

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Boardman emissions controls—In accordance with federal regional haze rules, PGE submitted an initial analysis and control plan for Boardman to the Oregon Department of Environmental Quality after it was determined that Boardman would be subject to a Regional Haze Best Available Retrofit Technology (BART) Determination, as required under the Clean Air Act.

In December 2010, the Oregon Environmental Quality Commission approved revised BART rules that establish emission limits and provide for coal-fired operation at Boardman to cease no later than December 31, 2020. The revised rules have been submitted to the EPA for consideration and approval, which is expected during the second quarter 2011.

The emission limits imposed under the revised rules will require the addition of certain controls. The total cost of these controls, together with mercury controls required under a separate rulemaking process, is estimated at approximately $60 million (100% of total costs, excluding AFDC), and is reflected in the table above.

In March 2011, the EPA issued proposed rules under the Clean Air Act's National Emission Standards for Hazardous Air Pollutants to reduce emissions of Hazardous Air Pollutants (HAPs), which include heavy metals, acid gases, and other substances as defined in the proposal, from coal- and oil-fired electric utility steam generating units. These proposed rules, which reflect the application of maximum achievable control technology (MACT), are expected to be final by the end of 2011. The Company has not yet determined whether it can meet all the HAPs limits with current and planned control technologies. If the HAPs limits, as proposed, cannot be met with current and planned control technologies, the Company may find it necessary to install additional controls, unless the proposed rules are modified to provide additional flexibility for a federally enforceable shutdown plan.

Hydro licensing and construction—In December 2010, the FERC issued a new 40-year operating license for the Company's Clackamas River project. On March 17, 2011, the FERC issued an Order on Rehearing that increased the license period to 45 years. Capital spending requirements reflected in the table above relate primarily to modifications to the Company's hydro facilities to enhance fish passage and survival, as required by conditions contained in the licenses.

Preliminary engineering—Preliminary engineering costs consist of expenditures for preliminary surveys, plans, and investigations made for the purpose of determining the feasibility of utility projects under consideration, as indicated below. If PGE moves forward with construction of the project, such costs are reclassified to Electric utility plant. If the capital project is abandoned, such costs are expensed in the period such determination is made. If any preliminary engineering costs are expensed, the Company may seek recovery of such costs in customer prices, although there can be no guarantee such recovery would be granted. As of March 31, 2011 and December 31, 2010, PGE has recorded preliminary engineering costs of $15 million and $13 million, respectively, which are included in Other noncurrent assets in the condensed consolidated balance sheets.

Integrated Resource Plan—Estimated future expenditures related to certain projects included in PGE's IRP are not included in the table above due to the uncertainty as to the timing and cost, and whether the bid for construction would be awarded to the Company. These include:

- The construction of the Cascade Crossing Transmission Project at an estimated total cost (in 2011 dollars) of $800 million to $1.0 billion, with an estimated in-service date of 2015. The Company is currently in discussions with potential partners for this project; and

- The addition of new generating plants and improvements to existing plants. The timing and total cost of the new capacity, energy, and renewable resources described in the IRP will be determined based on the results of the related RFPs, which will determine the successful bidders.

Certain costs that the Company expects to incur in connection with investigating the potential construction of these projects are currently included in Preliminary engineering in the table above. For further information on the Company’s IRP, see the Capital Requirements section of the Overview in this Item 2.

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Liquidity

PGE's access to short-term debt markets, including revolving credit from banks, helps provide necessary liquidity to support the Company's current operating activities, including the purchase of power and fuel. Long-term capital requirements are driven largely by capital expenditures for distribution, transmission, and generation facilities to support both new and existing customers, as well as debt refinancing activities. PGE's liquidity and capital requirements can also be significantly affected by other working capital needs, including margin deposit requirements related to wholesale market activities, which can vary depending upon the Company's forward positions and the corresponding price curves.

The following summarizes PGE's cash flows for the periods presented (in millions):

	Three Months Ended March 31,	
	2011	2010
Cash and cash equivalents, beginning of period	$4	$31
Net cash provided by (used in):		
Operating activities	146	68
Investing activities	(70)	(73)
Financing activities	(53)	26
Increase in cash and cash equivalents	23	21
Cash and cash equivalents, end of period	$27	$52

Cash Flows from Operating Activities - Cash flows from operating activities are generally determined by the amount and timing of cash received from customers and payments made to vendors, as well as the nature and amount of non-cash items, including depreciation and amortization, included in net income during a given period. The $78 million increase in cash provided by operating activities in the first quarter of 2011 compared to the first quarter of 2010 was largely due to an increase in net income, after the consideration of noncash operating items, as well as a $36 million decrease in margin deposit requirements pursuant to power and natural gas purchase and sale agreements, driven primarily by decreases in the forward market prices of power and natural gas, and an $8 million income tax refund received in the first quarter of 2011.

A significant portion of cash provided by operations consists of recovery in customer prices of non-cash charges for depreciation and amortization, which PGE estimates to be approximately $220 million in 2011.

Cash Flows from Investing Activities - Cash flows used in investing activities consist primarily of capital expenditures related to new construction and improvements to PGE's distribution, transmission, and generation facilities. The $3 million decrease in net cash used in investing activities in the first quarter of 2011 compared to the first quarter of 2010 was primarily due to lower capital expenditures resulting from the completion of Biglow Canyon Phase III in August 2010 and a $19 million distribution in the first quarter of 2010 from the Nuclear decommissioning trust to PGE as a result of an OPUC order issued in connection with a deferral of Boardman power costs.

The Company plans approximately $328 million of capital and preliminary engineering expenditures in 2011 related to upgrades and replacement of transmission, distribution and generation infrastructure. See "Capital Requirements" section above for additional information.

Cash Flows from Financing Activities - Financing activities provide supplemental cash for both day-to-day operations and capital requirements as needed. During the first quarter of 2011, cash used in such activities consisted of the payment of dividends of $20 million, the repayment of commercial paper of $19 million, the repayment of long-term debt of $10 million, and capital distributions to noncontrolling interests of $4 million. During the first quarter of 2010, net cash provided by financing activities primarily consisted of proceeds received from the issuance of long-term debt of $191 million, the repayment of long-term debt of $149 million and the

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payment of dividends of $19 million.

As of March 31, 2011, PGE does not expect to issue any long-term debt securities in 2011.

Dividends on Common Stock

While the Company expects to pay regular quarterly dividends on its common stock, the declaration of any dividends is at the discretion of the Company's Board of Directors. The amount of any dividend declaration will depend upon factors that the Board of Directors deems relevant and may include, but are not limited to, PGE's results of operations and financial condition, future capital expenditures and investments, and applicable regulatory and contractual restrictions.

During the first quarter of 2011, the Board of Directors declared a dividend of $0.26 per common share, for a total of $20 million, with payments made on April 15, 2011 to shareholders of record on March 25, 2011.

Debt and Equity Financings

PGE's ability to secure sufficient long-term capital at a reasonable cost is determined by its financial performance and outlook, capital expenditure requirements, alternatives available to investors, and other factors. The Company's ability to obtain and renew such financing depends on its financial condition and credit ratings, as well as on credit markets, both generally and for electric utilities in particular. Management believes that the availability of the credit facilities, the expected ability to issue long-term debt and equity securities, and cash expected to be generated from operations provide sufficient liquidity to meet the Company's anticipated capital and operating requirements. However, the Company's ability to issue long-term debt and equity could be adversely affected by changes in capital market conditions.

Short-term Debt. PGE has approval from the FERC to issue short-term debt up to a total of $750 million through February 6, 2012 and currently has the following unsecured revolving credit facilities:

- A $370 million syndicated credit facility, with $10 million and $360 million scheduled to terminate July 2012 and July 2013, respectively;
- A $200 million syndicated credit facility, which is scheduled to terminate in December 2012; and
- A $30 million credit facility, which is scheduled to terminate in June 2013.

These credit facilities supplement operating cash flow and provide a primary source of liquidity. Pursuant to the individual terms of the agreements, the credit facilities may be used for general corporate purposes and as backup for commercial paper borrowings. The $370 million and $30 million credit facilities also permit the issuance of standby letters of credit. As of March 31, 2011, PGE had $147 million of letters of credit and no commercial paper or borrowings outstanding under the credit facilities. As of March 31, 2011, the aggregate unused credit available under the credit facilities was $453 million.

Long-term Debt. To fund current capital expenditures and maturities of long-term debt, PGE generally relies on the issuance of long-term debt. For 2011, PGE expects cash to be provided by operating activities will fund total capital and preliminary engineering expenditures, which are expected to amount to approximately $328 million. Accordingly, the Company does not anticipate issuing any long-term debt in 2011. During the first quarter of 2011, PGE elected to have $10 million of Port of St. Helens pollution control revenue bonds redeemed and retired. PGE has no other long-term debt that is scheduled to mature in 2011.

Capital Structure. PGE’s financial objectives include the balancing of debt and equity to maintain an optimal weighted average cost of capital while retaining sufficient flexibility to meet the Company’s financial obligations. The Company attempts to maintain a common equity ratio (common equity to total consolidated capitalization,

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including current debt maturities) of approximately 50%. Achievement of this objective, while sustaining sufficient cash flow, is necessary to maintain acceptable credit ratings and allow access to long-term capital at optimal interest rates. PGE's common equity ratios were 47.8% and 46.7% as of March 31, 2011 and December 31, 2010, respectively.

Credit Ratings and Debt Covenants

PGE's secured and unsecured debt is rated investment grade by Moody's Investors Service (Moody's) and Standard and Poor's Ratings Services (S&P). PGE's current credit ratings and outlook are as follows:

	Moody's	S&P
First Mortgage Bonds	A3	A-
Senior unsecured debt	Baa2	BBB
Commercial paper	Prime-2	A-2
Outlook	Stable	Stable

The Company could be subject to requests by certain of its wholesale, commodity and related transmission counterparties to post additional performance assurance collateral in connection with its price risk management activities should Moody's and/or S&P reduce their credit rating on PGE's unsecured debt to below investment grade. The performance assurance collateral can be in the form of cash deposits or letters of credit, depending on the terms of the underlying agreements, and are based on the contract terms and commodity prices and can vary from period to period. These cash deposits are classified as Margin deposits in PGE's condensed consolidated balance sheet, while any letters of credit issued are not reflected in the Company's condensed consolidated balance sheet. As of March 31, 2011, PGE had posted approximately $206 million of collateral with these counterparties, consisting of $80 million in cash and $126 million in letters of credit, $23 million of which is affiliated with master netting agreements. Based on the Company's energy portfolio, estimates of energy market prices, and the level of collateral outstanding as of March 31, 2011, the approximate amount of additional collateral that could be requested upon a single agency downgrade to below investment grade is approximately $125 million and decreases to approximately $66 million by December 31, 2011. The amount of additional collateral that could be requested upon a dual agency downgrade to below investment grade is approximately $246 million at March 31, 2011 and decreases to approximately $117 million by December 31, 2011.

PGE's financing arrangements do not contain ratings triggers that would result in the acceleration of required interest and principal payments in the event of a ratings downgrade.

The issuance of additional First Mortgage Bonds requires that PGE meet certain provisions set forth in the Indenture of Mortgage and Deed of Trust (the Indenture) securing the bonds. PGE estimated that on March 31, 2011, under the most restrictive issuance test in the Indenture, the Company could have issued up to approximately $462 million of additional First Mortgage Bonds. Any additional issuances of first mortgage bonds would be subject to market conditions at the time of issuance. Furthermore, amounts could be further limited by regulatory authorizations or by covenants and tests contained in other financing agreements. PGE has the ability under certain circumstances to release property from the lien of the Indenture on the basis of property additions, bond retirements, and/or deposits of cash.

PGE's credit facilities contain customary covenants and credit provisions, including a requirement that limits consolidated indebtedness, as defined in the credit agreements, to 65% of total capitalization (debt ratio). As of March 31, 2011, the Company's debt ratio, as calculated under the credit agreements, was 52.3%.

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Off-Balance Sheet Arrangements

PGE has no off-balance sheet arrangements other than outstanding letters of credit that have, or are reasonably likely to have, a material current or future effect on its consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

PGE's contractual obligations for 2011 and beyond are set forth in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011. Such obligations have not changed materially as of March 31, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is subject to various market risks which include commodity price risk, credit risk, foreign currency exchange rate risk, and interest rate risk. There have been no material changes to market risks affecting the Company from those set forth in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011.

Item 4. Controls and Procedures.

PGE's management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, PGE's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2011, these disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding PGE’s legal proceedings, see Legal Proceedings set forth in Part I, Item 3 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011.

Item 1A. Risk Factors.

There have been no material changes to PGE's risk factors set forth in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011.

Item 6. Exhibits.

3.1	Second Amended and Restated Articles of Incorporation of Portland General Electric Company (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10 Q filed August 3, 2009).
3.2	Seventh Amended and Restated Bylaws of Portland General Electric Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 19, 2010).
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32	Certifications of Chief Executive Officer and Chief Financial Officer.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed “furnished” and not “filed.”

Certain instruments defining the rights of holders of other long-term debt of the Company are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K because the total amount of securities authorized under each such omitted instrument does not exceed 10% of the total consolidated assets of the Company and its subsidiaries. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.

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SIGNATURE

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

PORTLAND GENERAL ELECTRIC COMPANY
(Registrant)

Date: May 4, 2011

By: /s/ Maria M. Pope
Maria M. Pope
Senior Vice President, Finance,
Chief Financial Officer, and Treasurer
(duly authorized officer and principal financial officer)