

ASBURY AUTOMOTIVE GROUP INC
Form 10-Q/A
March 15, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 2005

OR

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**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.)

**622 Third Avenue, 37th Floor
New York, New York**

10017

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(Address of principal executive offices)

(Zip Code)

(212) 885-2500

(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of May 3, 2005, was 32,602,487 (net of 1,586,587 treasury shares).

EXPLANATORY NOTE

We are filing Amendment No. 1 to the Asbury Automotive Group, Inc. Quarterly Report on Form 10-Q for the three months ended March 31, 2005 to change the presentation of certain floor plan notes payable information. We finance substantially all of our new and at times a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. Consistent with industry practice, the Company previously reported all floor plan notes payable as a single line on our Consolidated Balance Sheets and all cash flow activity relating to floor plan notes payable in the operating activities section of our Consolidated Statement of Cash flows. In addition, we historically considered all borrowings and repayments of floor plan notes payable associated with inventory acquired through a dealership acquisition and inventory sold through a dealership divestiture, non-cash activities. Floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, have been restated as floor plan notes payable non-manufacturer affiliated on the Consolidated Balance Sheets, and the related non-manufacturer affiliated cash flows have been restated from operating activities to financing activities on the Consolidated Statements of Cash Flows with borrowings reflected separately from repayments. In addition, we have included floor plan notes payable activity associated with dealership acquisitions and divestitures in the Consolidated Statements of Cash Flows.

The changes in presentation have no effect on net income, earnings per share, stockholder's equity or our conclusion that our disclosure controls and procedures were effective as of March 31, 2005. However, because we are restating the financial statements included in our Form 10-Q, our financial statements include the effects of entities which became discontinued operations during the nine months ended September 30, 2005. In addition, we have made certain other immaterial reclassifications to conform to current presentation. All other information in this amendment is as of the date of the original filing and does not reflect any subsequent information or events occurring after the date of the original filing. Forward looking statements made reflect our expectations as of the date of our original filing and have not been adjusted to reflect subsequent information.

ASBURY AUTOMOTIVE GROUP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2005 (Unaudited) (Restated)*	December 31, 2004 (Restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 39,253	\$ 28,093
Contracts-in-transit	101,838	105,360
Restricted investments	1,799	1,645
Accounts receivable (net of allowance of \$2,283 and \$2,073, respectively)	151,329	148,196
Inventories	800,479	761,557
Deferred income taxes	15,576	15,576
Prepaid and other current assets	55,214	56,831
Assets held for sale	8,020	25,748
Total current assets	1,173,508	1,143,006
PROPERTY AND EQUIPMENT, net	201,154	195,788
GOODWILL	461,189	461,650
RESTRICTED INVESTMENTS, net of current portion	2,508	2,478
OTHER LONG-TERM ASSETS	100,616	95,037
Total assets	\$ 1,938,975	\$ 1,897,959
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable manufacturer affiliated	\$ 337,267	\$ 336,369
Floor plan notes payable non-manufacturer affiliated	353,052	314,579
Current maturities of long-term debt	28,241	33,880
Accounts payable	77,097	53,078
Accrued liabilities	89,967	89,066
Liabilities associated with assets held for sale	4,004	20,538
Total current liabilities	889,628	847,510
LONG-TERM DEBT	476,251	492,536
DEFERRED INCOME TAXES	41,518	40,360
OTHER LONG-TERM LIABILITIES	37,971	35,821
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS EQUITY:		
Preferred stock, \$.01 par value per share, 10,000,000 shares authorized		
Common stock, \$.01 par value per share, 90,000,000 shares authorized 34,187,408 and 34,163,759 shares issued, including shares held in treasury, respectively	342	342
Additional paid-in capital	413,398	413,094
Retained earnings	97,545	87,905
Treasury stock, at cost; 1,586,587 shares held	(15,032)	(15,032)
Accumulated other comprehensive loss	(2,646)	(4,577)
Total shareholders equity	493,607	481,732
Total liabilities and shareholders equity	\$ 1,938,975	\$ 1,897,959

* See Note 2 Restatement

See Notes to Consolidated Financial Statements.

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

	For the Three Months Ended March 31,	
	2005	2004
REVENUES:		
New vehicle	\$ 778,507	\$ 664,149
Used vehicle	322,572	283,354
Parts, service and collision repair	154,377	134,264
Finance and insurance, net	35,748	28,412
Total revenues	1,291,204	1,110,179
COST OF SALES:		
New vehicle	725,263	615,296
Used vehicle	293,671	258,527
Parts, service and collision repair	74,280	64,568
Total cost of sales	1,093,214	938,391
GROSS PROFIT	197,990	171,788
OPERATING EXPENSES:		
Selling, general and administrative	160,894	136,920
Depreciation and amortization	4,707	4,572
Income from operations	32,389	30,296
OTHER INCOME (EXPENSE):		
Floor plan interest expense	(6,606)	(4,107)
Other interest expense	(9,601)	(10,264)
Interest income	265	267
Other income, net	115	124
Total other expense, net	(15,827)	(13,980)
Income before income taxes	16,562	16,316
INCOME TAX EXPENSE	6,211	6,118
INCOME FROM CONTINUING OPERATIONS	10,351	10,198
DISCONTINUED OPERATIONS, net of tax	(711)	166
NET INCOME	\$ 9,640	\$ 10,364
EARNINGS PER COMMON SHARE:		
Basic		
Continuing operations	\$ 0.32	\$ 0.31
Discontinued operations	(0.02)	0.01
Net Income	\$ 0.30	\$ 0.32
Diluted		
Continuing operations	\$ 0.32	\$ 0.31
Discontinued operations	(0.03)	0.01
Net Income	\$ 0.29	\$ 0.32
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	32,588	32,435
Diluted	32,781	32,721

See Notes to Consolidated Financial Statements.

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

	For the Three Months Ended March 31,	
	2005 (Restated)*	2004 (Restated)*
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 9,640	\$ 10,364
Adjustments to reconcile net income to net cash used in operating activities-		
Depreciation and amortization	4,707	4,572
Depreciation and amortization from discontinued operations	543	634
Amortization of deferred financing fees	343	533
Change in allowance for doubtful accounts	210	(203)
(Gain) Loss on sale of discontinued operations	(386)	168
Other adjustments	1,315	928
Changes in operating assets and liabilities, net of acquisitions and divestitures-		
Contracts-in-transit	3,522	(3,492)
Accounts receivable	(7,531)	(8,767)
Proceeds from the sale of accounts receivable	4,157	5,248
Inventories	(30,948)	(47,020)
Prepaid and other current assets	(6,190)	(5,953)
Floor plan notes payable manufacturer affiliated	(2,554)	12,775
Accounts payable and accrued liabilities	25,495	17,344
Other long-term assets and liabilities	(2,430)	(4,445)
Net cash used in operating activities	(107)	(17,314)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures non-financed	(9,198)	(6,291)
Capital expenditures financeable	(1,577)	(6,015)
Construction reimbursements associated with sale-leaseback agreements	2,032	4,386
Acquisitions		(53,198)
Proceeds from the sale of assets	3,272	1,893
Other investing activities	(177)	913
Net cash used in investing activities	(5,648)	(58,312)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-manufacturer affiliated	693,071	540,196
Floor plan repayments non-manufacturer affiliated	(654,598)	(521,223)
Proceeds from borrowings	2,107	802
Repayments of debt	(20,194)	(4,919)
Payments of debt issuance costs	(3,774)	
Proceeds from the exercise of stock options	303	45
Net cash provided by financing activities	16,915	14,901
Net increase (decrease) in cash and cash equivalents	11,160	(60,725)
CASH AND CASH EQUIVALENTS, beginning of period	28,093	106,711
CASH AND CASH EQUIVALENTS, end of period	\$ 39,253	\$ 45,986

See Note 11 for supplemental cash flow information

* See Note 2 Restatement

See Notes to Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS

Asbury Automotive Group, Inc. is a national automotive retailer, operating 94 dealership locations (130 franchises) as of March 31, 2005. We offer an extensive range of automotive products and services, including new and used vehicles, financing and insurance, vehicle maintenance and collision repair services, replacement parts and service contracts. We offer 33 domestic and foreign brands of new vehicles, including four heavy truck brands. We also operate 23 collision repair centers that serve our markets. Our retail network is organized into regional dealership groups, formerly called platforms, in 23 metropolitan markets, which are marketed under different local brands.

During the first quarter of 2005, we reorganized our platforms into principally four regions: (i) Florida (comprising our Coggin dealerships operating primarily in Jacksonville and Orlando and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas, our Thomason dealerships operating in Portland, Oregon, our Spirit dealerships operating primarily in Los Angeles, California and our Northern California Dealerships operating in Sacramento and Fresno, California), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and Southern Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia, and our North Point dealerships operating in Little Rock, Arkansas.) Our Plaza dealerships in St. Louis, Missouri and our Gray Daniels dealerships operating in Jackson, Mississippi remain standalone operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim consolidated financial statements reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current period presentation.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the unaudited interim consolidated financial statements as of March 31, 2005, and for the three months ended March 31, 2005 and 2004 have been included. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the full year. Our interim unaudited 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/A for the year ended December 31, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 from these estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the

consolidated financial statements in the period they are determined to be necessary.

Restatement

Subsequent to the issuance of the Company's December 31, 2004 financial statements, we determined that certain information in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows should be restated for all periods presented to comply with the guidance under Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows, and Rule 5-02(19)(a) of Regulation S-X. Historically, we reported all cash flows arising in connection with changes in floor plan notes payable as an operating activity and considered all borrowings and repayments of floor plan notes payable associated with inventory acquired through a dealership acquisition and inventory sold through a dealership divestiture, non-cash activities. Therefore, the changes in floor plan notes payable associated with dealership acquisitions and divestitures were not included in the Consolidated Statements of Cash Flows. As a result, we have (i) restated floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-manufacturer affiliated on our Consolidated Balance Sheets (ii) restated the related non-manufacturer affiliated cash flows as a financing activity on our Consolidated Statements of Cash flows with borrowings reflected separately from repayments and (iii) included floor plan notes payable activity associated with dealership

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acquisitions and divestitures in the Consolidated Statements of Cash Flows. A summary of the significant effects of the restatement are as follows:

(In thousands)		As of March 31, 2005	
Floor plan notes payable	previously reported	\$	690,319
Floor plan notes payable	manufacturer affiliated - previously reported	\$	
Floor plan notes payable	manufacturer affiliated		337,267
Floor plan notes payable	manufacturer affiliated restated	\$	337,267
Floor plan notes payable	non-manufacturer affiliated - previously reported	\$	
Floor plan notes payable	non-manufacturer affiliated		353,052
Floor plan notes payable	non-manufacturer affiliated restated	\$	353,052

(In thousands)		For the Three Months Ended March 31,		
		2005	2004	
Cash provided by (used in) operating activities	previously reported	\$ 41,112	\$	(12,244)
Floor plan notes payable	manufacturer affiliated	(40,506)		(5,015)
Other		(713)		(55)
Cash used in operating activities	restated	\$ (107)	\$	(17,314)
Cash used in investing activities	previously reported	\$ (8,394)	\$	(44,409)
Acquisitions				(15,049)
Proceeds from the sale of assets		2,033		1,091
Other		713		55
Cash used in investing activities	restated	\$ (5,648)	\$	(58,312)
Cash used in financing activities	previously reported	\$ (21,558)	\$	(4,072)
Floor plan borrowings	non-manufacturer affiliated	693,071		540,196
Floor plan repayments	non-manufacturer affiliated	(654,598)		(521,223)
Cash provided by financing activities	restated	\$ 16,915	\$	14,901

Revenue Recognition

Revenue from the sale of new and used vehicles 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 is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed. Manufacturer vehicle incentives and rebates, including holdbacks, 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 the sale of vehicle service contracts, credit life insurance and disability insurance to customers. In addition, we receive commissions from financing institutions for arranging customer financing. We may be charged back (chargebacks) for finance, insurance or vehicle service contract commissions in the event a contract is terminated. The revenues from financing fees and commissions are recorded at the time the vehicles are sold and a reserve for future chargebacks is established based on historical operating results and the termination provisions of the applicable contracts. Finance, insurance and vehicle service contract commissions, net of estimated chargebacks, are included in Finance and insurance, net in the accompanying Consolidated Statements of Income.

Goodwill and Other Intangible Assets

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Upon adoption of Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, on January 1, 2002, we determined that each of our platforms qualified as a reporting unit since we operate in one segment, our platforms are one level below our corporate level, discrete financial information existed for each platform and the management of each platform directly reviewed the platform s performance. In late 2004, we began the process of reorganizing our platforms into four regions.

Within this more streamlined structure, we will evaluate our operations and financial results by dealership in the aggregate, rather than by platform. The general managers, with direction from the regional CEOs, will continue to have the independence and flexibility to respond effectively to local market conditions. During the first quarter of 2005, based on the changes in our management, operational and reporting structure, we have determined that goodwill will be evaluated at the operating segment level.

Stock-Based Compensation

We account for stock-based compensation issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB Opinion No. 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock. We have adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-An amendment of FASB Statement No. 123.

The following table illustrates the effect on net income and net income per share had stock-based employee compensation been recorded based on the fair value method under SFAS No. 123 Accounting for Stock-Based Compensation :

(In thousands, except per share data)	For the Three Months Ended March 31,	
	2005	2004
Net income	\$ 9,640	\$ 10,364
Adjustments to net income:		
Stock-based compensation expense included in net income, net of tax	1	20
Pro forma stock-based compensation expense, net of tax	(666)	(1,189)
Pro forma net income	\$ 8,975	\$ 9,195
Net income per common share basic (as reported)	\$ 0.30	\$ 0.32
Net income per common share diluted (as reported)	\$ 0.29	\$ 0.32
Pro forma net income per common share basic	\$ 0.28	\$ 0.28
Pro forma net income per common share diluted	\$ 0.27	\$ 0.28

We use the Black-Scholes option valuation model (Black-Scholes), which is the measure of fair value most often utilized under SFAS No. 123. Traded options, unlike our stock-based awards, are not subject to vesting restrictions, are fully transferable and may use lower expected stock price volatility measures than those assumed below. We estimated the fair value of stock-based compensation issued to employees during each respective period using Black-Scholes with the following weighted average assumptions:

	For the Three Months Ended March 31,	
	2005	2004
Risk free interest rate	4.1%	2.3%
Expected life of options	4 years	4 years
Expected stock price volatility	46%	53%

Expected dividend yield

N/A

N/A

Derivative Instruments and Hedging Activities

We utilize derivative financial instruments to manage our capital structure. The types of risks hedged are those relating to the variability of cash flows and changes in the fair value of our financial instruments caused by movements in interest rates. We document our risk management strategy and assess hedge effectiveness at the inception and during the term of each hedge. Derivatives are reported at fair value on the accompanying Consolidated Balance Sheets.

The changes in fair value of the effective portion of cash flow hedges are reported as a component of accumulated other

comprehensive income (loss). Amounts in accumulated other comprehensive income (loss) are reclassified to interest expense to the extent the hedge becomes ineffective. The change in fair value of fair value hedges are recorded as a component of interest expense. Changes in the fair value of the associated hedged exposures (senior subordinated notes) are also recorded as a component of interest expense.

Measurements of hedge effectiveness are based on comparisons between the gains or losses of the actual interest rate swaps and the gains or losses of hypothetical interest rate swaps which are designed to reflect the critical terms of the defined hedged exposures. Ineffective portions of these interest rate swaps are reported as a component of interest expense in the accompanying Consolidated Statements of Income. We recognized minor ineffectiveness during the three months ended March 31, 2005 and no ineffectiveness during the three months ended March 31, 2004.

Discontinued Operations

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, certain amounts reflected in the accompanying Consolidated Balance Sheets as of March 31, 2005 and December 31, 2004, have been classified as Assets Held for Sale and Liabilities Associated with Assets Held for Sale. In addition, the accompanying Consolidated Statements of Income for the three months ended March 31, 2005 and 2004, have been reclassified to reflect the status of our discontinued operations as of September 30, 2005.

Statements of Cash Flows

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Borrowings and repayments of floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, are classified as financing activities on the accompanying Consolidated Statements of Cash Flows with borrowings reflected separately from repayments. The net change in floor plan notes payable to a party affiliated with the manufacturer of a particular new vehicle is classified as an operating activity on the Consolidated Statements of Cash Flows.

The net change in service loaner vehicle financing is reflected as an operating activity in the accompanying Consolidated Statements of Cash Flows, as these borrowings and repayments are with lenders affiliated with the vehicle manufacturer from which we purchase the related vehicles.

Construction reimbursements from third parties in connection with sale-leaseback agreements for the construction of new dealership facilities or leasehold improvements on our dealership facilities are included in investing activities in the accompanying Consolidated Statements of Cash Flows.

Financeable capital expenditures include all expenditures that we have financed during the reporting period or intend to finance in future reporting periods through sale-leaseback transactions or mortgage financing. Non-financed capital expenditures include all capital expenditures that are not included in financeable capital expenditures.

Recent Accounting Pronouncements

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In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-based Payment. This statement requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123 (revised 2004) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for SFAS No. 123 (revised 2004). Registrants would have been required to implement the standard as of the beginning of the first interim or annual period that begins after September 15, 2005. The Commission's new rule allows companies to implement SFAS No. 123 (Revised 2004) at the beginning of their next fiscal year, instead of the next reporting period, that begins after September 15, 2005. We are currently evaluating the effect of this statement on our consolidated financial statements and related disclosures.

3. INVENTORIES

Inventories consist of the following:

(In thousands)	As of	
	March 31, 2005	December 31, 2004
New vehicles	\$ 641,302	\$ 619,098
Used vehicles	115,099	98,071
Parts and accessories	44,078	44,388
Total inventories	\$ 800,479	\$ 761,557

The lower of cost or market reserves for inventory totaled \$4.8 million and \$4.9 million as of March 31, 2005 and December 31, 2004, respectively.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

During the three months ended March 31, 2005, we sold one dealership location (two franchises) resulting in the removal of \$0.5 million of Goodwill from our Consolidated Balance Sheets. The two franchises had been purchased prior to the adoption of SFAS No. 142 and therefore there were no manufacturer franchise rights allocated to these franchises. Manufacturer franchise rights totaled \$42.0 million as of March 31, 2005 and December 31, 2004, and are included in Other Long-term Assets on the accompanying Consolidated Balance Sheets.

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, (ii) costs of completed construction projects included in pending sale-leaseback transactions where an unaffiliated third party has reimbursed us or will reimburse us for the cost of construction and (iii) costs of completed construction projects included in pending sale-leaseback transactions where an unaffiliated third party has agreed to purchase the assets from us upon completion of the transaction.

Assets and liabilities associated with discontinued operations include one dealership location (two franchises) as of March 31, 2005, and two dealership locations (four franchises) as of December 31, 2004. Assets associated with discontinued operations totaled \$8.0 million and \$11.2 million, and liabilities associated with discontinued operations totaled \$4.0 million and \$7.4 million as of March 31, 2005 and December 31, 2004, respectively.

Included in Assets Held for Sale as of December 31, 2004 was \$14.5 million of costs associated with one completed project included in a pending sale-leaseback transaction. As of December 31, 2004, Liabilities Associated with Assets Held for Sale included \$13.1 million of funds reimbursed to us from an unaffiliated third party associated with this completed construction project. During the three months ended March 31,

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2005, we received the remaining \$1.4 million of funds from an unaffiliated third party and completed this sale-leaseback transaction, which resulted in the removal of \$14.5 million of Assets Held for Sale and Liabilities Associated with Assets Held for Sale from our Consolidated Balance Sheets.

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

(In thousands)	March 31, 2005	As of	December 31, 2004
Assets:			
Inventories	\$ 4,586		\$ 7,846
Property and equipment, net	3,434		17,902
Total assets	8,020		25,748
Liabilities:			
Floor plan notes payable	4,004		7,456
Other liabilities			13,082
Total liabilities	4,004		20,538
Net assets held for sale	\$ 4,016		\$ 5,210

Included in Prepaid and Other Current Assets on the accompanying Consolidated Balance Sheets are costs associated with construction projects, which we intend to sell through sale-leaseback transactions but have not been completed and therefore are not available for sale. In connection with these construction projects, we have entered into sale-leaseback agreements whereby an unaffiliated third party purchased the land and is either reimbursing us for the cost of construction of dealership facilities being constructed on the land or has agreed to purchase the assets from us upon completion of the project. We capitalize the cost of the construction during the construction period and record a corresponding liability equal to the amount reimbursed. Upon completion

of the construction, we will execute the sale-leaseback transaction, remove the cost of the land, facilities and the related liability from our Consolidated Balance Sheets and amortize the capitalized lease payments on a straight-line basis over the lease term. As of March 31, 2005 and December 31, 2004, the book value of assets associated with construction projects that have not been completed totaled \$7.6 million and \$7.1 million, respectively. As of March 31, 2005 and December 31, 2004, the book value of liabilities associated with these construction projects totaled \$1.1 million and \$1.6 million, respectively.

6. LONG-TERM DEBT

On March 23, 2005, we entered into a new committed credit facility (the New Committed Credit Facility) with JPMorgan Chase Bank, N.A., 17 other financial institutions (the Syndicate), and Ford Motor Credit Corporation (FMCC), collectively the Lenders. Concurrently with entering into the New Committed Credit Facility we terminated our First Amended and Restated Credit Agreement with FMCC, General Motors Acceptance Corporation (GMAC) and DaimlerChrysler Financial Services North America LLC. The New Committed Credit Facility provides us with \$650.0 million of new and used vehicle inventory financing (Floor Plan Tranche) and \$150.0 million of working capital borrowing capacity (Working Capital Tranche). In addition, FMCC and GMAC have committed \$150.0 million and \$100.0 million of floor plan financing outside of the Syndicate to finance inventory at our Ford Family (Ford, Lincoln Mercury, Mazda, Volvo and Land Rover) and General Motors dealerships, respectively. In total, these commitments give us \$150.0 million of working capital borrowing capacity and \$900.0 million of floor plan borrowing capacity. Floor plan notes payable to a party affiliated with the manufacturers from which we purchase new vehicle inventory are classified as Floor Plan Notes Payable - manufacturer affiliated on the accompanying Consolidated Balance Sheets. All other floor plan notes payable are classified as Floor Plan Notes Payable - non-manufacturer affiliated.

The New Committed Credit Facility has a 3-year maturity, but provides for an indefinite series of one-year extensions at our request, if approved by the Lenders. We believe such approval would be obtained. The FMCC and GMAC floor plan lines of credit have no stated termination date. Borrowings under the Working Capital Tranche accrue interest at variable rates based on LIBOR plus a specified percentage that is dependent upon our adjusted debt level at the end of each calendar quarter. Borrowings under the Floor Plan Tranche and the GMAC floor plan line of credit will accrue interest based on LIBOR and borrowings under the FMCC floor plan line of credit will accrue interest based on the Prime Rate.

Amounts borrowed under the New Committed Credit Facility are secured by certain of our tangible and intangible assets and the guarantees of each of our subsidiaries, other than those subsidiaries engaged in the sale of new motor vehicles manufactured by Toyota or Lexus under dealer franchise agreements or licensing agreements with those manufacturers or their authorized distributors (the Toyota/Lexus Floor Plan Borrowers). Floor plan loans made to the Toyota/Lexus Floor Plan Borrowers are cross-collateralized by the motor vehicle inventory of these entities, with each Toyota/Lexus Floor Plan Borrower additionally securing its respective borrowings with its assets.

The terms of the New Committed Credit Facility require us on an ongoing basis to meet certain financial ratios, as defined in our New Committed Credit Facility, including a current ratio of at least 1.2 to 1, a fixed charge coverage ratio of not less than 1.2 to 1, a leverage ratio of not greater than 4.5 to 1, an adjusted minimum net worth of not less than \$350.0 million and requires that neither we nor our subsidiaries incur unsecured debt in excess of \$50.0 million. It also includes customary conditions with respect to incurring new indebtedness and limitations on cash dividends. We may declare and pay cash dividends on our capital stock and may purchase shares of our capital stock, provided the aggregate amount payable in respect of cash dividends paid by us or the shares repurchased shall not exceed an amount equal to the sum of \$15.0 million plus one-half of the aggregate of our net income in accordance with GAAP for the period subsequent to December 31, 2003 and ending on the date of determination.

The New Committed Credit Facility also contains customary events of default, including change of control, non-payment of obligations and cross-defaults to our other indebtedness. Payments under the New Committed Credit Facility may be accelerated upon the occurrence of an

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event of default that is not otherwise waived or cured, subject to certain provisions, which allow a 60-day standstill period with respect to the Floor Plan Tranche. As of March 31, 2005, we were in compliance with all of the covenants of the New Committed Credit Facility.

We are required to pay a floor plan loan commitment fee equal to 0.25% per annum times the average unused amount of the committed Floor Plan Tranche during the most recently ended fiscal quarter and a revolving credit loan commitment fee equal to 0.375% per annum times the average unused amount of the Working Capital Tranche. In connection with the Floor Plan Tranche, we have also agreed to pay a fee equal to \$6.25 for each motor vehicle financed.

Long-term debt consists of the following:

(In thousands)	March 31, 2005	As of December 31, 2004
9% Senior Subordinated Notes due 2012	\$ 250,000	\$ 250,000
8% Senior Subordinated Notes due 2014 (\$200.0 million face value, net of hedging activity of \$6,985 and \$2,736, respectively)	193,015	197,264
Mortgage notes payable	32,678	49,732
Notes payable collateralized by loaner vehicles	21,842	21,627
Capital lease obligations	4,276	4,421
Other notes payable	2,681	3,372
	504,492	526,416
Less current portion	(28,241)	(33,880)
Long-term debt	\$ 476,251	\$ 492,536

7. COMPREHENSIVE INCOME

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

(In thousands)	For the Three Months Ended March 31,	
	2005	2004
Net income	\$ 9,640	\$ 10,364
Other comprehensive income:		
Change in fair value of interest rate swaps	3,089	(7,740)
Income tax (expense) benefit associated with interest rate swaps	(1,158)	2,878
Comprehensive income	\$ 11,571	\$ 5,502

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

We entered into two forward interest rate swaps with a combined notional principal amount of \$170.0 million, to provide a hedge against changes in the interest rates of our variable rate floor plan notes payable for a period of eight years beginning in March 2006. The swap agreements were designated and qualify as cash flow hedges of our variable rate floor plan indebtedness and will contain minor ineffectiveness. The swaps are scheduled to expire in March 2006. As of March 31, 2005 and December 31, 2004, the swaps had a fair value of \$4.3 million and \$7.1 million and are included in Accrued Liabilities and Other Long-term Liabilities, respectively, on the accompanying Consolidated Balance Sheets

We entered into an interest rate swap agreement with a notional principal amount of \$200.0 million as a hedge against changes in the fair value of our 8% Senior Subordinated Notes due 2014. Under the terms of the swap agreement, we are required to make variable rate payments based on six-month LIBOR and receive a fixed rate of 8.0%. This swap agreement was designated and qualifies as a fair value hedge of our 8% Senior

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Subordinated Notes due 2014 and did not contain any ineffectiveness. As a result our 8% Senior Subordinated Notes due 2014 have been adjusted by the fair market value of the related swap. The swap is scheduled to expire in March 2006. As of March 31, 2005 and December 31, 2004, the swap agreement had a fair value of \$7.0 million and \$2.7 million and is included in Accrued Liabilities and Other Long-Term Liabilities, respectively, on the accompanying Consolidated Balance Sheets.

We entered into an interest rate swap agreement with a notional principal amount of \$15.2 million as a hedge against future changes in the interest rate of our variable rate mortgage notes payable beginning in January 2005. Under the terms of the swap agreement, we are required to make payments at a fixed rate of 6.08% and receive a variable rate based on LIBOR. This swap agreement was designated and qualifies as a cash flow hedge of changes in the interest rate of our variable rate mortgage notes payable and will contain minor ineffectiveness. As of March 31, 2005, the swap agreement had a fair value of \$0.2 million, which was included in Other Long-Term Assets, and as of December 31, 2004, had a fair value of \$0.2 million, which was included in Other Long-Term Liabilities on the accompanying Consolidated Balance Sheets.

9. DISCONTINUED OPERATIONS

During the three months ended March 31, 2005, we sold one dealership location (two franchises). As of March 31, 2005, one dealership location (two franchises) was pending disposition. During the period between March 31, 2005 and September 30, 2005, we sold one dealership location (four franchises) including the one dealership location (two franchises) that were pending disposition as of December 31, 2004. In addition, as of September 30, 2005 eight dealership locations (eight franchises) were pending disposition. The accompanying Consolidated Statements of Income for the three months ended March 31, 2005 and 2004 have been reclassified to reflect the status of our discontinued operations as of September 30, 2005.

The following table provides further information regarding our discontinued operations as of September 30, 2005, and includes the results of businesses sold prior to September 30, 2005, and businesses pending disposition as of September 30, 2005:

(Dollars in thousands)	For the Three Months Ended March 31, 2005			For the Three Months Ended March 31, 2004		
	Sold(a)	Pending Disposition(b)	Total	Sold(c)	Pending Disposition(b)	Total
Franchises	6	8	14	20	6	26
Revenues	\$ 9,875	\$ 80,636	\$ 90,511	\$ 60,060	\$ 75,726	\$ 135,786
Cost of sales	8,316	68,228	76,544	50,669	63,489	114,158
Gross profit	1,559	12,408	13,967	9,391	12,237	21,628
Operating expenses	1,808	12,877	14,685	9,228	11,137	20,365
Income (loss) from operations	(249)	(469)	(718)	163	1,100	1,263
Other expense, net	(444)	(361)	(805)	(651)	(178)	(829)
Gain (loss) on disposition of discontinued operations	386		386	(168)		(168)
Income (loss) before income taxes	(307)	(830)	(1,137)	(656)	922	266
Income tax (expense) benefit	112	314	426	242	(342)	(100)
Discontinued operations, net of tax	\$ (195)	\$ (516)	\$ (711)	\$ (414)	\$ 580	\$ 166

(a) Businesses were sold between January 1, 2005 and September 30, 2005

(b) Businesses pending disposition as of September 30, 2005

(c) Businesses were sold between January 1, 2004 and September 30, 2005

10. EARNINGS PER SHARE

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Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding during the periods presented. Diluted earnings per share is computed by dividing net income by the weighted average common shares and common share equivalents outstanding during the periods presented.

The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share data)	For the Three Months Ended March 31,	
	2005	2004
Net income:		
Continuing operations	\$ 10,351	\$ 10,198
Discontinued operations	(711)	166
Net income	\$ 9,640	\$ 10,364
Earnings per share basic and diluted:		
Continuing operations basic	\$ 0.32	\$ 0.31
Discontinued operations basic	(0.02)	0.01
Net income	\$ 0.30	\$ 0.32
Continuing operations diluted	\$ 0.32	\$ 0.31
Discontinued operations diluted	(0.03)	0.01
Net income	\$ 0.29	\$ 0.32
Common shares and common share equivalents:		
Weighted average common shares outstanding basic	32,588	32,435
Common share equivalents (stock options)	193	286
Weighted average common shares outstanding diluted	32,781	32,721

11. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended March 31, 2005 and 2004, we made interest payments, net of amounts capitalized, totaling \$16.0 million and \$11.8 million, respectively. During the three months ended March 31, 2005 and 2004, we received \$2.5 million and \$1.5 million, respectively, of proceeds associated with our interest rate swap agreement that was entered into in December 2003 in connection with the issuance of our 8% Senior Subordinated Notes due 2014.

During the three months ended March 31, 2005 and 2004, we made income tax payments totaling \$0.3 million and \$0.1 million, respectively.

During the three months ended March 31, 2005, we completed a sale-leaseback transaction, which resulted in the sale of approximately \$14.5 million of Assets Held for Sale and the removal of \$14.5 million of Liabilities Associated with Assets Held for Sale from our Consolidated Balance Sheets.

12. COMMITMENTS AND CONTINGENCIES

A significant portion of our vehicle 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.

Manufacturers 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, such as acquisitions.

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.

From time to time, we and our dealerships are named in claims involving the manufacture and sale or lease of motor vehicles, including but not limited to the charging of administrative fees, the operation of dealerships, contractual disputes and other matters arising in the ordinary course of our business. With respect to certain of these claims, the sellers of dealerships we have acquired have indemnified us. We do not expect that any potential liability from these claims will materially affect our financial condition, liquidity, results of operations or financial statement disclosures.

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Our dealerships hold dealer agreements with a number of vehicle manufacturers. In accordance with the individual dealer agreements, each dealership is subject to certain rights and restrictions typical of the industry. The ability of the manufacturers to influence the operations of the dealerships or the loss of a dealer agreement could have a negative impact on our operating results.

We have guaranteed a loan made by a financial institution directly to a non-consolidated entity controlled by a former platform executive, which totaled approximately \$2.4 million as of March 31, 2005. This loan was made by a corporation we acquired in October 1998, and guarantees an industrial revenue bond, which we are legally required to guarantee. The primary obligor of the note is a non-dealership business entity and that entity's partners as individuals.

13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Our 8% Senior Subordinated Notes due 2014 are guaranteed by all of our current subsidiaries, other than our current Toyota and Lexus dealership subsidiaries, and all of our future domestic restricted subsidiaries, other than our future Toyota and Lexus dealership facilities. The following tables set forth, on a condensed consolidating basis, our balance sheets, statements of income and statements of cash flows, for our guarantor and non-guarantor subsidiaries for all financial statement periods presented in our interim consolidated financial statements.

Condensed Consolidating Balance Sheet
As of March 31, 2005
(In thousands)

(Restated)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$	\$	39,253	\$	\$
Inventories		750,421	50,058		800,479
Other current assets		287,564	38,192		325,756
Assets held for sale		8,020			8,020
Total current assets		1,085,258	88,250		1,173,508
Property and equipment, net		196,072	5,082		201,154
Goodwill		399,877	61,312		461,189
Other assets		86,304	16,820		103,124
Investment in subsidiaries	493,607	131,077		(624,684)	
Total assets	\$	493,607	\$	1,898,588	\$
			\$	171,464	\$
				(624,684)	\$
					1,938,975
LIABILITIES AND SHAREHOLDERS					
EQUITY					
Current liabilities:					
Floor plan notes payable	Manufacturer	\$	\$	337,267	\$
affiliated				\$	337,267
Floor plan notes payable	Non Manufacturer		313,781	39,271	353,052
affiliated					
Other current liabilities		193,946	1,359		195,305
Liabilities associated with assets held for sale		4,004			4,004
Total current liabilities		848,998	40,630		889,628
Long-term debt		476,217	34		476,251
Other liabilities		79,766	(277)		79,489
Shareholders equity	493,607	493,607	131,077	(624,684)	493,607
Total liabilities and shareholders equity	\$	493,607	\$	1,898,588	\$
			\$	171,464	\$
				(624,684)	\$
					1,938,975

Condensed Consolidating Balance Sheet
As of December 31, 2004
(In thousands)

(Restated)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$	\$ 28,093	\$	\$	\$ 28,093
Inventories		713,205	48,352		761,557
Other current assets		286,675	40,933		327,608
Assets held for sale		25,748			25,748
Total current assets		1,053,721	89,285		1,143,006
Property and equipment, net		190,706	5,082		195,788
Goodwill		400,338	61,312		461,650
Other assets		79,435	18,080		97,515
Investment in subsidiaries	481,732	130,098		(611,830)	
Total assets	\$ 481,732	\$ 1,854,298	\$ 173,759	\$ (611,830)	\$ 1,897,959
LIABILITIES AND SHAREHOLDERS					
EQUITY					
Current liabilities:					
Floor plan notes payable	Manufacturer	\$ 336,369	\$	\$	\$ 336,369
Floor plan notes payable	Non Manufacturer	277,170	37,409		314,579
Other current liabilities		170,227	5,797		176,024
Liabilities associated with assets held for sale		20,538			20,538
Total current liabilities		804,304	43,206		847,510
Long-term debt		492,499	37		492,536
Other liabilities		75,763	418		76,181
Shareholders equity	481,732	481,732	130,098	(611,830)	481,732
Total liabilities and shareholders equity	\$ 481,732	\$ 1,854,298	\$ 173,759	\$ (611,830)	\$ 1,897,959

Condensed Consolidating Statement of Income
For the Three Months Ended March 31, 2005
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$	\$ 1,144,856	\$ 148,228	\$ (1,880)	\$ 1,291,204
Cost of sales		969,064	126,030	(1,880)	1,093,214
Gross profit		175,792	22,198		197,990
Operating expenses:					
Selling, general and administrative		144,495	16,399		160,894
Depreciation and amortization		4,372	335		4,707
Income from operations		26,925	5,464		32,389
Other income (expense):					
Floor plan interest expense		(6,255)	(351)		(6,606)
Other interest expense		(8,433)	(1,168)		(9,601)
Other income, net		370	10		380
Equity in earnings of subsidiaries	9,640	2,428		(12,068)	
Total other expense, net	9,640	(11,890)	(1,509)	(12,068)	(15,827)
Income before income taxes	9,640	15,035	3,955	(12,068)	16,562
Income tax expense		4,728	1,483		6,211
Income from continuing operations	9,640	10,307	2,472	(12,068)	10,351
Discontinued operations, net of tax		(667)	(44)		(711)
Net income	\$ 9,640	\$ 9,640	\$ 2,428	\$ (12,068)	\$ 9,640

Condensed Consolidating Statement of Income
For the Three Months Ended March 31, 2004
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$	\$ 969,009	\$ 143,691	\$ (2,521)	\$ 1,110,179
Cost of sales		817,712	123,200	(2,521)	938,391
Gross profit		151,297	20,491		171,788
Operating expenses:					
Selling, general and administrative		122,616	14,304		136,920
Depreciation and amortization		4,273	299		4,572
Income from operations		24,408	5,888		30,296
Other income (expense):					
Floor plan interest expense		(3,829)	(278)		(4,107)
Other interest expense		(9,317)	(947)		(10,264)
Other income (expense), net		396	(5)		391
Equity in earnings of subsidiaries	10,364	3,125		(13,489)	
Total other expense, net	10,364	(9,625)	(1,230)	(13,489)	(13,980)
Income before income taxes	10,364	14,783	4,658	(13,489)	16,316
Income tax expense		4,372	1,746		6,118
Income from continuing operations	10,364	10,411	2,912	(13,489)	10,198
Discontinued operations, net of tax		(47)	213		166
Net income	\$ 10,364	\$ 10,364	\$ 3,125	\$ (13,489)	\$ 10,364

Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2005
(In thousands)

(Restated)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$	\$ 3,429	\$ (3,536)	\$	\$ (107)
Cash flow from investing activities:					
Capital expenditures		(10,489)	(286)		(10,775)
Other investing activities		5,127			5,127
Net cash used in investing activities		(5,362)	(286)		(5,648)
Cash flow from financing activities:					
Floor Plan Borrowings non- manufacturer Affiliated		567,735	125,336		693,071
Floor Plan Repayments non-manufacturer affiliated		(531,123)	(123,475)		(654,598)
Proceeds from borrowings		2,107			2,107
Repayments of debt		(19,352)	(842)		(20,194)
Intercompany financing		(2,803)	2,803		
Other financing activities		(3,471)			(3,471)
Net cash provided by financing activities		13,093	3,822		16,915
Net increase in cash and cash equivalents		11,160			11,160
Cash and cash equivalents, beginning of period		28,093			28,093
Cash and cash equivalents, end of period	\$	\$ 39,253	\$	\$	\$ 39,253

Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2004
(In thousands)

(Restated)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash used in operating activities	\$	\$ (13,618)	\$ (3,696)	\$	\$ (17,314)
Cash flow from investing activities:					
Capital expenditures		(11,692)	(614)		(12,306)
Payments for acquisitions		(53,198)			(53,198)
Other investing activities		7,192			7,192
Net cash used in investing activities		(57,698)	(614)		(58,312)
Cash flow from financing activities:					
Floor Plan Borrowings non- manufacturer affiliated		425,278	114,918		540,196
Floor Plan Repayments non-manufacturer affiliated		(407,323)	(113,900)		(521,223)
Proceeds from borrowings		802			802
Repayments of debt		(4,237)	(682)		(4,919)
Other financing activities		45			45
Net cash provided by financing activities		14,565	336		14,901
Net decrease in cash and cash equivalents		(56,751)	(3,974)		(60,725)
Cash and cash equivalents, beginning of period		98,927	7,784		106,711
Cash and cash equivalents, end of period	\$	\$ 42,176	\$ 3,810	\$	\$ 45,986

14. SUBSEQUENT EVENTS

Acquisitions

During the second quarter of 2005, we acquired one dealership location (one franchise) in Arkansas for a total purchase price of \$12.0 million, of which \$4.7 million was paid in cash through the use of available funds, \$6.8 million was borrowed from our floor plan facilities, with the remaining \$0.5 million representing the fair value of future payments. We estimate annual revenues of the acquired franchise will total approximately \$35.0 million, based on historical performance.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Asbury Automotive Group, Inc.:

We have reviewed the accompanying consolidated balance sheet of Asbury Automotive Group, Inc. and subsidiaries (the Company) as of March 31, 2005, and the related consolidated statements of income for the three-month periods ended March 31, 2005 and 2004, and statements of cash flows for the three-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 Restatement, the accompanying consolidated financial statements have been restated.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 14, 2005 (March 14, 2006 as to the effects of the restatement discussed in Note 2 Restatement and discontinued operations discussed in Note 16 Discontinued Operations), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New York, New York

May 5, 2005 (March 14, 2006 as to the effects of the restatement discussed in Note 2 Restatement and discontinued operations discussed in Note 9 Discontinued Operations)

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

Subsequent to the issuance of our December 31, 2004 financial statements, we determined that certain information in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows should be restated for all periods presented to comply with the guidance under Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows, and Rule 5-02(19)(a) of Regulation S-X. Floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, have been restated as floor plan notes payable - non-manufacturer affiliated on the Consolidated Balance Sheets, and the related non-manufacturer affiliated cash flows have been restated from operating activities to financing activities on the Consolidated Statements of Cash Flows with borrowings reflected separately from repayments. In addition, we have restated our Consolidated Statement of Cash Flows to include floor plan notes payable activity in connection with our dealership acquisitions and divestitures. Consistent with industry practice, we previously reported all cash flow activity relating to floor plan notes payable as operating cash flows and considered floor plan notes payable activity associated with dealership acquisitions and divestitures, non-cash activities. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been updated for the effects of the restatement and for the effects of entities which became discontinued operations during the nine months ended September 30, 2005. In addition, we have made certain other immaterial reclassifications to conform to current presentation. Forward looking statements made reflected our expectations as of the date of our original filing and have not been adjusted to reflect subsequent information.

We are one of the largest automotive retailers in the United States, operating 94 dealership locations (130 franchises) in 23 metropolitan markets within 11 states as of March 31, 2005. We offer 33 different brands of new vehicles, including four heavy truck brands. We also operate 23 collision repair centers that serve our markets.

We have grown our business through the acquisition of large dealership groups formerly referred to as platforms and numerous tuck-in acquisitions. Tuck-in acquisitions refer to the purchase of dealerships in the market areas in which we have existing dealerships. We use tuck-in acquisitions to increase the number of vehicle brands we offer in a particular market area and to create a larger gross profit base over which to spread overhead costs.

During the first quarter of 2005, we reorganized our dealerships into principally four regions: (i) Florida (comprising our Coggin dealerships operating primarily in Jacksonville and Orlando, and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas, our Thomason dealerships operating in Portland, Oregon, our Spirit dealerships operating primarily in Los Angeles, California and our Northern California Dealerships operating in Sacramento and Fresno, California), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and Southern Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia and our North Point dealerships operating in Little Rock, Arkansas). Our Plaza dealerships in St. Louis, Missouri and our Gray Daniels dealerships operating in Jackson, Mississippi remain standalone operations. Within this more streamlined structure, we will evaluate our operations and financial results by dealership in the aggregate, rather than by platform. The general managers, with direction from the regional CEOs, will continue to have the independence and flexibility to respond effectively to local market conditions. We expect a significant improvement in management effectiveness as a result of this reorganization, as well as added operating and cost efficiencies. During the three months ended March 31, 2005, we incurred \$3.6 million in severance and other costs related to our regional reorganization. We expect to complete the final phases of our reorganization during the remainder of 2005. Currently, we estimate that the regional reorganization will have a negative impact on income from continuing operations of \$0.02 to \$0.04 per diluted share during 2005 and will improve income from continuing operations by approximately \$0.10 per diluted share in future years. During the third quarter of 2005, we entered into agreements to divest of all our Thomason dealerships in Portland, Oregon and our Spirit Nissan store in Rancho Santa Margarita, California. When those sales close, we will exit the Portland, Oregon and Rancho Santa Margarita markets, thereby reducing our number of metropolitan markets to 21.

Our revenues are derived primarily from four offerings: (i) the sale of new vehicles to individual retail customers (new retail) and the sale of new vehicles to commercial customers (fleet) (the terms new retail and fleet being collectively referred to as new); (ii) the sale of used vehicles to

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individual retail customers (used retail) and the sale of used vehicles 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 fixed operations); and (iv) the arrangement of vehicle financing and the sale of various insurance and warranty products (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 retailed (PVR), our fixed operations based on aggregate gross profit, and F&I based on gross profit PVR. 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 months (same store).

Our gross profit percentage varies with our revenue mix. The sale of vehicles generally results in lower gross profit percentages than our fixed operations. As a result, when fixed operations revenue increases as a percentage of total revenue, we expect our overall gross profit percentage 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 selling expenses is variable (such as sales commissions), or controllable expenses (such as advertising), generally allowing our cost structure to adapt in response to trends in our business. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit, advertising expense on a PVR basis and all other SG&A expenses in the aggregate as a percentage of total gross profit.

Sales of vehicles (particularly new vehicles) have historically fluctuated with general macroeconomic conditions, including consumer confidence, availability of consumer credit and fuel prices. Although these factors may impact our business, we believe that any future negative trends will be mitigated by increased used vehicle sales, stability in our fixed operations, our variable cost structure, our regional diversity and our advantageous brand mix. Historically, our brand mix, which is weighted towards luxury and mid-line import brands, has been less affected by market volatility than the U.S. automobile retailing industry as a whole. We expect the recent industry-wide gain in market share of the luxury and mid-line import brands to continue in the near future.

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

Over the past several years, certain automobile manufacturers have used a combination of vehicle pricing and financing incentive programs to generate increased customer demand for new vehicles. These programs have served to increase competition with late-model used vehicles. We anticipate that the manufacturers will continue to use these incentive programs in the future and, as a result, we will continue to monitor and adjust our used vehicle inventory mix in response to these programs. In addition, we will continue to expand our service capacity in order to meet anticipated future demand, as the relatively high volume of new vehicle sales, resulting from the highly incentivized new vehicle market, will drive future service demand at our dealership locations.

Interest rates over the past several years have been at historic lows. We do not believe that changes in interest rates significantly impact customer overall buying patterns, as changes in interest rates do not dramatically increase the monthly payment of a financed vehicle. For example, the monthly payment for a typical vehicle financing transaction in which a customer finances \$25,000 at 6.0% over 60 months increases by approximately \$5.80 with each 0.5% increase in interest rates.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2005, Compared to Three Months Ended March 31, 2004

Net income decreased \$0.8 million to \$9.6 million, or \$0.29 per diluted share, for the three months ended March 31, 2005, from \$10.4 million, or \$0.32 per diluted share, for the three months ended March 31, 2004. Net income for the three months ended March 31, 2005, includes severance and other related costs of \$3.6 million (\$2.2 million after-tax) related to our regional reorganization. Excluding the costs of the regional reorganization, net income increased 15%, or \$1.4 million, from the prior year period.

Income from continuing operations increased \$0.2 million to \$10.4 million, or \$0.32 per diluted share, for the three months ended March 31, 2005, from \$10.2 million, or \$0.31 per diluted share, for the three months ended March 31, 2004. Excluding the costs of the regional reorganization, income from continuing operations would have increased 24%, or \$2.4 million, from the prior year period to \$12.6 million, or \$0.38 per diluted share.

The 15% increase in net income and 24% increase in income from continuing operations, after adjusting for the costs of our regional reorganization, resulted from several factors, including: (i) improvement in our gross profit from used retail sales, (ii) substantial increases in our same store fixed operations, and (iii) significant increases in same store F&I revenue resulting from a combination of an increase in platform F&I PVR and an increase in new retail vehicle sales. These factors were partially offset by the following factors: (i) increased floor plan expense due principally to rising interest rates and (ii) the results of our start-up operations relating to our new dealership locations and entrance into the Southern California market.

Revenues-

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(Dollars in thousands)	For the Three Months Ended March 31,		Increase (Decrease)	% Change
	2005	2004		
New vehicle data:				
Retail revenues-same store (1)	\$ 693,293	\$ 641,931	\$ 51,362	8%
Retail revenues-acquisitions	37,110			
Total new retail revenues	730,403	641,931	88,472	14%
Fleet revenues-same store (1)				
Fleet revenues-same store (1)	47,831	22,218	25,613	115%
Fleet revenues-acquisitions	273			
Total fleet revenues	48,104	22,218	25,886	117%
New vehicle revenue, as reported	\$ 778,507	\$ 664,149	\$ 114,358	17%
New retail units-same store (1)				
New retail units-same store (1)	22,264	21,257	1,007	5%
New retail units-actual	23,657	21,257	2,400	11%
Used vehicle data:				
Retail revenues-same store (1)	\$ 230,889	\$ 210,141	\$ 20,748	10%
Retail revenues-acquisitions	9,313			
Total used retail revenues	240,202	210,141	30,061	14%
Wholesale revenues-same store (1)				
Wholesale revenues-same store (1)	78,328	73,213	5,115	7%
Wholesale revenues-acquisitions	4,042			
Total wholesale revenues	82,370	73,213	9,157	13%
Used vehicle revenue, as reported	\$ 322,572	\$ 283,354	\$ 39,218	14%
Used retail units-same store (1)				
Used retail units-same store (1)	14,065	13,628	437	3%
Used retail units-actual	14,602	13,628	974	7%
Parts, service and collision repair:				
Revenues-same store (1)	\$ 148,471	\$ 134,264	\$ 14,207	11%
Revenues-acquisitions	5,906			
Parts, service and collision repair revenue, as reported	\$ 154,377	\$ 134,264	\$ 20,113	15%
Finance and insurance, net:				
Platform revenues-same store (1)	\$ 32,997	\$ 27,169	\$ 5,828	21%
Platform revenues-acquisitions	1,548			
Platform finance and insurance revenue	34,545	27,169	7,376	27%
Corporate revenues	1,203	1,243		
Finance and insurance revenue, as reported	\$ 35,748	\$ 28,412	\$ 7,336	26%
Total revenue:				
Same store (1)	\$ 1,231,809	\$ 1,108,936	\$ 122,873	11%
Corporate	1,203	1,243		
Acquisitions	58,192			
Total revenue, as reported	\$ 1,291,204	\$ 1,110,179	\$ 181,025	16%

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

Total revenues increased 16% to \$1.3 billion for the three months ended March 31, 2005, from \$1.1 billion for the three months ended March 31, 2004. Same store revenues increased 11% to \$1.2 billion for the three months ended March 31, 2005,

compared to the three months ended March 31, 2004. Same store new retail revenue increased 8% compared to the prior year period, reflecting an increase in retail unit sales of 5% and an increase in the percentage of luxury and mid-line import sales, which on average have a higher selling price. Same store used vehicle retail revenue increased 10% to \$230.9 million, compared to \$210.1 million for the prior year period reflecting an increase in our used retail unit sales of 3%. Our same store used vehicle unit sales were negatively impacted by manufacturer incentive programs on new vehicles. We anticipate that manufacturer incentives on new vehicles will continue to drive customers toward new vehicles during 2005, and expect that this environment will continue to have a negative impact on the used vehicle retail market.

Fixed operations revenue increased 15%, to \$154.4 million for the three months ended March 31, 2005, from \$134.3 million for the three months ended March 31, 2004. Same store fixed operations revenue increased 11%, for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, primarily due to an increase in our customer pay and warranty parts and service businesses. The growth in our customer pay business is a result of (i) our continued service adviser training, (ii) expansion of our product offerings and (iii) the implementation of more aggressive advertising campaigns. Our warranty business continued its positive performance driven by continued manufacturer recall programs and increased work on imported vehicles, which typically generates higher revenue due to customer retention. We expect fixed operations to continue to grow as we expand our service capacity in 2005 with the addition of approximately 100 service stalls and 200 to 250 technicians and a focused effort on more rigorous and consistent training of our service advisors.

Platform F&I increased \$5.8 million to \$433.0 million on a same store basis for the three months ended March 31, 2005, compared to the three months ended March 31, 2004. Platform F&I PVR increased \$124 to \$903 for the three months ended March 31, 2005, from \$779 for the three months ended March 31, 2004, which is attributable to (i) increased service contract penetration, (ii) utilization of menus in the F&I sales process, (iii) maturation of our corporate-sponsored programs and (iv) improvement of the F&I operations at franchises we acquired in prior periods, as F&I revenues have historically continued to improve for several years after we acquire a dealership. We anticipate that the positive trends in platform F&I PVR will continue in the future as we focus on improving F&I PVR levels at our lowest performing stores. Platform F&I excludes revenue resulting from contracts negotiated by our corporate office, which is attributable to retail units sold during prior periods. Corporate F&I revenue was \$1.2 million for the each of the three month periods ended March 31, 2005 and 2004. We expect this revenue to decrease significantly over the next few years as the portfolio runs off.

We expect total revenue to increase as we continue to acquire dealerships, expand our service capacity in order to meet the anticipated increase in service demand and improve our platform F&I PVR. However, future revenue growth will rely heavily on our performance in the vehicle retail business, in particular our ability to maintain or improve upon our sales volumes of new and used vehicles.

Gross Profit-

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(Dollars in thousands, except for per vehicle data)	For the Three Months Ended March 31,		Increase (Decrease)	% Change
	2005	2004		
New vehicle data:				
Retail gross profit-same store (1)	\$ 50,038	\$ 48,513	\$ 1,525	3%
Retail gross profit-acquisitions	2,641			
Total new retail gross profit	52,679	48,513	4,166	9%
Fleet gross profit:				
Fleet gross profit-same store (1)	561	340	221	65%
Fleet gross profit-acquisitions	4			
Total fleet gross profit	565	340	225	66%
New vehicle gross profit, as reported	\$ 53,244	\$ 48,853	\$ 4,391	9%
New retail units:				
New retail units-same store (1)	22,264	21,257	1,007	5%
New retail units-actual	23,657	21,257	2,400	11%

Used vehicle data:							
Retail gross profit-same store (1)	\$	26,938	\$	24,950	\$	1,988	8%
Retail gross profit-acquisitions		874					
Total used retail gross profit		27,812		24,950		2,862	11%
Wholesale gross profit-same store (1)		1,051		(123)		1,174	NM
Wholesale gross profit-acquisitions		38					
Total wholesale gross profit		1,089		(123)		1,212	NM
Used vehicle gross profit, as reported	\$	28,901	\$	24,827	\$	4,074	16%
Used retail units-same store (1)		14,065		13,628		437	3%
Used retail units-actual		14,602		13,628		974	7%
Parts, service and collision repair:							
Gross profit-same store (1)	\$	77,086	\$	69,696	\$	7,390	11%
Gross profit-acquisitions		3,011					
Parts, service and collision repair gross profit, as reported	\$	80,097	\$	69,696	\$	10,401	15%
Finance and insurance, net:							
Platform gross profit-same store (1)	\$	32,997	\$	27,169	\$	5,828	21%
Platform gross profit-acquisitions		1,548					
Platform finance and insurance gross profit (2)		34,545		27,169		7,376	27%
Gross profit-corporate		1,203		1,243			
Finance and insurance gross profit, as reported	\$	35,748	\$	28,412	\$	7,336	26%
Platform gross profit PVR-same store (1)	\$	908	\$	779	\$	129	17%
Platform gross profit PVR-actual (2)	\$	903	\$	779	\$	124	16%
Gross profit PVR-actual	\$	934	\$	814	\$	120	15%
Total gross profit:							
Same store (1)	\$	188,671	\$	170,545	\$	18,126	11%
Corporate		1,203		1,243			
Acquisitions		8,116					
Total gross profit, as reported	\$	197,990	\$	171,788	\$	26,202	15%

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

(2) Refer to Reconciliation of Non-GAAP Financial Information for further discussion regarding platform finance and insurance gross profit PVR.

Gross profit increased 15% to \$198.0 million for the three months ended March 31, 2005, from \$171.8 million for the three months ended March 31, 2004. Same store gross profit increased \$18.2 million to \$188.7 million for the three months ended March 31, 2005, from \$170.5 million for the three months ended March 31, 2004.

Same store gross profit on new retail vehicle sales increased \$1.5 million for the three months ended March 31, 2005 to \$50.0 million, compared to the three months ended March 31, 2004. The overall increase in same store gross profit on new retail vehicle sales was directly attributable to a 5% increase in unit sales, offset by a 0.4% reduction in same store new retail vehicle gross margin. We expect that margins on new vehicles will continue to be under pressure for the foreseeable future, as the automotive manufacturers continue to contend with overcapacity in their factories.

Same store gross profit on used vehicle retail sales increased \$1.9 million to \$26.9 million for the three months ended March 31, 2004, from \$25.0 million for the three months ended March 31, 2003. Despite an overall difficult market during the quarter, we were able to take advantage of strengthening in the used vehicle retail market in certain of our regions, increasing our average same store gross profit per vehicle retailed by 5% over the prior year period, on a same store basis. In addition, the regional improvement in the used vehicle retail market enabled us to generate a profit on wholesaled vehicles of \$1.1 million during the quarter. We believe that opportunities to increase unit sales exist in the used vehicle retail market, especially with respect to a distinct customer base interested in lower priced inventory, which we view as a separate market from higher priced used and new vehicle inventory.

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Same store gross profit from fixed operations increased 11%, in direct proportion to the increase in fixed operations revenue, to \$77.1 million for the three months ended March 31, 2005, from \$69.7 million for the three months ended March 31, 2004.

Selling, General and Administrative Expenses-

SG&A expenses increased \$24.0 million to \$160.9 million for the three months ended March 31, 2005, from \$136.9 million for the three months ended March 31, 2004. SG&A expenses as a percentage of gross profit for the three months ended March 31, 2005, improved to 81.3%, from 79.7% for the prior year period. SG&A expenses for the three months ended March 31, 2005, includes \$3.6 million of severance and other costs related to our regional reorganization. We expect to incur between \$0.5 million and \$0.8 million of additional reorganization costs during the remainder of 2005. In addition, SG&A expenses for the three months ended March 31, 2005, includes incremental rent of \$2.3 million resulting from the refinancing of 20 of our dealerships using a sale-leaseback transaction in the third quarter of 2004. Excluding rent expense from both periods, as well as the previously discussed reorganization costs, SG&A expenses as a percentage of gross profit decreased to 73.4% for the three months ended March 31, 2005, compared to 75.3% for the prior year period. The improvement in SG&A expense as a percentage of gross profit, after adjusting for reorganization costs and rent expense, was attributable to a 1.0% reduction in personnel costs as a percentage of gross profit and a reduction in advertising expense PVR.

Although there are many variables which impact the ratio of SG&A expenses as a percentage of gross profit, including the seasonality of the automotive retail business, we believe our regional reorganization demonstrates our commitment to reducing our fixed cost structure and, absent other factors, will result in a decrease in SG&A expenses as a percentage of gross profit in future periods. We estimate that our regional reorganization will reduce SG&A expenses by approximately \$5.0 million annually, beginning in 2006.

Depreciation and Amortization-

Depreciation and amortization expense increased \$0.1 million to \$4.7 million for the three months ended March 31, 2005, from \$4.6 million for the three months ended March 31, 2004. The increased depreciation and amortization expense resulted from property and equipment additions and dealership facilities purchased during 2004, which were partially offset by reductions in property and equipment sold in a sale-leaseback transaction completed in the third quarter of 2004.

We expect depreciation and amortization expense to increase in the future as we continue to upgrade our facilities, expand our service centers and acquire additional dealerships.

Other Income (Expense)-

Floor plan interest expense increased \$2.5 million to \$6.6 million for the three months ended March 31, 2005, from \$4.1 million for the three months ended March 31, 2004. Approximately \$2.1 million of this increase was attributable to higher interest rates and approximately \$0.4 million was a result of higher inventory balances. Inventory balances were higher than the previous year due to the incremental inventory of dealerships acquired in 2004 and the increase in supply of domestic vehicles at our existing dealerships. The impact of these factors was partially offset by our decision to use the proceeds from a sale-leaseback transaction in the third quarter of 2004 to repay a portion of our floor plan notes payable, a substantial portion of which remained in the equity of our inventory (vehicle inventory in excess of floor plan borrowings)

during the three months ended March 31, 2005, and our current decision to not finance used vehicles.

Other interest expense decreased \$0.7 million to \$9.6 million for the three months ended March 31, 2005, from \$10.3 million for the three months ended March 31, 2004. The decrease was principally attributable to the repayment of \$63.7 million of mortgage notes payable with the proceeds from a sale-leaseback transaction in the third quarter of 2004 and the repayment of \$18.2 million of variable rate mortgage notes payable during the three months ended March 31, 2005. We expect that our outstanding debt balances will remain relatively consistent for the near future, as we anticipate our next several acquisitions will be funded with our available cash. Fluctuations in other interest expense during the remainder of 2005 will be affected by potential changes in interest rates.

Income Tax Expense-

Income tax expense increased \$0.1 million to \$6.2 million for the three months ended March 31, 2005, from \$6.1 million for the three months ended March 31, 2004, due to a \$0.2 million increase in income before income taxes for the three months ended March 31, 2005, compared to the three months ended March 31, 2004. As a result of operating nationally, our effective tax rate is dependent upon our geographic revenue mix, and we evaluate our effective tax rate periodically based on our revenue sources. We expect that our annual effective tax rate will be approximately 37.5% for the year ending December 31, 2005.

Discontinued Operations-

During the three months ended March 31, 2005, we sold one dealership location (two franchises), and as of March 31, 2005, we were actively pursuing the sale of one dealership locations (two franchises). During the period between March 31, 2005 and September 30, 2005 we sold one dealership location (four franchises). As of September 30, 2005 we were actively pursuing the sale of eight dealership locations (eight franchises). The loss from discontinued operations for the three months ended March 31, 2005 of \$0.7 million is attributable to the operating losses of the franchises mentioned above, which was offset by the gain on the sale of dealerships during the quarter. The income from discontinued operations for the three months ended March 31, 2004, of \$0.2 million includes the results of operations of the dealerships mentioned above; ten dealership locations (fourteen franchises) that were sold during 2004; and the net loss on the sale of businesses during the three months ended March 31, 2004.

LIQUIDITY AND CAPITAL RESOURCES

We require cash to fund working capital needs, finance acquisitions of new dealerships and fund capital expenditures. We believe that our cash and cash equivalents on hand as of March 31, 2005, our funds generated through future operations and the funds available for borrowings under our committed credit facility, floor plan financing agreements, mortgage notes payable and proceeds from sale-leaseback transactions will be sufficient to fund our debt service and working capital requirements, commitments and contingencies, acquisitions and any seasonal operating requirements for the foreseeable future.

As of March 31, 2005, we had cash and cash equivalents of \$39.3 million and working capital of \$283.9 million. In addition, we had \$150.0 million available for borrowings under our committed credit facility for working capital, general corporate purposes and acquisitions.

Committed Credit Facility

On March 23, 2005, we entered into a new committed credit facility (the *New Committed Credit Facility*) with JPMorgan Chase Bank, N.A., 17 other financial institutions (the *Syndicate*), and Ford Motor Credit Corporation (*FMCC*), collectively the Lenders. Concurrently with entering into the *New Committed Credit Facility* we terminated our First Amended and Restated Credit Agreement with *FMCC*, General Motors Acceptance Corporation (*GMAC*) and DaimlerChrysler Financial Services North America LLC. The *New Committed Credit Facility* provides us with \$650.0 million of new and used vehicle inventory financing (*Floor Plan Tranche*) and \$150.0 million of working capital borrowing capacity (*Working Capital Tranche*). In addition, *FMCC* and *GMAC* have committed \$150.0 million and \$100.0 million of floor plan financing outside of the *Syndicate* to finance inventory at our Ford Family (Ford, Lincoln Mercury, Mazda, Volvo and Land Rover) and General Motors dealerships, respectively. In total, these commitments give us \$150.0 million of working capital borrowing capacity and \$900.0 million of floor plan borrowing capacity. Floor plan notes payable to a party affiliated with the manufacturers from which we purchase new vehicle inventory are classified as Floor Plan Notes Payable - manufacturer affiliated on the accompanying Consolidated Balance Sheets. All other floor plan notes payable are classified as Floor Plan Notes Payable - non-manufacturer affiliated.

The *New Committed Credit Facility* has a 3-year maturity, but provides for an indefinite series of one-year extensions at our request, if approved by the Lenders. We believe such approval would be obtained. The *FMCC* and *GMAC* floor plan lines of credit have no stated termination date. Borrowings under the *Working Capital Tranche* accrue interest at variable rates based on LIBOR plus a specified percentage that is dependent upon our adjusted debt level at the end of each calendar quarter. Borrowings under the *Floor Plan Tranche* and the *GMAC* floor plan line of credit will accrue interest based on LIBOR and borrowings under the *FMCC* floor plan line of credit will accrue interest based on the Prime Rate.

Amounts borrowed under the New Committed Credit Facility are secured by certain of our tangible and intangible assets and the guarantees of each of our subsidiaries, other than those subsidiaries engaged in the sale of new motor vehicles manufactured by Toyota or Lexus under dealer franchise agreements or licensing agreements with those manufacturers or their authorized distributors (the Toyota/Lexus Floor Plan Borrowers). Floor plan loans made to the Toyota/Lexus Floor Plan Borrowers are cross-collateralized by the motor vehicle inventory of these entities, with each Toyota/Lexus Floor Plan Borrower additionally securing its respective borrowings with its assets.

The terms of the New Committed Credit Facility require us on an ongoing basis to meet certain financial ratios, as defined in our New Committed Credit Facility, including a current ratio of at least 1.2 to 1, a fixed charge coverage ratio of not less than 1.2 to 1, a leverage ratio of not greater than 4.5 to 1, an adjusted minimum net worth of not less than \$350.0 million and requires that neither we nor our subsidiaries incur unsecured debt in excess of \$50.0 million. It also includes customary conditions with respect to incurring new indebtedness and limitations on cash dividends. We may declare and pay cash dividends on our capital stock and may purchase shares of our capital stock, provided the aggregate amount payable in respect of cash dividends paid by us or the shares

repurchased shall not exceed an amount equal to the sum of \$15.0 million plus one-half of the aggregate of out net income in accordance with GAAP for the period subsequent to December 31, 2003 and ending on the date of determination.

The New Committed Credit Facility also contains customary events of default, including change of control, non-payment of obligations and cross-defaults to our other indebtedness. Payments under the New Committed Credit Facility may be accelerated upon the occurrence of an event of default that is not otherwise waived or cured, subject to certain provisions, which allow a 60-day standstill period with respect to the Floor Plan Tranche. As of March 31, 2005, we were in compliance with all of the covenants of the New Committed Credit Facility.

We are required to pay a floor plan loan commitment fee equal to 0.25% per annum times the average unused amount of the Floor Plan Tranche commitments during the most recently ended fiscal quarter and a revolving credit loan commitment fee equal to 0.375% per annum times the average unused amount of the Working Capital Tranche. In connection with the Floor Plan Tranche, we have also agreed to pay a fee equal to \$6.25 for each motor vehicle financed.

Floor Plan Financing-

We finance substantially our entire new vehicle inventory and a portion of our used vehicle inventory. We consider floor plan notes payable to a party that is affiliated with vehicle manufacturers from which we purchase new vehicle inventory floor plan notes payable manufacturer affiliated and all other floor plan notes payable floor plan notes payable non-manufacturer affiliated. As of March 31, 2005, availability under the floor plan financing agreements with our vehicle floor plan providers totaled \$900.0 million. In addition, as of March 31, 2005, we had total availability of \$32.2 million under ancillary floor plan financing agreements with Comerica Bank and Navistar Financial for our heavy trucks business in Atlanta, Georgia. As of March 31, 2005, we had \$694.3 million outstanding, including \$4.0 million classified as Liabilities Associated with Assets Held for Sale, to lenders affiliated and non-affiliated with the vehicle manufacturers from which we purchase our vehicle inventory.

During the three months ended March 31, 2005, we began the process of refinancing our floor plan notes payable through the repayment of \$110.5 million of floor plan notes payable - non-manufacturer affiliated with borrowings from our New Committed Credit Facility. As a result, during the three months ended March 31, 2005, Floor plan borrowings non-manufacturer affiliated and Floor plan repayments non-manufacturer affiliated increased by \$110.5 million.

During the second quarter of 2005 we finalized the refinancing of our floor plan notes payable through the repayment of \$93.4 million of floor plan notes payable manufacturer affiliated and \$224.2 million of floor plan notes payable non-manufacturer affiliated.

Acquisitions and Acquisition Financing-

We did not acquire any businesses during the three months ended March 31, 2005. During the second quarter of 2005, we acquired one dealership location (one franchise) in Arkansas for a total purchase price of \$12.0 million, \$4.7 million of which was paid in cash through the use of our working capital, \$6.8 million was borrowed from our floor plan facilities, with the remaining \$0.5 million representing the fair value of future payments. We estimate annual revenues of the acquired franchises will total approximately \$35.0 million, based on historical performance. We plan to use our available cash, borrowings under our New Committed Credit Facility or proceeds from future sale-leaseback

transactions to finance future acquisitions.

Sale-Leaseback Transactions

During the three months ended March 31, 2005, we completed a sale-leaseback transaction, which resulted in the sale of approximately \$14.5 million of real estate and construction improvements and the commencement of a long-term operating lease for the assets sold.

Debt Covenants-

We are subject to certain financial covenants in connection with our debt and lease agreements, including the financial covenants described below. Our New Committed Credit Facility includes certain financial ratios with the following requirements: (i) a current ratio of at least 1.2 to 1, of which our ratio was approximately 1.5 to 1 as of March 31, 2005; (ii) a fixed charge coverage ratio of at least 1.2 to 1, of which our ratio was approximately 1.4 to 1 as of March 31, 2005; (iii) a leverage ratio of not more than 4.5 to 1, of which our ratio was approximately 3.8 to 1 as of March 31, 2005 and (iv) a minimum adjusted net worth of not less than \$350.0 million, of which our adjusted net worth was approximately \$461.6 million as of March 31, 2005. A breach of these covenants could cause an acceleration of repayment of our New Committed Credit Facility if not otherwise waived or cured. Certain of our lease agreements include financial ratios with the following requirements: (i) a liquidity ratio of at least 1.2 to 1, of which our ratio was approximately 1.3 to 1 as of March 31, 2005 and (ii) an EBITDA based coverage ratio of at least 1.5 to 1, of which our ratio was approximately 2.6 to 1 as of March 31, 2005. A breach of these covenants would give rise to certain lessor remedies under our various lease agreements, the most severe of which include the following: (a) termination of the applicable lease, (b) termination of certain of the tenant's lease rights, such as renewal rights and rights of first offer or negotiation relating to the purchase of the premises, and/or (c) a liquidated damages claim equal to the extent to which the accelerated rents under the applicable lease for the remainder of the lease term exceed the fair market rent over the same periods. As of March 31, 2005, we were in compliance with all our debt and lease agreement covenants.

Cash Flows for the Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004

Historically, we reported all cash flows arising in connection with changes in floor plan notes payable as an operating activity and considered all borrowings and repayments of floor plan notes payable associated with inventory acquired through a dealership acquisition and inventory sold through a dealership divestiture, non-cash activities. Therefore the changes in floor plan notes payable associated with dealership acquisitions and divestitures were not included in the Consolidated Statements of Cash Flows. Subsequent to the issuance of the Company's December 31, 2004 financial statements, we determined that certain information in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows should be restated for all periods presented to comply with the guidance under Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows, and Rule 5-02(19)(a) of Regulation S-X.

As a result we have (i) restated floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-manufacturer affiliated on our Consolidated Balance Sheets, (ii) restated the related non-manufacturer affiliated cash flows as a financing activity on our Consolidated Statements of Cash flows with borrowings reflected separately from repayments and (iii) included floor plan notes payable activity associated with dealership acquisitions and divestitures in the Consolidated Statements of Cash Flows. The Consolidated Statements of Cash Flows have been restated, resulting in a \$41.2 million and \$5.1 million decrease in cash flows from operating activities; a \$2.7 million increase in cash flows from investing activities and a \$13.9 million decrease in cash flows from investing activities; and a \$38.5 million and \$19.0 million increase in cash flows from financing activities for the three months ended March 31, 2005 and 2004, respectively.

Floor plan borrowings are required by all vehicle manufacturers for the purchase of new vehicles, and our agreements with our floor plan providers require us to repay amounts borrowed for the purchase of a vehicle immediately after that vehicle is sold. As a result, changes in floor plan notes payable are directly linked to changes in new vehicle inventory and therefore are an integral part of understanding changes in our working capital and operating cash flow. Consequently, we have provided a reconciliation of cash flow from operating activities and financing activities, as if all changes in floor plan notes payable were classified as an operating activity.

(In thousands)	For the Three Months Ended	
	2005	2004
March 31,		
<i>Reconciliation of Cash used in Operating Activities to Adjusted Cash provided by Operating Activities</i>		
Cash used in operating activities restated	\$ (107)	\$ (17,314)
Floor plan notes payable non-manufacturer affiliated, net	38,473	18,973
Cash provided by operating activities as adjusted	\$ 38,366	\$ 1,659
<i>Reconciliation of Cash provided by Financing Activities to Adjusted Cash used in Financing Activities</i>		
Cash provided by financing activities restated	\$ 16,915	\$ 14,901
Floor plan borrowings non-manufacturer affiliated	(693,071)	(540,196)
Floor plan repayments non-manufacturer affiliated	654,598	521,223
Cash used in financing activities as adjusted	\$ (21,558)	\$ (4,072)

Operating Activities-

Net cash used in operating activities totaled \$0.1 million and \$17.3 million for the three months ended March 31, 2005 and 2004, respectively. Net cash provided by operating activities, as adjusted, totaled \$38.4 million and \$1.7 million for the three months ended March 31, 2005, and 2004, respectively. Cash flow provided by operating activities, as adjusted, includes net income adjusted for non-cash items and changes in

working capital, including changes in floor plan notes payable related to vehicle inventory.

The increase in our cash provided by operating activities, as adjusted, for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, was primarily attributable to differences in the timing of payment of accounts payable and accrued liabilities, inventory purchases and obtaining the related floor plan financing. Timing differences resulted in a net cash inflow of \$30.5 million and \$2.1 million for the three months ended March 31, 2005 and 2004, respectively.

As of March 31, 2005, we had approximately \$66.1 million of equity in our vehicle inventory (vehicle inventory in excess of floor plan borrowings), as compared to \$69.9 million as of December 31, 2004. Had we maintained the same level of equity in our vehicle inventory as of March 31, 2005 as we had as of December 31, 2004, our cash flow provided by operating activities, as

adjusted, for the three months ended March 31, 2005, would have decreased by approximately \$3.8 million. As of March 31, 2004, we had approximately \$39.7 million of equity in our vehicle inventory, as compared to \$6.3 million as of December 31, 2003. Had we maintained the same level of equity in our vehicle inventory as of March 31, 2004 as we had as of December 31, 2003, our cash flow provided by operating activities, as adjusted, for the three months ended March 31, 2004 would have improved by approximately \$33.4 million.

During the three months ended March 31, 2004, we borrowed \$15.0 million from our floor plan facilities for the purchase of inventory in connection with three franchise acquisitions. During the three months ended March 31, 2005, we did not complete any franchise acquisitions. In addition, we repaid \$2.0 million and \$1.4 million of floor plan notes payable in connection with two and three franchise divestitures during the three months ended March 31, 2005 and 2004, respectively. Acquisition and divestiture activity decreased our cash provided by operating activities, as adjusted, by \$2.0 million for the three month ended March 31, 2005 and increased our cash provided by operating activities, as adjusted, by \$13.6 million for the three months ended March 31, 2004.

Investing Activities

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Net cash used in investing activities totaled \$5.6 million and \$58.3 million for the three months ended March 31, 2005 and 2004, respectively. Cash flows from investing activities relate primarily to capital expenditures, acquisition and divestiture activity, sale of property and equipment and construction reimbursements from lessors in connection with our sale-leaseback agreements.

Capital expenditures were \$10.8 million and \$12.3 million for the three months ended March 31, 2005 and 2004, respectively, of which \$1.6 million and \$6.0 million, were financed or were pending financing through sale-leaseback agreements or mortgage notes payable for the three months ended March 31, 2005 and 2004, respectively. Our capital investments consisted of upgrades of our existing facilities and construction of new facilities. Future capital expenditures will relate primarily to upgrading existing dealership facilities and operational improvements that we expect will provide us with acceptable rates of return on our investments. During the three months ended March 31, 2005 and 2004, we received \$2.0 million and \$4.4 million, respectively, in construction reimbursements from lessors in connection with our sale-leaseback agreements. We expect that capital expenditures during 2005 will total between \$80.0 million and \$90.0 million, of which we intend to finance between 60% and 70% principally through sale-leaseback agreements.

Cash used for acquisitions was \$53.2 million for the three months ended March 31, 2004. We did not complete any acquisitions during the three months ended March 31, 2005. We anticipate that we will spend between \$75.0 million to \$125.0 million on acquisitions in 2005.

Proceeds from the sale of assets totaled \$3.3 million and \$1.9 million for the three months ended March 31, 2005 and 2004, respectively. The proceeds from the sale of assets include the sale of dealerships, real estate and property and equipment. We continuously monitor the profitability and market value of our dealerships and, under certain conditions, may strategically divest non-profitable dealerships.

Financing Activities

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Net cash provided by financing activities totaled \$16.9 million and \$14.9 million for the three months ended March 31, 2005 and 2004, respectively. Net cash used in financing activities, as adjusted, totaled \$21.6 million and \$4.1 million for the three months ended March 31, 2005 and 2004, respectively. During the three months ended March 31, 2005 and 2004, proceeds from borrowings amounted to \$2.1 million and \$0.8 million, which were used to finance construction on our dealership facilities. In addition, we incurred \$3.8 million of debt issuance costs associated with our New Committed Credit Facility.

During the three months ended March 31, 2005 and 2004, we repaid debt of \$20.2 million and \$4.9 million, respectively. During the three months ended March 31, 2005, we repaid \$18.2 million of our outstanding mortgage notes payable and as of March 31, 2005, had \$32.7 million remaining. In addition, we repaid approximately \$11.0 million of mortgage notes payable in April 2005.

Off-Balance Sheet Transactions

We had no material off-balance sheet transactions during the periods presented other than those disclosed in Note 12 of our consolidated financial statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual amounts could differ from those estimates. On an ongoing basis, management evaluates its estimates and

assumptions and the effects of revisions are reflected in the financial statements in the period in which they are determined to be necessary. The accounting policies described below are those that most frequently require management to make estimates and judgments, and therefore are critical to understanding our results of operations. Senior management has discussed the development and selection of these accounting estimates and the related disclosures with the audit committee of our board of directors.

Inventories

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Our inventories are stated at the lower of cost or market. We use the specific identification method to value our vehicle inventories and the first-in, first-out method (FIFO) to account for our parts inventories. We maintain a reserve for specific inventory units where cost basis exceeds fair value. In assessing lower of cost or market for new vehicles, we primarily consider the aging of vehicles and loss histories, along with the timing of annual and model changeovers. The assessment of lower of cost or market for used vehicles considers recent data and trends such as loss histories, current aging of the inventory and current market conditions. These reserves were \$4.8 million and \$4.9 million as of March 31, 2005 and December 31, 2004, respectively.

Notes Receivable Finance Contracts

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As of March 31, 2005 and December 31, 2004, we had outstanding notes receivable from finance contracts of \$31.6 million and \$30.9 million, respectively (net of an allowance for credit losses of \$5.4 million and \$6.2 million, respectively). These notes have initial terms ranging from 12 to 60 months, and are collateralized by the related vehicles. The assessment of our allowance for credit losses considers historical loss ratios and the performance of the current portfolio with respect to past due accounts. We continually analyze our current portfolio against our historical performance. In addition, we attribute minimal value to the underlying collateral in our assessment of the reserve.

F&I Chargeback Reserve

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We receive commissions from the sale of vehicle service contracts, credit life insurance and disability insurance to customers. In addition, we receive commissions from financing institutions for arranging customer financing. We may be charged back (chargebacks) for finance, insurance or vehicle service contract commissions in the event a contract is terminated. The revenues from financing fees and commissions are recorded at the time the vehicles are sold and a reserve for future chargebacks is established based on historical operating results and the termination provisions of the applicable contracts. This data is evaluated on a product-by-product basis. These reserves were \$11.9 million and \$12.0 million as of March 31, 2005 and December 31, 2004, respectively.

Equity-Based Compensation

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We account for stock-based compensation issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB Opinion No. 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock. We have adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-An amendment of FASB Statement No. 123. See also *Recent Accounting Pronouncements* below for a discussion of the impact on our financial statements from the adoption of SFAS No. 123 (revised 2004), Share-based Payment.

Goodwill and Other Intangible Assets

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In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, we do not amortize goodwill and other intangible assets that are deemed to have indefinite lives. We test these assets for impairment at least annually, or more frequently if any event occurs or circumstances change that indicate possible impairment. We have determined that manufacturer franchise rights have an indefinite life as there are no legal, contractual, economic or other factors that limit their useful lives and they are expected to generate cash flows indefinitely due to the historically long lives of the manufacturers' brand names. Goodwill and manufacturer franchise rights are allocated to each reporting unit at the platform and dealership level, respectively. The fair market value of our manufacturer franchise rights is determined at the acquisition date through discounting the projected cash flows attributable to each franchise. Goodwill represents the excess cost of the businesses acquired over the fair market value of the identifiable net assets.

Upon adoption of SFAS No. 142 Goodwill and Other Intangible Assets, on January 1, 2002, we determined that each of our platforms qualified as a reporting unit since we operate in one segment, our platforms are one level below our corporate level, discrete financial information existed for each platform and the management of each platform directly reviewed the platform's performance. In late 2004, we began the process of reorganizing our platforms into four regions. Within this more streamlined structure, we will evaluate our operations and financial results by dealership in the aggregate, rather than by platform. The general

managers, with direction from the regional CEOs, will continue to have the independence and flexibility to respond effectively to local market conditions. During the first quarter of 2005, based on the changes in our management, operational and reporting structure, we have determined that goodwill will be evaluated at the operating segment level.

We review goodwill and indefinite lived manufacturer franchise rights for impairment annually on October 1st of each year, or more often if events or circumstances indicate that impairment may have occurred. We are subject to financial statement risk to the extent that intangible assets become impaired due to decreases in the related fair market value of our underlying businesses.

All other intangible assets are deemed to have definite lives and are amortized on a straight-line basis over the life of the asset ranging from 3 to 15 years and are tested for impairment when circumstances indicate that the carrying value of the asset might be impaired.

Accrued Expenses

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Payments owed to our various service providers are expensed during the month in which the applicable service is performed. The amount of these expenses is dependent upon information provided by our internal systems and processes. Due to the length of time necessary to receive accurate information, estimates of amounts due are necessary in order to record monthly expenses. In subsequent months, expenses are reconciled and adjusted where necessary. We continue to refine the estimation process based on an increased understanding of the time requirements and close working relationships with our service providers.

RECENT ACCOUNTING PRONOUNCEMENTS

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In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-based Payment. This statement requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123 (revised 2004) replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for SFAS No. 123 (revised 2004). Registrants would have been required to implement the standard as of the beginning of the first interim or annual period that begins after September 15, 2005. The Commission's new rule allows companies to implement SFAS No. 123 (Revised 2004) at the beginning of their next fiscal year, instead of the next reporting period, that begins after September 15, 2005. We are currently evaluating the effect of this statement on our consolidated financial statements and related disclosures.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

Adjusted cash provided by (used in) operating and financing activities

(In thousands)	For the Three Months Ended	
	March 31,	
	2005	2004
<i>Reconciliation of Cash used in Operating Activities to Adjusted Cash provided by Operating Activities</i>		
Cash used in operating activities restated	\$ (107)	\$ (17,314)
Floor plan notes payable non-manufacturer affiliated, net	38,473	18,973
Cash provided by operating activities as adjusted	\$ 38,366	\$ 1,659
<i>Reconciliation of Cash provided by Financing Activities to Adjusted Cash used in Financing Activities</i>		
Cash provided by financing activities restated	\$ 16,915	\$ 14,901
Floor plan borrowings non-manufacturer affiliated	(693,071)	(540,196)
Floor plan repayments non-manufacturer affiliated	654,598	521,223
Cash used in financing activities as adjusted	\$ (21,558)	\$ (4,072)

Platform Finance and Insurance Gross Profit PVR-

We evaluate our finance and insurance gross profit performance on a Per Vehicle Retailed (PVR) basis by dividing our total finance and insurance gross profit by the number of retail vehicles sold. During 2003, our corporate office renegotiated a contract with one of our third party finance and insurance product providers, which resulted in the recognition of revenue during the three months ended March 31, 2005, that was attributable to retail vehicles sold during prior periods. We believe that platform finance and

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insurance, which excludes the additional revenue derived from this contract, provides a more accurate measure of our finance and insurance operating performance.

The following table reconciles finance and insurance gross profit to platform finance and insurance gross profit, and provides the necessary components to calculate platform finance and insurance gross profit PVR:

(In thousands, except for unit and per vehicle data)	For the Three Months Ended	
	2005	2004
March 31,		
<i>Reconciliation of Finance and Insurance Gross Profit to Platform Finance and Insurance Gross Profit:</i>		
Finance and insurance gross profit, net (as reported)	\$ 35,748	\$ 28,412
Less: Corporate finance and insurance gross profit	(1,203)	(1,243)
Platform finance and insurance gross profit	\$ 34,545	\$ 27,169
Platform finance and insurance gross profit PVR	\$ 903	\$ 779
Retail units sold:		
New retail units	23,657	21,257
Used retail units	14,602	13,628
Total	38,259	34,885

Adjusted income from continuing operations-

We define income from continuing operations as net income less discontinued operations. During the first quarter of 2005, we incurred severance costs of \$3.6 million (\$2.2 million net of tax) associated with the reorganization of our regional structure. We believe that excluding these costs from income from continuing operations for the three months ended March 31, 2005 provides a more meaningful basis to measure the results of our operations. A reconciliation of our net income to adjusted income from continuing operations is presented below.

(In thousands, except for share and per share data)	For the Three Months Ended	
	2005	2004
March 31,		
<i>Reconciliation of Net Income to Adjusted Income from Continuing Operations:</i>		
Net income	\$ 9,640	\$ 10,364
Discontinued operations	711	(166)
Income from continuing operations	10,351	10,198
Reorganization costs, net of tax	2,265	
Adjusted income from continuing operations	\$ 12,616	\$ 10,198
<i>Reconciliation of Net Income Per Diluted Common Share to Adjusted Income from Continuing Operations Per Diluted Common Share:</i>		
Net income	\$ 0.29	\$ 0.32
Discontinued operations	0.03	(0.01)
Income from continuing operations	0.32	0.31
Reorganization costs, net of tax	0.06	

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Adjusted income from continuing operations	\$	0.38	\$	0.31
Weighted average common shares outstanding (diluted):		32,781		32,721

Adjusted SG&A Expense-

Our operating income was largely impacted by reorganization costs incurred during the first quarter of 2005 and incremental rent expense associated with a sale-leaseback transaction that was entered into in the third quarter of 2004. We believe that excluding the reorganization costs and rent expense from the selling, general and administrative expense provides a more meaningful basis to

measure the results of our operations compared to that of the prior year period. A reconciliation of our adjusted selling, general and administrative expense is presented below.

(In thousands)	For the Three Months Ended	
	March 31,	
	2005	2004
<i>Reconciliation of SG&A Expense to Adjusted SG&A Expense:</i>		
SG&A expense	\$ 160,894	\$ 136,920
Less: Reorganization costs	(3,624)	
Rent expense	(11,969)	(7,587)
Adjusted SG&A expense	\$ 145,301	\$ 129,333
Gross Profit	\$ 197,990	\$ 171,788
SG&A expense as a percentage of Gross Profit	73.4%	75.3%

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates on a significant portion of our outstanding indebtedness. Based on \$931.9 million of total variable rate debt (excluding \$7.0 million of our fair value hedge which reduces the book value of our 8% Subordinated Notes due 2014 and including floor plan notes payable) outstanding as of March 31, 2005, a 1% change in interest rates would result in a change of approximately \$9.3 million to our annual other interest expense. Conversely, based on fixed-rate debt of \$273.9 million a 1% change in interest would mean we would not experience the impact of a \$2.7 million change in interest expense.

We received \$7.0 million of interest credit assistance from certain automobile manufacturers during the three months ended March 31, 2005. Interest credit assistance reduced new vehicle cost of sales from continuing operations for the three months ended March 31, 2005 by \$6.1 million and reduced new vehicle inventory by \$4.3 million and \$3.9 million as of March 31, 2005 and December 31, 2004, respectively.

Although we can provide no assurance as to the amount of future interest credit assistance, it is our expectation, based on historical data that an increase in prevailing interest rates would result in increased interest credit assistance from certain automobile manufacturers.

Interest Rate Hedges

We entered into two forward interest rate swaps with a combined notional principal amount of \$170.0 million, to provide a hedge against changes in the interest rates of our variable rate floor plan notes payable for a period of eight years beginning in March 2006. The swap agreements were designated and qualify as cash flow hedges of our variable rate floor plan indebtedness and will contain minor ineffectiveness. The swaps are scheduled to expire in March 2006. As of March 31, 2005 and December 31, 2004, the swaps had a fair value of \$4.3 million and \$7.1 million and are included in Accrued Liabilities and Other Long-term Liabilities, respectively, on the accompanying Consolidated Balance Sheets.

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We entered into an interest rate swap agreement with a notional principal amount of \$200.0 million as a hedge against changes in the fair value of our 8% Senior Subordinated Notes due 2014. Under the terms of the swap agreement, we are required to make variable rate payments based on six-month LIBOR and receive a fixed rate of 8.0%. This swap agreement was designated and qualifies as a fair value hedge of our 8% Senior Subordinated Notes due 2014 and did not contain any ineffectiveness. As a result our 8% Senior Subordinated Notes due 2014 have been adjusted by the fair value of the hedge. The swap is scheduled to expire in March 2006. As of March 31, 2005, and December 31, 2004, the swap agreement had a fair value of \$7.0 million and \$2.7 million and is included in Accrued Liabilities and Other Long-Term Liabilities, respectively, on the accompanying Consolidated Balance Sheets.

We entered into an interest rate swap agreement with a notional principal amount of \$15.2 million as a hedge against future changes in the interest rate of our variable rate mortgage notes payable beginning in January 2005. Under the terms of the swap agreement, we are required to make payments at a fixed rate of 6.08% and receive a variable rate based on LIBOR. This swap agreement was designated and qualifies as a cash flow hedge of changes in the interest rate of our variable rate mortgage notes payable and will contain minor ineffectiveness. As of March 31, 2005 the swap agreement had a fair value of \$0.2 million and was included in Other Long-Term Assets and as of December 31, 2004 had a fair value of \$0.2 million and was included in Other Long-Term Liabilities on the accompanying Consolidated Balance Sheets.

Item 4. Controls and Procedures

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Based on their evaluation of our disclosure controls and procedures and internal control over financial reporting, our principal executive officer and principal financial officer have concluded that (i) our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended were effective as of March 31, 2005, and (ii) no change in internal control over financial reporting occurred during the quarter ended March 31, 2005, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

In addition, we have considered the restatement of our Consolidated Balance Sheets and Consolidated Statements of Cash Flows to comply with the guidance under Statement of Financial Accounting Standards No. 95, Statement of Cash Flows and Rule 5-02(19)(a) of Regulation S-X as discussed in Note 2 Restatement and have concluded that such restatement does not represent a material weakness in our internal control over financial reporting.

Forward-Looking Statements

This report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements relating to goals, plans and projections regarding our financial position, results of operations, market position, product development and business strategy. These statements are based on management's current expectations and involve significant risks and uncertainties that may cause results to differ materially from those set forth in the statements. These risks and uncertainties include, among other things:

market factors;

our relationships with vehicle manufacturers and other suppliers;

risks associated with our substantial indebtedness;

risks related to pending and potential future acquisitions;

general economic conditions both nationally and locally; and

governmental regulations and legislation.

There can be no guarantees that our plans for future operations will be successfully implemented or that they will prove to be commercially successful. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibits required to be filed by Item 601 of Regulation S-K:

**Exhibit
Number**

- 10.1 Revolving Credit Agreement, dated as of March 23, 2005, among Asbury Automotive Group, Inc. and the Subsidiary Borrowers listed therein, as borrowers, the Lenders listed therein, JPMorgan Chase Bank, N.A., as administrative agent and as floor plan agent, Bank of America, N.A., as syndication agent, and J.P. Morgan Securities, Inc. and Banc of America Securities LLC, as joint bookrunners and co-lead arrangers (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 24, 2005)*
- 10.2 Agreement between Asbury Automotive Tampa L.L.C. and Jeffrey I. Wooley, dated March 18, 2005 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 22, 2005)*
- 10.3 Agreement between Asbury Automotive Arkansas L.L.C., Asbury Automotive Group LLC, McLarty Companies, Inc. and Thomas F. McLarty, III, dated March 21, 2005 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 22, 2005)*
- 15.1 Awareness letter from Deloitte & Touche LLP.
- 31.1 Certificate of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006
- 31.2 Certificate of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006
- 32.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006
- 32.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006

*Incorporated by reference.

SIGNATURES

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

Asbury Automotive Group, Inc.
(Registrant)

Date: March 14, 2006

By: /s/ KENNETH B. GILMAN
Name: Kenneth B. Gilman
Title: Chief Executive Officer and President

Date: March 14, 2006

By: /s/ J. GORDON SMITH
Name: J. Gordon Smith
Title: Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

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Exhibit Number	Description of Documents
10.1	Revolving Credit Agreement, dated as of March 23, 2005, among Asbury Automotive Group, Inc. and the Subsidiary Borrowers listed therein, as borrowers, the Lenders listed therein, JPMorgan Chase Bank, N.A., as administrative agent and as floor plan agent, Bank of America, N.A., as syndication agent, and J.P. Morgan Securities, Inc. and Banc of America Securities LLC, as joint bookrunners and co-lead arrangers (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 24, 2005)*
10.2	Agreement between Asbury Automotive Tampa L.L.C. and Jeffrey I. Wooley, dated March 18, 2005 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 22, 2005)*
10.3	Agreement between Asbury Automotive Arkansas L.L.C., Asbury Automotive Group LLC, McLarty Companies, Inc. and Thomas F. McLarty, III, dated March 21, 2005 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 22, 2005)*
15.1	Awareness letter from Deloitte & Touche LLP.
31.1	Certificate of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006
31.2	Certificate of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 14, 2006

*Incorporated by reference