ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
April 30, 2010
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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 March 31, 2010

OR

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

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 ¨ No ¨

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	¨	Accelerated Filer	x
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 April 28, 2010 was 32,727,856 (net of 4,776,930 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 share data)

(Unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 29.4	$ 84.7
Contracts-in-transit	69.4	61.8
Accounts receivable (net of allowance of $1.7 and $0.8, respectively)	89.8	79.0
Inventories	498.3	499.7
Deferred income taxes	7.9	8.6
Assets held for sale	28.4	30.3
Other current assets	55.0	51.5
Total current assets	778.2	815.6
PROPERTY AND EQUIPMENT, net	440.9	449.1
DEFERRED INCOME TAXES, net of current portion	77.4	84.4
OTHER LONG-TERM ASSETS	50.1	51.8
Total assets	$ 1,346.6	$ 1,400.9
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable trade	$ 325.2	$ 357.7
Floor plan notes payable non-trade	59.5	77.0
Current maturities of long-term debt	9.0	9.0
Accounts payable and accrued liabilities	139.3	148.2
Liabilities associated with assets held for sale	1.5	6.9
Total current liabilities	534.5	598.8
LONG-TERM DEBT	527.3	528.8
OTHER LONG-TERM LIABILITIES	32.3	29.7
COMMITMENTS AND CONTINGENCIES (Note 11)		
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; 37,500,929 and 37,200,557 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	459.4	457.3
Accumulated deficit	(126.4)	(133.8)
Treasury stock, at cost; 4,776,930 and 4,770,224 shares, respectively	(74.7)	(74.6)
Accumulated other comprehensive loss	(6.2)	(5.7)

Total shareholders equity	252.5	243.6
Total liabilities and shareholders equity	$ 1,346.6	$ 1,400.9

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 March 31, 2010	For the Three Months Ended March 31, 2009
REVENUES:		
New vehicle	$ 528.8	$ 432.6
Used vehicle	252.4	208.2
Parts and service	152.8	158.8
Finance and insurance, net	26.0	20.5
Total revenues	960.0	820.1
COST OF SALES:		
New vehicle	493.0	405.4
Used vehicle	229.8	188.5
Parts and service	74.3	80.8
Total cost of sales	797.1	674.7
GROSS PROFIT	162.9	145.4
OPERATING EXPENSES:		
Selling, general and administrative	129.1	120.7
Depreciation and amortization	5.7	5.9
Other operating income, net	(0.4)	(0.4)
Income from operations	28.5	19.2
OTHER EXPENSE:		
Floor plan interest expense	(4.1)	(4.9)
Other interest expense	(9.5)	(9.8)
Convertible debt discount amortization	(0.4)	(0.5)
Total other expense, net	(14.0)	(15.2)
Income before income taxes	14.5	4.0
INCOME TAX EXPENSE	5.6	1.4
INCOME FROM CONTINUING OPERATIONS	8.9	2.6
DISCONTINUED OPERATIONS, net of tax	(1.5)	(2.3)
NET INCOME	$ 7.4	$ 0.3
EARNINGS PER COMMON SHARE:		
Basic		
Continuing operations	$ 0.28	$ 0.08
Discontinued operations	(0.05)	(0.07)
Net income	$ 0.23	$ 0.01

Diluted		
Continuing operations	$ 0.27	$ 0.08
Discontinued operations	(0.05)	(0.07)
Net income	$ 0.22	$ 0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	32.2	32.1
Stock options	0.7	
Restricted stock	0.2	0.2
Performance share units	0.1	0.1
Restricted share units	0.1	
Diluted	33.3	32.4

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 Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 7.4	$ 0.3
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	5.7	5.9
Stock-based compensation	1.9	1.5
Deferred income taxes	8.1	0.1
Loaner vehicle amortization	1.6	2.2
Other adjustments, net	3.9	1.1
Changes in operating assets and liabilities, net of acquisitions and divestitures		
Contracts-in-transit	(7.6)	9.7
Accounts receivable	(17.5)	0.7
Proceeds from the sale of accounts receivable	5.8	5.4
Inventories	7.5	106.6
Other current assets	(12.9)	(11.1)
Floor plan notes payable trade	(32.0)	(65.0)
Floor plan notes payable trade divestitures	(5.9)	
Accounts payable and accrued liabilities	(9.2)	(16.3)
Other long-term assets and liabilities, net	1.5	1.0
Net cash (used in) provided by operating activities	(41.7)	42.1
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(3.4)	(2.2)
Proceeds from the sale of assets	9.6	3.2
Other investing activities	(0.2)	(0.4)
Net cash provided by investing activities	6.0	0.6
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-trade	90.2	61.5
Floor plan repayments non-trade	(107.6)	(103.3)
Floor plan repayments non-trade divestitures		(2.9)
Proceeds from borrowings		0.9
Repayments of borrowings	(2.2)	(54.7)
Purchases of treasury stock associated with net share settlement of employee share-based awards	(0.1)	(0.1)
Proceeds from the exercise of stock options	0.1	
Net cash used in financing activities	(19.6)	(98.6)
Net decrease in cash and cash equivalents	(55.3)	(55.9)
CASH AND CASH EQUIVALENTS, beginning of year	84.7	91.6
CASH AND CASH EQUIVALENTS, end of year	$ 29.4	$ 35.7

See Note 10 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 107 franchises (80 dealership locations) in 20 metropolitan markets within 11 states as of March 31, 2010. 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 March 31, 2010, we offered 38 domestic and foreign brands of new vehicles, including 7 heavy truck brands. Our current brand mix is weighted 85% towards luxury and mid-line import brands, with the remaining 15% consisting of domestic and value brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is made up of the following locally-branded dealership groups:

Coggin dealerships, operating primarily in the Florida markets of Jacksonville, Fort Pierce and Orlando;

Courtesy dealerships operating in Tampa, Florida;

Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia;

Nalley dealerships operating in Georgia;

McDavid dealerships operating in Texas;

North Point dealerships operating in Arkansas;

Plaza dealerships operating in Missouri; and

Gray-Daniels dealerships operating in Mississippi.

In addition to the dealership groups listed above, we also operated one luxury brand dealership in California as of March 31, 2010.

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 revisions are reflected in the 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, estimates for inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance products, certain assumptions related to intangible and long-lived assets, reserves for insurance programs, reserves for certain legal proceedings, 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 March 31, 2010, and for the three months ended March 31, 2010 and 2009, have been included. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for a full year period. Our interim unaudited 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, 2009.

Contracts-In-Transit

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

Revenue Recognition

Revenue from the sale of new and used vehicles (which excludes sales tax) is recognized upon delivery, passage of title, signing of the sales contract and 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. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a component of new vehicle cost of sales when earned, generally at the time the related vehicles are sold.

We receive commissions from third-party lending and insurance institutions for arranging customer financing and for 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, in default 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 operating results 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 for all periods presented by dividing net income by our 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. 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 received upon exercise. In addition, our 3% Senior Subordinated Convertible Notes due 2012 (the 3% Notes) are convertible into our common stock at a current conversion rate equal to $33.73 per share. The shares issuable upon exercise of these warrants and conversion of our 3% 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 because their inclusion would be anti-dilutive.

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, to the extent that they were held for sale, or associated with assets held for sale, at each balance sheet date. Amounts in the accompanying Condensed Consolidated Statements of Income for the three months ended March 31, 2009, have been reclassified to reflect the results of franchises sold subsequent to March 31, 2009 or held for sale as of March 31, 2010, as if we had classified those franchises as discontinued operations for all periods presented.

We report franchises as discontinued operations when it is evident that the operations and cash flows of a franchise 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 party unaffiliated with the manufacturer of a particular new vehicle (Non-trade), and all floor plan notes payable relating to pre-owned vehicles, 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 of a particular new vehicle (Trade) is classified as an operating activity on the Condensed Consolidated Statements of Cash Flows.

Loaner vehicle activity accounts 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. While loaner vehicles are initially used by our service department in our business, these vehicles are used in such capacity for a short period of time (typically six to twelve months) before we 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. ACQUISITIONS

We did not acquire any dealerships during the three months ended March 31, 2010 or 2009.

During the three months ended March 31, 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.

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4. INVENTORIES

Inventories consist of the following:

	As of March 31, 2010	As of December 31, 2009
	(In millions)	
New vehicles	$ 381.9	$ 394.2
Used vehicles	74.8	64.1
Parts and accessories	41.6	41.4
Total inventories	$ 498.3	$ 499.7

The lower of cost or market reserves reduced total inventory cost by $7.6 million and $7.4 million as of March 31, 2010 and December 31, 2009, respectively. In addition to the inventories shown above, we have $1.9 million and $7.0 million of inventory as of March 31, 2010 and December 31, 2009, classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets as they are associated with franchises held for sale.

We received $4.1 million of interest credit assistance from certain automobile manufacturers during the three months ended March 31, 2010. Interest credit assistance reduced cost of sales (including amounts classified as discontinued operations) for the three months ended March 31, 2010, by $4.3 million and reduced new vehicle inventory by $3.5 million and $3.7 million as of March 31, 2010 and December 31, 2009, respectively.

5. 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.

Assets associated with pending dispositions as of March 31, 2010, totaled $5.2 million, which includes $3.3 million of property and equipment assets. Liabilities associated with pending dispositions totaled $1.5 million as of March 31, 2010. During the three months ended March 31, 2010, we sold one franchise (one dealership location), and as of March 31, 2010, there was one franchise (one dealership location) pending disposition. Assets associated with pending dispositions as of December 31, 2009, totaled $12.8 million, which includes $5.8 million of property and equipment assets. Liabilities associated with pending dispositions as of December 31, 2009, totaled $6.9 million.

Real estate not currently used in our operations that we are actively marketing to sell totaled $23.2 million and $17.5 million as of March 31, 2010 and December 31, 2009, respectively. There were no liabilities associated with our real estate assets held for sale as of March 31, 2010 and December 31, 2009, respectively.

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

	As of March 31, 2010	As of December 31, 2009
	(In millions)	
Assets:		
Inventories	$ 1.9	$ 7.0
Property and equipment, net	26.5	23.3
Total assets	28.4	30.3
Liabilities:		

Floor plan notes payable	1.5	6.9
Total liabilities	1.5	6.9
Net assets held for sale	$ 26.9	$ 23.4

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6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of March 31, 2010	As of December 31, 2009
	(In millions)	
8% Senior Subordinated Notes due 2014 ($179.4 million face value, net of hedging activity of $4.2 million and $4.5 million, respectively)	$ 175.2	$ 174.9
7.625% Senior Subordinated Notes due 2017	143.2	143.2
3% Senior Subordinated Convertible Notes due 2012 ($54.7 million face value, net of discounts of $4.5 million and $4.9 million, respectively)	50.2	49.8
Mortgage notes payable bearing interest at variable rates	167.7	169.9
	536.3	537.8
Less: current portion	(9.0)	(9.0)
Long-term debt	$ 527.3	$ 528.8

7. FINANCIAL INSTRUMENTS

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 our Senior Subordinated 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% Notes, 7.625% Notes and our 3% Notes are as follows:

	As of March 31, 2010	As of December 31, 2009
	(In millions)	
Carrying Value:		
8% Senior Subordinated Notes due 2014 ($179.4 million face value, net of hedging activity of $4.2 million and $4.5 million, respectively)	$ 175.2	$ 174.9
7.625% Senior Subordinated Notes due 2017	143.2	143.2
3% Senior Subordinated Convertible Notes due 2012 ($54.7 million face value, net of discounts of $4.5 million and $4.9 million, respectively)	50.2	49.8
Total carrying value	$ 368.6	$ 367.9
Fair Value:		
8% Senior Subordinated Notes due 2014	$ 178.1	$ 178.7
7.625% Senior Subordinated Notes due 2017	135.0	135.0
3% Senior Subordinated Convertible Notes due 2012	48.8	48.0
Total fair value	$ 361.9	$ 361.7

We have an interest rate swap with a current notional principal amount of $125.0 million. The swap was designed to provide a hedge against changes in interest rates on our variable rate floor plan notes payable through maturity in June 2013. This swap is collateralized by our assets that do not otherwise have a first priority lien. This interest rate swap qualifies for cash flow hedge accounting treatment and contains minor ineffectiveness.

We have a separate interest rate swap with a current notional principal amount of $12.1 million. The swap was designed to provide a hedge against changes in interest rates on our variable rate mortgage notes payable through maturity in June 2011. The notional value of this swap is reduced over its term. This interest rate swap qualifies for cash flow hedge accounting treatment and contains minor ineffectiveness.

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Information about the effect of derivative instruments on the accompanying Condensed Consolidated Statement of Income for the three months ended March 31, 2010 (in millions):

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
Interest rate swaps	$ (2.2)	Floor plan interest expense	$ (1.2)	$	$	NA
Interest rate swaps	$ (0.1)	Other interest expense	$ (0.1)	$	$	NA
Interest rate swaps	NA	Floor plan interest expense	NA	$ (0.1)	$	NA

Information about the effect of derivative instruments on the accompanying Condensed Consolidated Statement of Income for the three months ended March 31, 2009 (in millions):

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
Interest rate swaps	$ (3.2)	Floor plan interest expense	$ (1.0)	$	$	Floor plan interest expense
Interest rate swaps	$ (0.1)	Other interest expense	$ (0.1)	$	$	Other interest expense
Interest rate swaps	NA	Floor plan interest expense	NA	$ (0.1)	$	Floor plan interest expense

On the basis of yield curve conditions as of March 31, 2010, we anticipate that the amount expected to be reclassified out of Accumulated Other Comprehensive Income (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 25% of our variable rate debt, including 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 75% of our variable rate debt.

Fair Values of Derivative Instruments on the accompanying Condensed Consolidated Balance Sheet as of March 31, 2010 (in millions):

Derivatives Designed as Hedging Instruments	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Interest Rate Swaps	Other Long-Term Assets	N/A	Other Long-Term Liabilities	$ 9.1
Interest Rate Swaps	Other Current Assets	N/A	Accrued Liabilities	$ 0.3

Fair Values of Derivative Instruments on the accompanying Condensed Consolidated Balance Sheet as of December 31, 2009 (in millions):

Derivatives Designed as Hedging Instruments	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Interest Rate Swaps	Other Long-Term Assets	N/A	Other Long-Term Liabilities	$ 8.1
Interest Rate Swaps	Other Current Assets	N/A	Accrued Liabilities	$ 0.3

Fair values are measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation. The inputs to this calculation are deemed to be level 2 inputs. In discounting expected future cash flows under the swap, the company adjusted the LIBOR-based yield curve s implied discount rates to reflect the credit quality of the party bearing the cash flow obligation to pay.

Market Risk Disclosures as of March 31, 2010:

Instruments entered into for trading purposes None

Instruments entered into for hedging purposes (in millions)

Type of Derivative	Notional Size	Fixed Rate	Underlying Rate	Expiration	Fair Value
Interest Rate Swap	$ 125.0	4.0425%	1 month LIBOR	2013	$ (8.8)
Interest Rate Swap*	$ 12.1	6.0800%	1 month LIBOR plus 175 basis points	2011	$ (0.6)

Market Risk Disclosures as of December 31, 2009:

Instruments entered into for trading purposes None

Instruments entered into for hedging purposes (in millions)

Type of Derivative	Notional Size	Fixed Rate	Underlying Rate	Expiration	Fair Value
Interest Rate Swap	$ 125.0	4.0425%	1 month LIBOR	2013	$ (7.8)
Interest Rate Swap*	$ 12.2	6.0800%	1 month LIBOR plus 175 basis points	2011	$ (0.6)

* This swap is amortizing. Immediately prior to maturity, its notional value will be $11.3 million.

8. COMPREHENSIVE INCOME (LOSS)

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

	For the Three Months Ended March 31,	
	2010	2009
	(In millions)	
Net income	$ 7.4	$ 0.3
Other comprehensive income:		
Change in fair value of cash flow swaps	(1.0)	(2.3)
Amortization of expired cash flow swaps	0.1	0.1
Income tax benefit associated with cash flow swaps	0.4	1.0
Comprehensive income (loss)	$ 6.9	$ (0.9)

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9. DISCONTINUED OPERATIONS AND DIVESTITURES

During the three months ended March 31, 2010, we sold one franchise (one dealership location), and as of March 31, 2010, there was one franchise (one dealership location) pending disposition. The accompanying Condensed Consolidated Statement of Income for the three months ended March 31, 2009, has been reclassified to reflect the status of our discontinued operations as of March 31, 2010.

The following table provides further information regarding our discontinued operations as of March 31, 2010 (in millions):

	For the Three Months Ended March 31, 2010			For the Three Months Ended March 31, 2009		
	Sold/ Closed	Pending Disposition	Total	Sold/ Closed(a)	Pending Disposition(b)	Total
Franchises:						
Mid-line domestic				7		7
Mid-line import	1		1	2		2
Luxury		1	1	2	1	3
Total	1	1	2	11	1	12
Revenues	$ 8.7	$ 4.1	$ 12.8	$ 51.6	$ 3.8	$ 55.4
Cost of sales	7.3	3.4	10.7	42.1	3.3	45.4
Gross profit	1.4	0.7	2.1	9.5	0.5	10.0
Operating expenses	3.8	0.5	4.3	12.7	0.5	13.2
(Loss) income from operations	(2.4)	0.2	(2.2)	(3.2)		(3.2)
Other expense, net				(0.7)		(0.7)
(Loss) gain on disposition	(0.2)		(0.2)	0.1		0.1
(Loss) income before income taxes	(2.6)	0.2	(2.4)	(3.8)		(3.8)
Income tax benefit (expense)	1.0	(0.1)	0.9	1.5		1.5
Discontinued operations, net of tax	$ (1.6)	$ 0.1	$ (1.5)	$ (2.3)	$	$ (2.3)

(a) Franchises were sold or closed between January 1, 2009 and March 31, 2010
(b) Franchises were pending disposition as of March 31, 2010

10. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended March 31, 2010 and 2009, we made interest payments, net of amounts capitalized, totaling $19.6 million and $21.8 million, respectively.

During the three months ended March 31, 2010, we did not make any income tax payments or receive any income tax refunds. During the three months ended March 31, 2009, we made income tax payments totaling $0.5 million.

During the three months ended March 31, 2010 and 2009, we sold $5.9 and $5.5 million, respectively, of trade receivables, each at a total discount of $0.1 million.

11. 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.

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 divert our financial resources to capital projects from uses that management believes may be of higher long-term value.

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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 involved, and expect to continue to be involved, in litigation, including class actions, involving the manufacture and sale of motor vehicles, including but not limited to the charging of administrative, service, processing or document preparation fees, employment-related claims, truth-in-lending practices, the operation of dealerships, contractual disputes, actions brought by governmental authorities and other matters arising in the ordinary course of our business. With respect to certain of the existing claims, the previous owners of certain dealerships we have acquired have agreed to indemnify us against any losses we may incur. We do not believe that the ultimate resolution of any known matters will have a material adverse effect on our financial condition, liquidity, results of operations or financial statement disclosures. However, the outcome of these matters cannot be predicted with certainty, and unfavorable resolution of one or more of these 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 disclosures.

In connection with the purchase of one franchise in the third quarter of 2007, we may be required to pay additional consideration to the seller if the franchise achieves specified net income levels in future periods. If payable, the additional consideration would be distributable annually through January 1, 2015, and the additional consideration could total up to approximately $2.5 million. The seller did not become our employee subsequent to the transaction and therefore this consideration is not contingent on employment. As of March 31, 2010 we have paid less than $0.1 million of additional consideration in connection with this dealership acquisition.

We have $12.0 million of letters of credit outstanding as of March 31, 2010, which are required by certain of our insurance providers. In addition, as of March 31, 2010, we maintain 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, (iv) interest on long-term debt, (v) deferred compensation obligations and (vi) employee compensation obligations.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING STATEMENT SAFE HARBOR

Certain of the discussions and information included in this report may constitute forward-looking statements within the meaning of the federal securities laws. Such statements can generally be identified by words such as may, target, could, would, will, should, believe, expect, plan, intend, foresee and other similar words or phrases. 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, our business strategy and the expectations and assumptions of our management with respect to, among other things:

our ability to improve our margins and operating cash flows, and the availability of capital and liquidity;

our estimated future capital expenditures;

the economic recovery and its impact on our revenues and expenses;

our parts and service revenue due to, among other things, manufacturer recalls, the decline in U.S. SAAR and changes in business strategy and government regulations;

the variable nature of significant components of our cost structure and our advantageous brand mix;

our ability to decrease our exposure to regional economic downturns due to our geographic diversity and advantageous brand mix;

manufacturers willingness to continue to use incentive programs to drive demand for their product offerings;

our ability to implement our dealer management system in a cost-efficient manner;

our acquisition and divestiture strategies;

the continued availability of floor plan financing for inventory;

the ability of consumers to secure vehicle financing;

the continuation of industry-wide gains in market share of mid-line import brands, and industry-wide market share stability of luxury brands;

our ability to mitigate any future negative trends in 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:

- 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 and other corporate purposes, if necessary;
- 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 vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationship with, and the financial stability of, our lenders and lessors;
- our ability to capitalize on our restructuring programs and other strategies;
- high levels of competition in our industry, which may create additional pricing pressures on our products and services;
- our ability to renew, and enter into new, framework and dealer agreements on terms acceptable to us;
- our ability to attract and 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. Forward-looking statements also include, but are not limited to, those described under Item 1A entitled, Risk Factors in our Annual Report on Form

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10-K for the year ended December 31, 2009, and in other filings made from time to time with the SEC by us. 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 107 franchises (80 dealership locations) in 20 metropolitan markets within 11 states as of March 31, 2010. 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 March 31, 2010, we offered 38 domestic and foreign brands of new vehicles, including 7 heavy truck brands. Our current brand mix is weighted 85% towards luxury and mid-line import brands, with the remaining 15% consisting of domestic and value brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is made up of the following locally-branded dealership groups:

- Coggin dealerships, operating primarily in the Florida markets of Jacksonville, Fort Pierce and Orlando;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia;
- Nalley dealerships operating in Georgia;
- McDavid dealerships operating in Texas;
- North Point dealerships operating in Arkansas;
- Plaza dealerships operating in Missouri; and
- Gray-Daniels dealerships operating in Mississippi.

In addition to the dealership groups listed above, we also operated one luxury brand dealership in California as of March 31, 2010.

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers (new light vehicle retail) and commercial customers (fleet), and the sale of new heavy trucks (heavy trucks) (the terms new light vehicle retail, fleet and heavy trucks being collectivel 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 collectively referred to as used); (iii) maintenance and collision repair services and the sale of automotive parts (collectively 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, warranty 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, our strong brand mix and the production of attractive products by automotive manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices, product availability and unemployment. We believe that the impact on our business of any future negative trends in new vehicle sales will 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 advantageous brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. However, the recent economic slowdown has resulted in reduced vehicle sales across all brands.

Our gross profit margin varies with our revenue mix. The sale of new vehicles generally results in lower gross profit margins than used vehicle sales and sales of parts and service. As a result, when used vehicle and parts and service revenue increases 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. We continue to focus on expense control, although such efforts may not keep pace with lower gross profit in the event that our sales volumes decline or margins come under pressure.

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.

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During 2009, the automotive retail market was impacted by weak economic conditions in the U.S. and globally, including turmoil in the credit markets, broad declines in the equity markets, reduced consumer confidence, rising unemployment and continued weakness in the housing market. The seasonally adjusted annual rate (SAAR) of new vehicle sales in the U.S., which was over 16.0 million from 1999 to 2007, decreased to approximately 10.4 million in 2009. However, the automotive retail market began to show signs of improvement in the first quarter of 2010, as new vehicle SAAR improved to 11.0 million, as compared to 9.5 million in the first quarter of 2009.

We expect the U.S. automotive retail market will experience a modest recovery in 2010, as we believe that the majority of automotive manufacturers have stabilized production levels in response to the economic slowdown and will focus on using a combination of vehicle pricing and financing incentive programs to increase demand in 2010, although no assurance can be provided in this regard. Additionally, based on our historical results, we anticipate that mid-line import brands, which comprised approximately 48% of our light vehicle revenues in the first quarter of 2010, will continue to increase their share of the U.S. market, and that luxury brands, which comprised approximately 37% of our light vehicle revenues in the first quarter of 2010, will maintain a strong presence in the market.

We believe that our financial condition remains strong with total available liquidity of $203.7 million as of March 31, 2010, including cash and cash equivalents of $29.4 million and borrowing availability of $174.3 million under our various credit facilities. From time to time our total available liquidity is impacted by management s decision to use excess cash to repay floor plan notes payable prior to the sale of the related vehicle to maximize the return on our cash. Our available liquidity decreased by $39.5 million between December 31, 2009 and March 31, 2010, primarily as a result of increased floor plan repayment activity. In addition, we have no material long-term debt maturities until September 2012.

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

	For the Three Months Ended March 31,			
	2010	2009	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 528.8	$ 432.6	$ 96.2	22%
Used vehicle	252.4	208.2	44.2	21%
Parts and service	152.8	158.8	(6.0)	(4)%
Finance and insurance, net	26.0	20.5	5.5	27%
Total revenues	960.0	820.1	139.9	17%
GROSS PROFIT:				
New vehicle	35.8	27.2	8.6	32%
Used vehicle	22.6	19.7	2.9	15%
Parts and service	78.5	78.0	0.5	1%
Finance and insurance, net	26.0	20.5	5.5	27%
Total gross profit	162.9	145.4	17.5	12%
OPERATING EXPENSES:				
Selling, general and administrative	129.1	120.7	8.4	7%
Depreciation and amortization	5.7	5.9	(0.2)	(3)%
Other operating income, net	(0.4)	(0.4)		
Income from operations	28.5	19.2	9.3	48%
OTHER EXPENSE:				
Floor plan interest expense	(4.1)	(4.9)	(0.8)	(16)%
Other interest expense	(9.5)	(9.8)	(0.3)	(3)%
Convertible debt discount amortization	(0.4)	(0.5)	(0.1)	(20)%
Total other expense, net	(14.0)	(15.2)	(1.2)	(8)%
Income before income taxes	14.5	4.0	10.5	NM
INCOME TAX EXPENSE	5.6	1.4	4.2	NM
INCOME FROM CONTINUING OPERATIONS	8.9	2.6	6.3	NM
DISCONTINUED OPERATIONS, net of tax	(1.5)	(2.3)	0.8	35%
NET INCOME	$ 7.4	$ 0.3	$ 7.1	NM
Income from continuing operations per common share Diluted	$ 0.27	$ 0.08	$ 0.19	NM
Net income per common share Diluted	$ 0.22	$ 0.01	$ 0.21	NM

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	For the Three Months Ended March 31,	
	2010	2009
REVENUE MIX PERCENTAGES:		
New light vehicles	50.1%	48.3%
New heavy trucks	5.0%	4.5%
Used retail light vehicles	21.3%	20.6%
Used retail heavy trucks	0.2%	0.2%
Used light vehicle wholesale	4.7%	4.4%
Used heavy truck wholesale	0.1%	0.1%
Parts and service light vehicle	14.2%	17.5%
Parts and service heavy truck	1.7%	1.9%
Finance and insurance, net light vehicle	2.7%	2.5%