ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
July 27, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to
Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	01-0609375 (I.R.S. Employer Identification No.)
2905 Premiere Parkway NW, Suite 300 Duluth, Georgia (Address of principal executive offices)	30097 (Zip Code)

(770) 418-8200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large Accelerated Filer	o	Accelerated Filer	x

Non-Accelerated Filer o Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of July 25, 2011 was 32,323,882 (net of 5,836,534 treasury shares).

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value and share data)
(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$23.2	$21.3
Contracts-in-transit	71.6	80.6
Accounts receivable (net of allowance of $1.3 and $0.7, respectively)	67.6	102.6
Inventories	482.9	547.4
Deferred income taxes	9.9	7.6
Assets held for sale	3.2	60.7
Other current assets	51.9	56.6
Total current assets	710.3	876.8
PROPERTY AND EQUIPMENT, net	493.0	458.9
GOODWILL	18.8	18.9
DEFERRED INCOME TAXES, net of current portion	51.8	61.5
OTHER LONG-TERM ASSETS	64.3	70.2
Total assets	$1,338.2	$1,486.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable—trade	$195.9	$344.6
Floor plan notes payable—non-trade	75.5	80.0
Current maturities of long-term debt	17.0	8.9
Accounts payable and accrued liabilities	183.8	170.1
Liabilities associated with assets held for sale	—	32.2
Total current liabilities	472.2	635.8
LONG-TERM DEBT	526.8	534.9
OTHER LONG-TERM LIABILITIES	28.0	28.5
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 90,000,000 shares authorized; 38,082,705 and 37,597,481 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	470.4	463.4
Accumulated deficit	(61.6)	(95.7)
Treasury stock, at cost; 5,829,934 and 4,799,188 shares, respectively	(92.7)	(75.0)
Accumulated other comprehensive loss	(5.3)	(6.0)
Total shareholders' equity	311.2	287.1
Total liabilities and shareholders' equity	$1,338.2	$1,486.3

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES:				
New vehicle	$578.3	$548.4	$1,149.5	$1,025.4
Used vehicle	322.7	279.9	624.1	528.7
Parts and service	149.2	141.0	293.8	278.5
Finance and insurance, net	36.0	30.0	68.4	55.2
Total revenues	1,086.2	999.3	2,135.8	1,887.8
COST OF SALES:				
New vehicle	536.7	512.6	1,073.8	956.7
Used vehicle	294.3	255.8	568.3	481.5
Parts and service	66.3	64.5	131.9	128.6
Total cost of sales	897.3	832.9	1,774.0	1,566.8
GROSS PROFIT	188.9	166.4	361.8	321.0
OPERATING EXPENSES:				
Selling, general and administrative	142.8	127.2	277.6	248.9
Depreciation and amortization	5.8	5.2	11.1	10.6
Other operating expense (income), net	2.8	(0.6)	13.2	(1.3)
Income from operations	37.5	34.6	59.9	62.8
OTHER EXPENSE:				
Floor plan interest expense	(2.3)	(2.2)	(5.0)	(4.6)
Other interest expense, net	(10.3)	(9.0)	(20.8)	(18.0)
Swap interest expense	(1.4)	(1.6)	(2.8)	(3.3)
Convertible debt discount amortization	(0.3)	(0.4)	(0.5)	(0.8)
Total other expense, net	(14.3)	(13.2)	(29.1)	(26.7)
Income before income taxes	23.2	21.4	30.8	36.1
INCOME TAX EXPENSE	9.0	8.3	11.9	14.0
INCOME FROM CONTINUING OPERATIONS	14.2	13.1	18.9	22.1
DISCONTINUED OPERATIONS, net of tax	—	(0.3)	15.2	(1.9)
NET INCOME	$14.2	$12.8	$34.1	$20.2
EARNINGS PER COMMON SHARE:				
Basic—				
Continuing operations	$0.44	$0.41	$0.59	$0.69
Discontinued operations	—	(0.01)	0.47	(0.06)
Net income	$0.44	$0.40	$1.06	$0.63
Diluted—				
Continuing operations	$0.43	$0.40	$0.57	$0.67
Discontinued operations	—	(0.01)	0.46	(0.05)
Net income	$0.43	$0.39	$1.03	$0.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	32.1	32.2	32.3	32.2
Stock options	0.6	0.5	0.6	0.5
Restricted stock	0.1	0.2	0.2	0.1

Performance share units	0.1	0.1	0.1	—
Diluted	32.9	33.0	33.2	32.8

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	For the Six Months Ended June 30,	
	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$34.1	$20.2
Adjustments to reconcile net income to net cash used in operating activities—		
Depreciation and amortization	11.1	10.6
Stock-based compensation	5.2	3.1
Deferred income taxes	6.9	8.1
Loaner vehicle amortization	4.1	3.2
Excess tax benefit on share-based arrangements	(0.7)	—
Gain on sale of assets, net	(26.8)	—
Other adjustments, net	3.7	8.1
Changes in operating assets and liabilities, net of acquisitions and divestitures—		
Contracts-in-transit	9.0	(1.3)
Accounts receivable	23.2	(14.1)
Proceeds from the sale of accounts receivable	11.2	11.6
Inventories	77.5	(0.9)
Other current assets	(16.7)	(20.7)
Floor plan notes payable—trade	(140.8)	(64.2)
Floor plan notes payable—trade divestitures	(23.0)	(5.9)
Accounts payable and accrued liabilities	12.9	4.8
Other long-term assets and liabilities, net	2.3	0.3
Net cash used in operating activities	(6.8)	(37.1)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures—excluding real estate	(11.0)	(7.5)
Purchase of real estate	(0.6)	—
Purchase of previously leased real estate	(30.3)	—
Proceeds from the sale of assets	91.9	11.2
Other investing activities	0.6	(0.4)
Net cash provided by investing activities	50.6	3.3
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings—non-trade	208.2	189.8
Floor plan repayments—non-trade	(209.8)	(209.5)
Floor plan repayments—non-trade divestitures	(14.8)	—
Repayments of borrowings	(9.5)	(4.2)
Purchases of treasury stock, including those associated with net share settlement of employee share-based awards	(17.7)	(0.3)
Excess tax benefit on share-based arrangements	0.7	—
Proceeds from the exercise of stock options	1.0	0.3
Net cash used in financing activities	(41.9)	(23.9)
Net increase (decrease) in cash and cash equivalents	1.9	(57.7)
CASH AND CASH EQUIVALENTS, beginning of period	21.3	84.7
CASH AND CASH EQUIVALENTS, end of period	$23.2	$27.0

See Note 11 for supplemental cash flow information
See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 99 franchises (80 dealership locations) in 19 metropolitan markets within 10 states as of June 30, 2011. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. As of June 30, 2011, we offered 29 domestic and foreign brands of new vehicles. Our current brand mix is weighted 86% towards luxury and mid-line import brands, with the remaining 14% consisting of domestic brands. We also operate 25 collision repair centers that serve customers in our local markets. Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia;
- Nalley dealerships operating in Atlanta, Georgia;
- McDavid dealerships operating in primarily in Dallas and Houston, Texas;
- North Point dealerships operating in Little Rock, Arkansas;
- Plaza dealerships operating in St. Louis, Missouri; and
- Gray-Daniels dealerships operating in Jackson, Mississippi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly and the effects of any revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying condensed consolidated financial statements include, but are not limited to, those relating to inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance ("F&I") products, certain assumptions related to intangible and long-lived assets, reserves for insurance programs, reserves for certain legal or similar proceedings relating to our business operations, realization of deferred tax assets and reserves for estimated tax liabilities.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the unaudited interim condensed consolidated financial statements as of June 30, 2011, and for the three and six months ended June 30, 2011 and 2010, have been included. The results of operations

for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for any other interim, or any full year period. Our unaudited interim condensed consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

Contracts-In-Transit

Contracts-in-transit represent receivables from third-party finance companies for the portion of new and used vehicle purchase price financed by customers through sources arranged by us. Amounts due from contracts-in-transit are generally collected within two weeks following the date of sale of the related vehicle.

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Revenue Recognition

Revenue from the sale of new and used vehicles (which excludes sales tax) is recognized upon the latest of delivery, passage of title, signing of the sales contract or approval of financing. Revenue from the sale of parts, service and collision repair work (which excludes sales tax) is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed, as applicable. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a reduction of new vehicle cost of sales at the time the related vehicles are sold.

We receive commissions from third-party lending and insurance institutions for arranging customer financing and from the sale of vehicle service contracts, credit life insurance and disability insurance to customers, and other insurance offerings (collectively “F&I”). We may be charged back (“chargebacks”) for F&I commissions in the event a contract is prepaid, defaulted upon or terminated. F&I commissions are recorded at the time a vehicle is sold and a reserve for future chargebacks is established based on historical chargeback experience and the termination provisions of the applicable contracts. F&I commissions, net of estimated chargebacks, are included in Finance and Insurance, net in the accompanying Condensed Consolidated Statements of Income.

Earnings per Common Share

Basic earnings per share is computed by dividing net income by the weighted-average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. For all periods presented, there were no adjustments to the numerator necessary to compute diluted earnings per share. We have issued warrants that, upon exercise, may result in the issuance of between 2.4 million and 4.9 million shares of our common stock at an exercise price of $44.74 per share. Since the warrants are required to be settled in shares of common stock, the premium received for selling the warrants was recorded as an increase to additional paid-in capital, together with any cash that would be received upon exercise. In addition, our 3% Senior Subordinated Convertible Notes due 2012 (the “3% Convertible Notes”) are convertible into shares of our common stock at a current conversion price of $33.73 per share. The shares issuable upon exercise of these warrants and conversion of our 3% Convertible Notes could potentially dilute basic earnings per share in the future; however, these shares were not included in the computation of diluted earnings per share in any period presented because their inclusion would be anti-dilutive. The maximum number of shares of common stock issuable upon conversion of our 3% Convertible Notes as of June 30, 2011 was 2.2 million shares.

Discontinued Operations

Certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets have been classified as Assets Held for Sale or Liabilities Associated with Assets Held for Sale, with such classification beginning on the date that the assets and associated liabilities were first considered held for sale. When such assets and associated liabilities are subsequently removed from Assets Held for Sale and Liabilities Associated with Assets Held for Sale, we reclassify our prior period balance sheets to reflect the most current operating status of such assets and associated liabilities. Amounts in the accompanying Condensed Consolidated Statement of Income for the three and six months ended June 30, 2010 have been reclassified to reflect the results of franchises sold subsequent to June 30, 2010 or held for sale as of June 30, 2011, as if we had classified those franchises as discontinued operations for all years presented.

We report franchises and ancillary businesses as discontinued operations when it is evident that the operations and cash flows of a franchise or ancillary business being actively marketed for sale will be eliminated from our on-going operations and that we will not have any significant continuing involvement in its operations. We do not classify franchises as discontinued operations if we believe that the cash flows generated by the franchise will be replaced by expanded operations of our remaining franchises within the respective local market area.

Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle (“Non-Trade”), and all floor plan notes payable relating to pre-owned vehicles (collectively

referred to as "Floor Plan Notes Payable - Non-Trade"), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as “Floor Plan Notes Payable - Trade”) is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in

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connection with all acquisitions are classified as a financing activity. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory. Repayments of Floor Plan Notes Payable - Trade associated with divestitures are classified as an operating activity. Repayments of Floor Plan Notes Payable - Non-Trade associated with divestitures are classified as a financing activity.

Loaner vehicles account for a significant portion of Other Current Assets on the accompanying Condensed Consolidated Statements of Cash Flows. We acquire loaner vehicles either with available cash or through borrowings from manufacturer affiliated lenders. Loaner vehicles are initially used by our service department for only a short period of time (typically six to twelve months) before we seek to sell them. Therefore we classify the acquisition of loaner vehicles and the related borrowings and repayments as operating activities in the accompanying Condensed Consolidated Statements of Cash Flows. The cash outflow to acquire loaner vehicles is presented in Other Current Assets in the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings and repayments of loaner vehicle notes payable are presented in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. When loaner vehicles are taken out of loaner status they are transferred to used vehicle inventory, which is reflected as a non-cash transfer in the accompanying Condensed Consolidated Statements of Cash Flows. The cash inflow from the sale of loaner vehicles is reflected in Inventories on the accompanying Condensed Consolidated Statements of Cash Flows.

3. RECLASSIFICATION OF PRIOR PERIOD FINANCIAL STATEMENTS

We have previously presented the earnings impact associated with our various derivative financial instruments as components of Floor Plan Interest Expense and Other Interest Expense on our Condensed Consolidated Statements of Income. Our various derivative financial instruments, which include fair value and cash flow interest rate swaps, have been designed to provide hedges against changes in fair value of certain debt obligations and variable rate cash flows. Our earnings have been impacted by these interest rate swaps in the form of (i) amounts reclassified from Accumulated Other Comprehensive Income ("AOCI") to earnings for active swaps, (ii) amortization of amounts reclassified from AOCI to earnings for terminated cash flow swaps and (iii) amortization of terminated fair value swaps. In order to more clearly show the earnings impact associated with our various derivative financial instruments, we now separately disclose "Swap Interest Expense" on our Condensed Consolidated Statements of Income and reclassified the appropriate amounts from Floor Plan Interest Expense and Other Interest Expense to Swap Interest Expense. These reclassifications did not have any impact on income from continuing operations, earnings per share or retained earnings.

	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010
	(In millions)	
Floor plan interest expense, previously reported	$(4.0)	$(8.1)
Swap interest expense previously included in floor plan interest expense	1.3	2.6
Floor plan interest expense of franchises placed into discontinued operations between June 30, 2010 and June 30, 2011	0.5	0.9
Floor plan interest expense	$(2.2)	$(4.6)

	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010

	(In millions)	
Other interest expense, previously reported	$(9.5)	$(18.9)
Swap interest expense previously included in other interest expense	0.3	0.7
Other interest expense of franchises placed into discontinued operations between June 30, 2010 and June 30, 2011	0.2	0.2
Other interest expense, net	$(9.0)	$(18.0)

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	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010
	(In millions)	
Swap interest expense, previously reported	$—	$—
Swap interest expense previously included in floor plan interest expense	(1.3)	(2.6)
Swap interest expense previously included in other interest expense	(0.3)	(0.7)
Swap interest expense	$(1.6)	$(3.3)

In addition, we have reclassified our Condensed Consolidated Statement of Income for the three and six months ended June 30, 2010 to reflect the current status of our discontinued operations and we have made certain other immaterial reclassifications of prior period amounts to be consistent with current period presentation.

4. ACQUISITIONS

We did not acquire any dealerships during the six months ended June 30, 2011 or 2010.

During the six months ended June 30, 2010, we were awarded two Sprinter franchises, which were added to our Mercedes-Benz locations in St. Louis, Missouri and Tampa, Florida. We did not pay any amounts in connection with being awarded these two franchises.

5. INVENTORIES

Inventories consist of the following:

	As of June 30, 2011	December 31, 2010
	(In millions)	
New vehicles	$349.0	$436.1
Used vehicles	96.3	74.8
Parts and accessories	37.6	36.5
Total inventories	$482.9	$547.4

The lower of cost or market reserves reduced total inventory cost by $4.9 million and $4.6 million as of June 30, 2011 and December 31, 2010, respectively. In addition to the inventories shown above, we had $31.3 million of inventory as of December 31, 2010, classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets as they are associated with franchises held for sale. As of June 30, 2011 and December 31, 2010, certain automobile manufacturer incentives reduced new vehicle inventory cost by $3.8 million and $5.1 million, respectively, and reduced new vehicle cost of sales from continuing operations for the six months ended June 30, 2011 and June 30, 2010 by $10.0 million and $9.3 million, respectively.

6. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale include (i) assets and liabilities associated with discontinued operations held for sale at each balance sheet date and (ii) real estate not currently used in our operations that we intend to sell and the related mortgage notes payable, if applicable.

During the six months ended June 30, 2011, we sold (i) our heavy truck business in Atlanta, Georgia (as discussed further below), (ii) one franchise (one dealership location) and (iii) one additional ancillary business. There were no assets or liabilities associated with pending dispositions as of June 30, 2011. Assets and liabilities associated with pending dispositions as of December 31, 2010 totaled $48.0 million and $32.2 million, respectively.

Real estate not currently used in our operations that we are actively marketing to sell totaled $3.2 million and $12.7 million

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as of June 30, 2011 and December 31, 2010, respectively. During the six months ended June 30, 2011, we sold $8.8 million of real estate that was not currently used in our operations and recognized an impairment in value of $0.7 million on the remaining real estate not currently used in our operations. There were no liabilities associated with our real estate assets held for sale as of June 30, 2011 or December 31, 2010.

During the six months ended June 30, 2011, we sold our heavy truck business in Atlanta, Georgia, which consisted of ten franchises (three dealership locations) and one collision repair center for a total net pre-tax gain of approximately $25.7 million, which is included in Discontinued Operations, net on our Condensed Consolidated Statement of Income. The assets associated with this divestiture included:

Inventories	$30.7
Property and equipment, net	12.7
Goodwill	1.6
Total assets	$45.0

Proceeds from the sale of these assets were used to repay $33.7 million of floor plan notes payable associated with new vehicle inventory and $5.1 million of mortgage notes payable associated with certain property and equipment included in the sale.

In addition, during the six months ended June 30, 2011, we removed certain assets held for sale and liabilities associated with assets held for sale related to one franchise (one dealership location) as a result of our decision to operate this store instead of market it for sale. As a result, we reclassified the assets and liabilities associated with this franchise from Assets Held for Sale and Liabilities Associated with Assets Held for Sale on the Condensed Consolidated Balance Sheet as of December 31, 2010.

A summary of assets held for sale and liabilities associated with assets held for sale is as follows:

	As of June 30, 2011	December 31, 2010
	(In millions)	
Assets:		
Inventories	$—	$31.3
Property and equipment, net	3.2	25.6
Goodwill	—	1.6
Other	—	2.2
Total assets	3.2	60.7
Liabilities:		
Floor plan notes payable	—	27.0
Mortgage notes payable	—	5.2
Total liabilities	—	32.2
Net assets held for sale	$3.2	$28.5

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7. LONG-TERM DEBT

Long-term debt consists of the following:

	As of June 30, 2011	December 31, 2010
	(In millions)	
8.375% Senior Subordinated Notes due 2020	$200.0	$200.0
7.625% Senior Subordinated Notes due 2017	143.2	143.2
3% Senior Subordinated Convertible Notes due 2012 ($29.5 million face value, net of discounts of $1.3 million and $1.7 million, respectively)	28.2	27.8
Mortgage notes payable bearing interest at fixed and variable rates	168.5	172.8
Capital lease obligations	3.9	—
	543.8	543.8
Less: current portion	(17.0)	(8.9)
Long-term debt	$526.8	$534.9

In July 2011, we repurchased $8.8 million of our 3% Convertible Notes. As as result, the $8.8 million of 3% Convertible Notes repurchased, net of $0.4 million of associated unamortized discount, were included in Current Maturities of Long-Term Debt on our Condensed Consolidated Balance Sheet as of June 30, 2011.

8. FINANCIAL INSTRUMENTS AND FAIR VALUE

Financial instruments consist primarily of cash, contracts-in-transit, accounts receivable, notes receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, long-term debt and interest rate swap agreements. The carrying amounts of our financial instruments, with the exception of long-term debt, approximate fair value due either to their short-term nature or existence of variable interest rates, which approximate market rates. The fair market value of our long-term debt is based on reported market prices. A summary of the carrying values and fair values of our 8.375% Senior Subordinated Notes due 2020 (the "8.375% Notes"), our 7.625% Senior Subordinated Notes due 2017 (the "7.625% Notes") and 3% Senior Subordinated Convertible Notes due 2012 (the "3% Notes") is as follows:

	As of June 30, 2011	December 31, 2010
	(In millions)	
Carrying Value:		
8.375% Senior Subordinated Notes due 2020	$200.0	$200.0
7.625% Senior Subordinated Notes due 2017	143.2	143.2
3% Senior Subordinated Convertible Notes due 2012 ($29.5 million face value, net of discounts of $1.3 million and $1.7 million, respectively)	28.2	27.8
Total carrying value	$371.4	$371.0
Fair Value:		
8.375% Senior Subordinated Notes due 2020	$204.5	$205.8
7.625% Senior Subordinated Notes due 2017	142.1	144.1
3% Senior Subordinated Convertible Notes due 2012	29.5	29.0
Total fair value	$376.1	$378.9

We have an interest rate swap agreement with a notional principal amount of $10.4 million as of June 30, 2011. This swap was designed to provide a hedge against changes in variable rate cash flows through maturity in October 2015. The notional value of this swap is reduced over its term until July 2011 when the notional principal amount increases to $21.5 million and then begins to reduce over the remaining term to $16.1 million at maturity. This interest rate swap qualifies for cash flow hedge accounting treatment and will not contain any ineffectiveness.

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We also have an interest rate swap with a current notional principal amount of $125.0 million as of June 30, 2011. The swap was designed to provide a hedge against changes in variable rate cash flows through maturity in June 2013. This swap is collateralized by Company assets upon which we have not otherwise granted a first priority lien. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness.
In June 2011, one of our interest rate swap agreements matured. This swap had been designed to provide a hedge against changes in variable rate cash flows, and had qualified for cash flow hedge accounting treatment. The maturity of this swap agreement did not have a material impact on our Condensed Consolidated Financial Statements.
Information about the effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income (in millions):

For the Three Months Ended June 30,	Derivative in Cash Flow Hedging Relationships	Effective Results Recognized in AOCI (Effective Portion)	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Earnings–Active Swaps	Amount Reclassified from AOCI to Earnings–Terminated Swaps	Ineffective Results Recognized in Earnings	Location of Ineffective Results
2011	Interest rate swaps	$(1.7)	Swap interest expense	$ (1.3)	$ (0.1)	$—	N/A
2010	Interest rate swaps	$(2.6)	Swap interest expense	$ (1.3)	$ (0.1)	$—	N/A

For the Six Months Ended June 30,	Derivative in Cash Flow Hedging Relationships	Effective Results Recognized in AOCI (Effective Portion)	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Earnings–Active Swaps	Amount Reclassified from AOCI to Earnings–Terminated Swaps	Ineffective Results Recognized in Earnings	Location of Ineffective Results
2011	Interest rate swaps	$(1.7)	Swap interest expense	$ (2.7)	$ (0.1)	$—	N/A
2010	Interest rate swaps	$(4.9)	Swap interest expense	$ (2.6)	$ (0.2)	$—	N/A

On the basis of yield curve conditions as of June 30, 2011, we anticipate that the amount expected to be reclassified out of AOCI into earnings in the next 12 calendar months will be a loss of $4.8 million. However, this anticipated $4.8 million loss relates to hedging activity that fixes the interest rates on only 31% of our variable rate debt, including our floor plan notes payable and, therefore, if the current low interest rate environment continues, we believe we would experience a benefit from such interest rates on 69% of our variable rate debt.
Fair value estimates reflect a credit adjustment to the discount rate applied to all expected cash flows under the swaps. Other than that assumption, all other inputs reflect level 2 inputs.
Market Risk Disclosures as of June 30, 2011:
Instruments entered into for trading purposes—None
Instruments entered into for hedging purposes (in millions)—

Type of Derivative	Notional Size	Underlying Rate	Expiration	Fair Value
Interest Rate Swap*	$135.4	1 month LIBOR	2013 - 2015	$(8.1)

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* The total fair value of all swaps is an $8.1 million net liability, of which $4.8 million is included in Accounts Payable and Accrued Liabilities, $3.5 million is included in Other Long-Term Liabilities and $0.2 million is included in Other Long-Term Assets, respectively, on the accompanying Condensed Consolidated Balance Sheet.

Market Risk Disclosures as of December 31, 2010:
Instruments entered into for trading purposes—None
Instruments entered into for hedging purposes (in millions)—

Type of Derivative	Notional Size	Expiration	Fair Value
Interest Rate Swap*	$147.3	2011 - 2015	$(9.2)

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* The total fair value of our swaps is a $9.2 million net liability, of which $5.0 million is included in Accounts Payable and Accrued Liabilities, $4.7 million is included in Other Long-Term Liabilities and $0.5 million is included in Other Long-Term Assets, respectively, on the accompanying Condensed Consolidated Balance Sheet.

9. COMPREHENSIVE INCOME

The following table provides a reconciliation of net income to comprehensive income:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(In millions)		(In millions)	
Net income	$14.2	$12.8	$34.1	$20.2
Other comprehensive income (loss):				
Change in fair value of cash flow swaps	(0.3)	(1.3)	1.1	(2.3)
Amortization of expired cash flow swaps	—	0.1	0.1	0.2
Income tax benefit (expense) associated with cash flow swaps	0.1	0.5	(0.5)	0.9
Comprehensive income	$14.0	$12.1	$34.8	$19.0

10. DISCONTINUED OPERATIONS AND DIVESTITURES

During the six months ended June 30, 2011, we sold (i) our heavy truck business in Atlanta, Georgia, which consisted of ten franchises (three dealership locations) and one collision repair center, (ii) one franchise (one dealership location) and (iii) one additional ancillary business. As of June 30, 2011, there were no franchises pending disposition. The accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2010 have been reclassified to reflect the status of our discontinued operations as of June 30, 2011.
The following table provides further information regarding our discontinued operations as of June 30, 2011, and includes the results of businesses sold prior to June 30, 2011:

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in millions)			
Franchises:				
Mid-line domestic	—	—	—	—
Mid-line import	—	—	—	1
Heavy Trucks	—	10	10	10
Luxury	1	1	1	1
Total	1	11	11	12
Revenues	$3.7	$62.3	$64.0	$146.0
Cost of sales	3.2	54.0	56.6	128.6
Gross profit	0.5	8.3	7.4	17.4
Operating expenses	1.4	8.3	9.1	19.4
Loss from operations	(0.9)	—	(1.7)	(2.0)
Other expense, net	(0.3)	(0.5)	(0.5)	(0.9)
Gain (loss) on disposition	1.2	—	27.1	(0.2)
(Loss) income before income taxes	—	(0.5)	24.9	(3.1)
Income tax benefit (expense)	—	0.2	(9.7)	1.2
Discontinued operations, net of tax	$—	$(0.3)	$15.2	$(1.9)

11. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2011 and 2010, we made interest payments, including amounts capitalized, totaling $27.4 million and $25.2 million, respectively. Included in these interest payments are $6.2 million and $5.4 million of floor plan interest payments for the six months ended June 30, 2011 and 2010.

During the six months ended June 30, 2011, we made income tax payments, net of refunds received, totaling $0.5 million. During the six months ended June 30, 2010, we made income tax payments totaling $5.0 million.

During the six months ended June 30, 2011 and 2010, we sold $11.5 million and $11.9 million, respectively, of trade receivables, each at a total discount of $0.3 million.

During the six months ended June 30, 2011 and 2010, we transferred $17.9 million and $16.4 million, respectively, of loaner vehicles from Other Current Assets to Used Vehicle Inventory on our Condensed Consolidated Balance Sheets.

During the six months ended June 30, 2011, we entered into two transactions in which we purchased various previously leased real estate for a total purchase price of $30.3 million. One of the transactions included a termination of a lease obligation for property not currently used in our operations, resulting in a loss of $1.0 million, which is included in Selling, General and Administrative Expense on our Condensed Consolidated Statement of Income for the three and six months ended June 30, 2011.

12. COMMITMENTS AND CONTINGENCIES

A significant portion of our business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States of America. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. The United States of America or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.

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In some instances, manufacturers may have the right, and may direct us to implement costly capital improvements to dealerships as a condition upon entering into franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to use our financial resources on capital projects that we might not have planned for or otherwise determined to undertake.

Our dealerships are party to dealer and framework agreements with the applicable vehicle manufacturer. In accordance with these agreements, each dealership is subject to certain rights and restrictions typical of the industry. The ability of the manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a negative impact on our operating results.

Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements. No assurances can be provided, however, that future laws or regulations, or changes in existing laws or regulations, would not require us to expend significant resources in order to comply therewith.

From time to time, we and our dealerships are or may become involved in various claims relating to, and arising out of, our business and our operations. These claims may involve, but not be limited to, financial and other audits by vehicle manufacturers, lenders and certain federal, state and local government authorities, which have historically related primarily to (a) incentive and warranty payments received from vehicle manufacturers, (b) compliance with lender rules and covenants and (c) payments made to government authorities relating to federal, state and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings and other dispute resolution processes. Such claims, including class actions, could relate to, but may not be limited to, claims related to the practice of charging administrative fees and other fees and commissions, employment-related matters, truth-in-lending and other dealer assisted financing obligations, contractual disputes, actions brought by governmental authorities and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

The Company and certain of its subsidiaries are parties to a class action filed in December 2002 in the Pulaski County Circuit Court in Arkansas. The lawsuit relates to our Arkansas dealerships' charging certain document preparation fees and receiving certain interest rate participation amounts from lenders related to customer arranged financing from November 2000 through November 2006. After various motions and judgments, in October 2008, the circuit court ruled in favor of the Company and its subsidiaries on all class action claims and found the Company and its subsidiaries had no liability. On March 11, 2010, the plaintiff appealed the circuit court's decisions.

On April 14, 2011, the Supreme Court of Arkansas ruled that the class may proceed with claims with respect to certain document preparation fees collected by the Company from November 2000 to November 2006. The Supreme Court of Arkansas also reversed the circuit court's decision not to certify a subclass relating to the dealerships' interest rate participation. The case has been remanded to the circuit court for further proceedings. As a result of the adverse Supreme Court ruling, the Company accrued its best estimate of $9.0 million in the quarter ended March 31, 2011 for probable and reasonably estimable losses in connection with this matter. At this time, we do not believe it is reasonably possible that we will incur material additional losses from this matter.

We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity, results of operations or financial statement disclosures. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity, results of operations or financial statement disclosure.

We continue to evaluate potential consequences resulting from the natural disasters and related events in Japan on our operating results. To date, we have not experienced significant disruptions in our parts and service business as a result of the events in Japan. During the second quarter of 2011, we began to see disruption in new vehicle inventories from certain Japanese manufacturers, and we currently expect that we will experience the majority of the impact of inventory supply shortages in the third quarter of 2011. In addition, we can provide no assurance that our parts and service business will not also be adversely affected. While the precise impact of the recent events in Japan remains uncertain, we currently anticipate the disruption in the supply of inventory from our Japanese manufacturing partners could have a material adverse effect on our earnings, results of operations and our business in the third quarter and possibly through the remainder of the year.

During the three and six months ended June 30, 2011, we recognized approximately $2.7 million and $5.0 million, respectively, of executive separation expense, which is included in Other Operating Expense, net on the accompanying Condensed Consolidated Statements of Income. We currently expect to recognize additional executive separation expense

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during the remainder of 2011 of up to $2.0 million from known or probable executive separation agreements.

We have $15.7 million of letters of credit outstanding as of June 30, 2011, which are required by certain of our insurance providers. In addition, as of June 30, 2011, we maintained a $5.0 million surety bond line which we use in our ordinary course of business.
Other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

13. RELATED PARTY TRANSACTIONS
During the six months ended June 30, 2011, we concurrently entered into two transactions with a member of our board of directors, which were (i) the purchase of dealership real estate previously leased by us for approximately $16.9 million and (ii) the entrance into a new lease agreement for a separate parcel of dealership real estate. The new lease agreement is being accounted for as a capital lease and, as a result, we recorded approximately $4.0 million in Property and Equipment, net and Long-Term Debt on our Condensed Consolidated Balance Sheet during the first quarter of 2011. We believe that these transactions were on terms comparable to those that could be obtained from unaffiliated third parties.

14. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Our 8.375% Notes, 7.625% Notes and 3% Convertible Notes, and any borrowings under our various credit facilities are guaranteed substantially by all of our current subsidiaries, other than five franchises (three dealership locations) and an associated real estate subsidiary in Greenville, South Carolina. The following tables set forth, on an unaudited condensed consolidating basis, our balance sheets, statement of income and statements of cash flows for our guarantor subsidiaries and non-guarantor subsidiaries, each on a combined basis, for all financial statement periods presented in our Condensed Consolidated Financial Statements, with the exception of our Condensed Consolidated Statements of Income for the three and six months ended June 30, 2010 and our Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2010, as we did not acquire the non-guarantor subsidiaries discussed above until the fourth quarter of 2010.

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Condensed Consolidating Balance Sheet
June 30, 2011

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$23.2	$—	$—	$23.2
Inventories	—	471.6	11.3	—	482.9
Other current assets	—	204.0	5.9	(8.9)	201.0
Assets held for sale	—	3.2	—	—	3.2
Total current assets	—	702.0	17.2	(8.9)	710.3
Property and equipment, net	—	469.2	23.8	—	493.0
Goodwill	—	18.8	—	—	18.8
Other Assets	18.8	97.3	—	—	116.1
Investment in subsidiaries	686.0	3.1	—	(689.1)	—
Total assets	$704.8	$1,290.4	$41.0	$(698.0)	$1,338.2
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Floor plan notes payable—trade	$—	$191.6	$4.3	$—	$195.9
Floor plan notes payable—non trade	—	73.2	2.3	—	75.5
Other current liabilities	25.6	169.9	14.2	(8.9)	200.8
Liabilities associated with assets held for sale	—	—	—	—	—
Total current liabilities	25.6	434.7	20.8	(8.9)	472.2
Long-term debt	363.0	146.8	17.0	—	526.8
Other liabilities	5.0	22.9	0.1	—	28.0
Shareholders' equity	311.2	686.0	3.1	(689.1)	311.2
Total liabilities and shareholders' equity	$704.8	$1,290.4	$41.0	$(698.0)	$1,338.2

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Condensed Consolidating Balance Sheet
December 31, 2010

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$21.3	$—	$—	$21.3
Inventories	—	533.4	14.0	—	547.4
Other current assets	6.8	242.1	6.4	(7.9)	247.4
Assets held for sale	—	60.7	—	—	60.7
Total current assets	6.8	857.5	20.4	(7.9)	876.8
Property and equipment, net	—	434.9	24.0	—	458.9
Goodwill	—	18.9	—	—	18.9
Other Assets	20.2	111.5	—	—	131.7
Investment in subsidiaries	647.3	1.9	—	(649.2)	—
Total assets	$674.3	$1,424.7	$ 44.4	$(657.1)	$1,486.3
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Floor plan notes payable—trade	$—	$333.2	$ 11.4	$—	$344.6
Floor plan notes payable—non trade	—	77.4	2.6	—	80.0
Other current liabilities	10.7	164.7	11.5	(7.9)	179.0
Liabilities associated with assets held for sale	—	32.2	—	—	32.2
Total current liabilities	10.7	607.5	25.5	(7.9)	635.8
Long-term debt	371.0	146.9	17.0	—	534.9
Other liabilities	5.5	23.0	—	—	28.5
Shareholders' equity	287.1	647.3	1.9	(649.2)	287.1
Total liabilities and shareholders' equity	$674.3	$1,424.7	$ 44.4	$(657.1)	$1,486.3

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Condensed Consolidating Statement of Income
For the Three Months Ended June 30, 2011

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Revenue	$—	$ 1,055.1	$ 31.1	$—	$ 1,086.2
Cost of sale	—	871.8	25.5	—	897.3
Gross profit	—	183.3	5.6	—	188.9
Operating expenses:					
Selling, general and administrative	—	138.9	3.9	—	142.8
Depreciation and amortization	—	5.6	0.2	—	5.8
Other operating expense, net	—	2.8	—	—	2.8
Income from operations	—	36.0	1.5	—	37.5
Other income (expense):					
Floor plan interest expense	—	(2.2)	(0.1)	—	(2.3)
Other interest expense	(7.9)	(2.0)	(0.4)	—	(10.3)
Other income, net	(1.7)	—	—	—	(1.7)
Equity in earnings of subsidiaries	19.8	0.6	—	(20.4)	—
Total other expense, net	10.2	(3.6)	(0.5)	(20.4)	(14.3)
Income (loss) before taxes	10.2	32.4	1.0	(20.4)	23.2
Income tax expense (benefit)	4.0	12.6	0.4	(8.0)	9.0
Income (loss) from continuing operations	6.2	19.8	0.6	(12.4)	14.2
Discontinued operations, net of tax	—	—	—	—	—
Net income (loss)	$ 6.2	$ 19.8	$ 0.6	$ (12.4)	$ 14.2

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Condensed Consolidating Statement of Income
For the Six Months Ended June 30, 2011

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Revenue	$—	$2,074.3	$61.5	$—	$2,135.8
Cost of sale	—	1,723.2	50.8	—	1,774.0
Gross profit	—	351.1	10.7	—	361.8
Operating expenses:					
Selling, general and administrative	—	270.2	7.4	—	277.6
Depreciation and amortization	—	10.8	0.3	—	11.1
Other operating expense, net	—	13.2	—	—	13.2
Income from operations	—	56.9	3.0	—	59.9
Other income (expense):					
Floor plan interest expense	—	(4.9)	(0.1)	—	(5.0)
Other interest expense	(15.8)	(4.0)	(1.0)	—	(20.8)
Other income, net	(3.3)	—	—	—	(3.3)
Equity in earnings of subsidiaries	45.2	1.2	—	(46.4)	—
Total other expense, net	26.1	(7.7)	(1.1)	(46.4)	(29.1)
Income (loss) before taxes	26.1	49.2	1.9	(46.4)	30.8
Income tax expense (benefit)	10.2	19.2	0.7	(18.2)	11.9
Income (loss) from continuing operations	15.9	30.0	1.2	(28.2)	18.9
Discontinued operations, net of tax	—	15.2	—	—	15.2
Net income (loss)	$15.9	$45.2	$1.2	$(28.2)	$34.1

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Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2011

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Net cash (used in) provided by operating activities	$(14.3)	$7.1	$0.4	$—	$(6.8)
Cash flow from investing activities:					
Capital expenditures	—	(41.8)	(0.1)	—	(41.9)
Proceeds from the sale of assets	—	91.9	—	—	91.9
Other investing activities	—	0.6	—	—	0.6
Net cash provided by (used in) investing activities	—	50.7	(0.1)	—	50.6
Cash flow from financing activities:					
Floor plan borrowings—non trade	—	204.1	4.1	—	208.2
Floor plan repayments—non trade	—	(220.2)	(4.4)	—	(224.6)
Repayment of debt	—	(9.5)	—	—	(9.5)
Purchases of treasury stock, including those associated with net share settlements of employee share-based awards	(17.7)	—	—	—	(17.7)
Intercompany financing, net	30.3	(30.3)	—	—	—
Other financing activities	1.7	—	—	—	1.7
Net cash provided by (used in) financing activities	14.3	(55.9)	(0.3)	—	(41.9)
Net increase in cash and cash equivalents	—	1.9	—	—	1.9
Cash and cash equivalents, begining of year	—	21.3	—	—	21.3
Cash and cash equivalents, end of year	$—	$23.2	$—	$—	$23.2

15. SUBSEQUENT EVENTS

In July 2011, we repurchased $8.8 million of our 3% Convertible Notes, resulting in a net loss of $0.4 million, which will be recognized in the third quarter of 2011. The $0.4 million loss on the extinguishment of the repurchased 3% Convertible Notes was primarily due to a pro-rata write-off of the unamortized discount associated with the repurchased 3% Convertible Notes.
In July 2011, our board of directors increased the authorization to repurchase common stock, resulting in $45.0 million of remaining repurchase capacity.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation
Forward-Looking Information
Certain of the discussions and information included in this report may constitute "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are statements that are not historical in nature and may include statements relating to our goals, plans and projections regarding industry and general economic trends, our expected financial position, results of operations or market position and our business strategy. Such statements can generally be identified by words such as "may," "target," "could," "would," "will," "should," "believe," "expec "anticipate," "plan," "intend," "foresee" and other similar words or phrases. Forward-looking statements may also relate to our expectations and assumptions with respect to, among other things:

- our ability to execute our business strategy;
- our ability to further improve our operating cash flows, and the availability of capital and liquidity;
- our estimated future capital expenditures;
- the duration of the economic recovery process and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, improvements in manufacturing quality, manufacturer recalls, the recently lower than historical U.S. SAAR and any changes in business strategy and government regulations;
- the variable nature of significant components of our cost structure;
- our ability to decrease our exposure to regional economic downturns due to our geographic diversity and brand mix;
- manufacturers' willingness to continue to use incentive programs in the near future to drive demand for their product offerings;
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- our ability to refinance our indebtedness in advance of, or in connection with, it becoming due, on terms and conditions, and at times, acceptable to us;
- our ability to implement our dealer management system in a cost-efficient manner;
- our acquisition and divestiture strategies;
- the continued availability of financing, including floor plan financing for inventory;
- the ability of consumers to secure vehicle financing;
- the growth of mid-line import and luxury brands over the long-term;
- our ability to mitigate any future negative trends in new vehicle sales; and
- our ability to increase our net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance or

achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to:

- our ability to execute our balanced automotive retailing and service business strategy;
- changes in the mix, and total number, of vehicles we are able to sell;
- changes in general economic and business conditions, including changes in consumer confidence levels, interest rates, consumer credit availability and employment levels;
- changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements and environmental laws;
- changes in the price of oil and gasoline;
- our ability to generate sufficient cash flows, maintain our liquidity and obtain additional funds for working capital, capital expenditures, acquisitions, debt maturities and other corporate purposes, if necessary;
- our ability to refinance any of our indebtedness on terms, and in amounts, that are acceptable to us;

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- our continued ability to comply with any covenants in various of our financing and lease agreements, or to obtain waivers of these covenants as necessary;

- our relationships with, and the reputation and financial health and viability of the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;

- significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages or other occurrences that affect our manufacturing partners and are outside of our control;

- adverse results from litigation and other proceedings involving us;

- our relationship with, and the financial stability of, our lenders and lessors;

- our ability to execute our initiatives and other strategies;

- high levels of competition in our industry, which may create pricing and margin pressures on our products and services;

- our ability to renew, and enter into new, framework and dealer agreements with manufacturers whose brands we sell, on terms acceptable to us;

- our ability to attract and to retain key personnel;

- our ability to leverage gains from our dealership portfolio; and

- significant disruptions in the financial markets, which may impact our ability to access capital.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth in this discussion and analysis below and under Item 1A entitled “Risk Factors” in this Quarterly Report on Form 10-Q, in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and our Annual Report on Form 10-K for the year ended December 31, 2010 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statements.

OVERVIEW

We are one of the largest automotive retailers in the United States, operating 99 franchises (80 dealership locations) in 19 metropolitan markets within 10 states as of June 30, 2011. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. As of June 30, 2011, we offered 29 domestic and foreign brands of new vehicles. Our current brand mix is weighted 86% towards luxury and mid-line import brands, with the remaining 14% consisting of domestic brands. We also operate 25 collision repair centers that serve customers in our local markets. Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;

- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia;
- Nalley dealerships operating in Atlanta, Georgia;
- McDavid dealerships operating primarily in Dallas and Houston, Texas;
- North Point dealerships operating in Little Rock, Arkansas;
- Plaza dealerships operating in St. Louis, Missouri; and
- Gray-Daniels dealerships operating in Jackson, Mississippi.

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers (“new vehicle retail”) and commercial customers (“fleet”) (the terms “new vehicle retail,” and “fleet” being together referred to as “new”); (ii) the sale of used vehicles to individual retail customers (“used retail”) and to other dealers at auction (“wholesale”) (the terms “used retail” and “wholesale” being together referred to as “used”); (iii) maintenance and collision repair services and the sale of automotive parts (together referred to as “parts and service”); and (iv) the arrangement of vehicle financing and the sale of a

number of aftermarket products, such as insurance and service contracts (collectively referred to as “F&I”). We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and F&I based on dealership generated F&I gross profit per vehicle sold. We assess the organic growth of our revenue and gross profit by comparing the year-to-year results of stores that we have operated for at least twelve full months (“same store”).

Our organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix and the production of desirable vehicles by automotive manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices and employment levels. We believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure and (iii) our brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. We believe that our new vehicle revenue brand mix, which included approximately 50% revenue from mid-line import brands and 36% revenue from luxury brands in the second quarter of 2011, is well positioned for growth over the long term.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. We tend to generate more revenue and operating income in the second and third quarters than in the first and fourth quarters of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

Our gross profit margin varies with our revenue mix. The sale of new vehicles generally results in lower gross profit margin than used vehicle sales and sales of parts and service. As a result, when used vehicle and parts and service revenue increase as a percentage of total revenue, we expect our overall gross profit margin to increase.

Selling, general and administrative (“SG&A”) expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other customary operating expenses. A significant portion of our cost structure is variable (such as sales commissions), or controllable (such as advertising), generally allowing us to adapt to changes in the retail environment over the long-term. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit and all other SG&A expenses in the aggregate as a percentage of total gross profit, with the exception of advertising expense, which we evaluate on a per vehicle retailed ("PVR") basis.

The United States automotive retail market has shown continued improvement with new vehicle SAAR increasing to 12.6 million during the first half of 2011 as compared to 11.2 million during the first half of 2010. We anticipate that new vehicle sales in the U.S. will continue to improve in 2011 as compared to 2010. We also believe that the ongoing availability of vehicles that are desirable to consumers may have a significant impact on the number of vehicles actually sold in the U.S. in 2011.

We continue to evaluate potential consequences resulting from the natural disasters and related events in Japan on our operating results. To date, we have not experienced significant disruptions in our parts and service business as a result of the events in Japan. During the second quarter of 2011, we began to see disruption in new vehicle inventories from certain Japanese manufacturers, and we currently expect that we will experience the majority of the impact of inventory supply shortages in the third quarter of 2011. In addition, we can provide no assurance that our parts and service business will not also be adversely affected. While the precise impact of the recent events in Japan remains uncertain, we currently anticipate the disruption in the supply of inventory from our Japanese manufacturing partners could have a material adverse effect on our earnings, results of operations and our business in the third quarter and possibly through the remainder of the year. We are working to mitigate the potential adverse affects on our business resulting from these supply shortages through several initiatives, such as expanding our used vehicle business, seeking higher margins on new vehicle sales, and more actively managing inventory across stores within our dealership network.

We had total available liquidity of $282.1 million as of June 30, 2011, which includes cash and cash equivalents of $23.2 million, borrowing availability of $153.4 million under our revolving credit facility and used vehicle facility and $105.5 million of availability under new vehicle floor plan offset accounts with certain of our floor plan lenders. For further discussion of our floor plan offset accounts, please refer to “Liquidity and Capital Resources” below. In addition, we have no material long-term debt maturities until September 2012, at which time our 3% Senior Subordinated Convertible Notes due 2012 (the "3% Convertible Notes") will mature. As of June 30, 2011, we had $29.5 million in aggregate principal amount of our 3% Convertible Notes outstanding. In July 2011, we repurchased $8.8 million of our 3% Convertible Notes, reducing our total aggregate principal amount of 3% Convertible Notes outstanding to $20.7 million.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2011	2010		
	(Dollars in millions, except per share data)			
REVENUES:				
New vehicle	$578.3	$548.4	$29.9	5%
Used vehicle	322.7	279.9	42.8	15%
Parts and service	149.2	141.0	8.2	6%
Finance and insurance, net	36.0	30.0	6.0	20%
Total revenues	1,086.2	999.3	86.9	9%
GROSS PROFIT:				
New vehicle	41.6	35.8	5.8	16%
Used vehicle	28.4	24.1	4.3	18%
Parts and service	82.9	76.5	6.4	8%
Finance and insurance, net	36.0	30.0	6.0	20%
Total gross profit	188.9	166.4	22.5	14%
OPERATING EXPENSES:				
Selling, general and administrative	142.8	127.2	15.6	12%
Depreciation and amortization	5.8	5.2	0.6	12%
Other operating expense (income), net	2.8	(0.6)	3.4	(567)%
Income from operations	37.5	34.6	2.9	8%
OTHER INCOME EXPENSE:				
Floor plan interest expense	(2.3)	(2.2)	0.1	5%
Other interest expense, net	(10.3)	(9.0)	1.3	14%
Swap interest expense	(1.4)	(1.6)	(0.2)	(13)%
Convertible debt discount amortization	(0.3)	(0.4)	(0.1)	(25)%
Total other expense, net	(14.3)	(13.2)	1.1	8%
Income before income taxes	23.2	21.4	1.8	8%
INCOME TAX EXPENSE	9.0	8.3	0.7	8%
INCOME FROM CONTINUING OPERATIONS	14.2	13.1	1.1	8%
DISCONTINUED OPERATIONS, net of tax	—	(0.3)	0.3	(100)%
NET INCOME	$14.2	$12.8	$1.4	11%
Income from continuing operations per common share—Diluted	$0.43	$0.40	$0.03	8%
Net income per common share—Diluted	$0.43	$0.39	$0.04	10%

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	For the Three Months Ended June 30,	
	2011	2010
REVENUE MIX PERCENTAGES:		
New vehicles	53.2 %	54.9 %
Used retail vehicles	25.3 %	22.5 %
Used vehicle wholesale	4.5 %	5.5 %
Parts and service	13.7 %	14.1 %
Finance and insurance, net	3.3 %	3.0 %
Total revenue	100.0 %	100.0 %
GROSS PROFIT MIX PERCENTAGES:		
New vehicles	22.0 %	21.5 %
Used retail vehicles	15.1 %	14.4 %
Used vehicle wholesale	(0.1)%	0.1 %
Parts and service	43.9 %	46.0 %
Finance and insurance, net	19.1 %	18.0 %
Total gross profit	100.0 %	100.0 %
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	75.6 %	76.4 %

Net income and income from continuing operations increased by $1.4 million and $1.1 million, respectively, during the second quarter of 2011 as compared to the second quarter of 2010. The increase in net income and income from continuing operations was primarily a result of a $22.5 million (14%) increase in gross profit, partially offset by (i) a $15.6 million (12%) increase in SG&A expenses, (ii) a $3.4 million increase in other operating expense, and (iii) a $1.3 million (14%) increase in other interest expense. Net income and income from continuing operations for the second quarter of 2011 were reduced by (i) $1.7 million, net of tax, due to expenses related to executive separation benefits and (ii) $0.9 million, net of tax, due to real estate related charges.

Gross profit increased across all four of our business lines and was driven by a $6.0 million (20%) increase in F&I gross profit and a $6.4 million (8%) increase in parts and service gross profit. Our total gross profit margin increased 70 basis points to 17.4%, primarily as a result of a 70 basis point improvement in our new vehicle gross profit margin.

The $86.9 million (9%) increase in total revenue was primarily a result of a $42.8 million (15%) increase in used vehicle revenue and a $29.9 million (5%) increase in new vehicle revenue. The increase in new vehicle revenue included an $11.9 million (2%) increase in same store new vehicle revenue and $18.0 million in new vehicle revenue from acquired dealerships. The increase in used vehicle revenue includes (i) a $39.3 million (17%) increase in same store used vehicle retail revenue and (ii) $11.3 million of used vehicle revenue derived from acquired dealerships, partially offset by a $7.8 million (14%) decrease in same store used vehicle wholesale revenue.

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New Vehicle—

	For the Three Months Ended June 30, 2011	2010	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
New vehicle revenue—same store(1)				
Luxury	$197.9	$191.6	$6.3	3 %
Mid-line import	275.1	277.9	(2.8)	(1)%
Mid-line domestic	87.3	78.9	8.4	11 %
Total new vehicle revenue—same store(1)	560.3	548.4	11.9	2 %
New vehicle revenue—acquisitions	18.0	—		
New vehicle revenue, as reported	$578.3	$548.4	$29.9	5 %
Gross profit:				
New vehicle gross profit—same store(1)				
Luxury	$15.7	$14.3	$1.4	10 %
Mid-line import	18.8	15.7	3.1	20 %
Mid-line domestic	5.7	5.8	(0.1)	(2)%
Total new vehicle gross profit—same store(1)	40.2	35.8	4.4	12 %
New vehicle gross profit—acquisitions	1.4	—		
New vehicle gross profit, as reported	$41.6	$35.8	$5.8	16 %

	For the Three Months Ended June 30, 2011	2010	Increase (Decrease)	% Change
New vehicle units:				
New vehicle retail units—same store(1)				
Luxury	3,999	3,992	7	— %
Mid-line import	10,645	11,131	(486)	(4)%
Mid-line domestic	2,388	2,051	337	16 %
Total new vehicle retail units—same store(1)	17,032	17,174	(142)	(1)%
Fleet vehicles	566	675	(109)	(16)%
Total new vehicle units—same store(1)	17,598	17,849	(251)	(1)%
New vehicle units—acquisitions	529	—		
New vehicle units—actual	18,127	17,849	278	2 %

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New Vehicle Metrics—

	For the Three Months Ended June 30,		Increase	% Change
	2011	2010		
Revenue per new vehicle sold—same store(1)	$31,839	$30,724	$1,115	4 %
Gross profit per new vehicle sold—same store(1)	$2,284	$2,006	$278	14 %
New vehicle gross margin—same store(1)	7.2 %	6.5 %	0.7 %	11 %

(1) Same store amounts consist of information from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $29.9 million (5%) increase in new vehicle revenue was primarily a result of an $11.9 million (2%) increase in same store new vehicle revenue due to a 4% increase in revenue per new vehicle sold. Our total new vehicle revenue also benefited from $18.0 million of revenue derived from acquisitions. We believe that the increase in same store revenue per new vehicle sold was primarily driven by a mix shift away from higher-volume lower-margin vehicle sales, increases in vehicle prices across multiple brands and a decrease in our lower-priced fleet unit sales. Same store unit volumes from our mid-line import brands decreased 4%, while unit volumes from our domestic brands increased 16% on a same store basis, reflecting (i) a lack of available new vehicle inventory from certain Japanese brands due to the natural disasters and related events in Japan and (ii) increased consumer demand for domestic vehicles. New vehicle SAAR increased to 12.1 million for the second quarter of 2011, as compared to 11.4 million for the second quarter of 2010.

Total new vehicle gross profit increased by $5.8 million (16%), which included $1.4 million of gross profit derived from acquisitions. Our same store gross profit per new vehicle sold increased by $278, driven by (i) a decrease in our supply of higher-volume, lower-margin vehicles due to the natural disaster and related events in Japan, which drove a 120 basis point increase in our new vehicle gross margins from our mid-line import brands when compared to the prior year quarter and (ii) a decrease in our lower-margin fleet unit sales. Our margins in the near future are expected to be primarily dependent upon market-based forces of supply and demand as we continue to be impacted by the ramifications of the natural disaster and related events in Japan. As discussed above, these events favorably impacted our new vehicle gross profit margins during the second quarter of 2011 and we believe that these margins may not be sustainable as vehicle production increases.

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Used Vehicle—

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2011	2010		
	(Dollars in millions, except for per vehicle data)			
Revenue:				
Used vehicle retail revenues—same store(1)	$263.9	$224.6	$39.3	17 %
Used vehicle retail revenues—acquisitions	10.2	—		
Total used vehicle retail revenues	274.1	224.6	49.5	22 %
Used vehicle wholesale revenues—same store(1)	47.5	55.3	(7.8)	(14)%
Used vehicle wholesale revenues—acquisitions	1.1	—		
Total used vehicle wholesale revenues	48.6	55.3	(6.7)	(12)%
Used vehicle revenue, as reported	$322.7	$279.9	$42.8	15 %
Gross profit:				
Used vehicle retail gross profit—same store(1)	$27.6	$24.0	$3.6	15 %
Used vehicle retail gross profit—acquisitions	1.0	—		
Total used vehicle retail gross profit	28.6	24.0	4.6	19 %
Used vehicle wholesale gross profit—same store(1)	(0.1)	0.1	(0.2)	(200)%
Used vehicle wholesale gross profit—acquisitions	(0.1)	—		
Total used vehicle wholesale gross profit	(0.2)	0.1	(0.3)	(300)%
Used vehicle gross profit, as reported	$28.4	$24.1	$4.3	18 %
Used vehicle retail units:				
Used vehicle retail units—same store(1)	13,774	11,713	2,061	18 %
Used vehicle retail units—acquisitions	506	—		
Used vehicle retail units—actual	14,280	11,713	2,567	22 %

Used Vehicle Metrics—

	For the Three Months Ended June 30,		Decrease	% Change
	2011	2010		
Revenue per used vehicle retailed—same store(1)	$19,159	$19,175	$(16)	— %
Gross profit per used vehicle retailed—same store(1)	$2,004	$2,049	$(45)	(2)%
Used vehicle retail gross margin—same store(1)	10.5 %	10.7 %	(0.2)%	(2)%

(1) Same store amounts consist of information from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $42.8 million (15%) increase in used vehicle revenue includes (i) a $39.3 million (17%) increase in same store used vehicle retail revenue and (ii) $11.3 million of used vehicle revenue derived from acquired dealerships, partially offset by a $7.8 million (14%) decrease in same store used vehicle wholesale revenue. The $4.3 million (18%) increase in used vehicle gross profit was primarily a result of a $3.6 million (15%) increase in same store used vehicle retail gross profit. The increase in used vehicle retail revenue and gross profit was driven primarily by increased unit sales volumes, partially offset by a lower gross profit margin of 10.5%, down 20 basis points from the prior year quarter. These results reflect (i) the continued benefits of several store-level programs initiated in 2009, including volume-driven initiatives such as our "Asbury 121" program, a goal of retailing one used vehicle for every

new vehicle retailed and (ii) a shift in consumer demand towards used vehicles from new vehicles as a result of the natural disaster and recent events in Japan. The Asbury 121 program is designed to drive not only used retail volume, but to increase revenues from associated parts and service reconditioning and F&I as well.

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We believe our used vehicle inventory is well-aligned with current consumer demand, with approximately 38 days of supply in our inventory as of June 30, 2011, as compared to approximately 35 days of supply in our inventory as of December 31, 2010. In response to the recent events in Japan, we have elected, and may continue, to carry higher levels of used vehicle inventory at our Japanese import dealerships to better ensure that our stores and sales associates have inventory to offer to sell to our customers.

Parts and Service—

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2011	2010		
	(Dollars in millions)			
Revenue:				
Parts and service revenue—same store(1)	$143.9	$141.0	$2.9	2 %
Parts and service revenues—acquisitions	5.3	—		
Parts and service revenue, as reported	$149.2	$141.0	$8.2	6 %
Gross profit:				
Parts and service gross profit—same store(1):				
Customer pay	$49.5	$48.9	$0.6	1 %
Reconditioning and preparation	13.9	11.2	2.7	24 %
Warranty	11.3	11.1	0.2	2 %
Wholesale parts	5.2	5.3	(0.1)	(2)%
Total parts and service gross profit—same store(1)	79.9	76.5	3.4	4 %
Parts and service gross profit—acquisitions	3.0	—		
Parts and service gross profit, as reported	$82.9	$76.5		