UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2003

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	01-0609375
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Three Landmark Square, Suite 500, Stamford, Connecticut 06901, (203) 356-4400
(Address of, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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 Exchange 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 (applicable only to corporate registrants): The number of shares of common stock outstanding as of November 10, 2003 was 32,430,649 net of 1,590,013 treasury shares).

ASBURY AUTOMOTIVE GROUP, INC.

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

ASSETS	September 30, 2003 (Unaudited)	December 31, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 48,804	$ 22,613
Contracts-in-transit	86,380	91,190
Current portion of restricted marketable securities	1,591	1,499
Accounts receivable (net of allowance of $2,218 and $2,122)	112,050	96,090
Inventories	560,268	591,839
Deferred income taxes	8,565	9,044
Prepaid and other current assets	38,840	37,314
Total current assets	856,498	849,589
PROPERTY AND EQUIPMENT, net	259,553	257,305
GOODWILL	464,763	402,133
RESTRICTED CASH AND MARKETABLE SECURITIES	2,974	4,892
OTHER ASSETS	62,620	61,866
ASSETS HELD FOR SALE	29,685	29,859
Total assets	$1,676,093	$1,605,644
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable	$ 488,502	$ 528,591
Current maturities of long-term debt	31,855	36,412
Accounts payable	40,924	40,120
Accrued liabilities	86,910	77,325
Total current liabilities	648,191	682,448
LONG-TERM DEBT	503,949	438,740
DEFERRED INCOME TAXES	32,170	29,972
OTHER LIABILITIES	15,658	15,580
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	21,596	11,953
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized	-	-
Common stock, $.01 par value, 90,000,000 shares authorized, 34,019,147 and 34,000,000 shares issued, including shares held in treasury, respectively	340	340
Additional paid-in capital	411,016	410,718
Retained earnings	58,259	22,645
Treasury stock, at cost; 1,590,013 and 772,824 shares held, respectively	(15,064)	(6,630)
Accumulated other comprehensive loss	(22)	(122)
Total stockholders' equity	454,529	426,951
Total liabilities and stockholders' equity	$1,676,093	$1,605,644

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 September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
REVENUES:				
New vehicle	$ 786,042	$ 722,851	$2,184,833	$2,007,252
Used vehicle	319,028	306,033	915,845	887,247
Parts, service and collision repair	143,032	128,429	411,858	373,941
Finance and insurance, net	37,366	33,289	100,497	87,721
Total revenues	1,285,468	1,190,602	3,613,033	3,356,161
COST OF SALES:				
New vehicle	729,376	665,833	2,024,555	1,842,927
Used vehicle	291,316	278,866	833,003	806,393
Parts, service and collision repair	66,701	61,437	193,939	176,996
Total cost of sales	1,087,393	1,006,136	3,051,497	2,826,316
GROSS PROFIT	198,075	184,466	561,536	529,845
OPERATING EXPENSES:				
Selling, general and administrative	150,559	139,148	437,419	403,284
Depreciation and amortization	5,141	4,549	15,007	14,280
Income from operations	42,375	40,769	109,110	112,281
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(4,633)	(4,368)	(14,263)	(13,059)
Other interest expense	(10,087)	(10,074)	(30,038)	(28,748)
Interest income	188	283	450	945
Net losses from unconsolidated affiliates	-	-	-	(100)
Loss on sale of assets, net	(95)	(45)	(454)	(48)
Other, net	(79)	224	10	(114)
Total other expense, net	(14,706)	(13,980)	(44,295)	(41,124)
Income before income taxes and discontinued operations	27,669	26,789	64,815	71,157
INCOME TAX EXPENSE:				
Income tax expense	10,503	10,695	25,287	22,732
Tax adjustment upon conversion from a L.L.C. to a corporation	-	-	-	11,553
Total income tax expense	10,503	10,695	25,287	34,285
Income from continuing operations	17,166	16,094	39,528	36,872
DISCONTINUED OPERATIONS, net of tax	(922)	(1,450)	(3,914)	(4,286)
Net income	$ 16,244	$ 14,644	$ 35,614	32,586
PRO FORMA TAX (BENEFIT) EXPENSE:				
Pro forma income tax expense				5,588
Tax adjustment upon conversion from a L.L.C. to a corporation				(11,553)
Tax affected pro forma net income				$ 38,551
EARNINGS PER COMMON SHARE:				
Basic	$0.50	$0.43	$1.09	$0.99
Diluted	$0.50	$0.43	$1.09	$0.99
PRO FORMA EARNINGS PER COMMON SHARE:				
Basic				$1.17
Diluted				$1.17
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	32,419	34,000	32,721	32,813
Diluted	32,612	34,001	32,761	32,834

See Notes to Consolidated Financial Statements.

ASBURY AUTOMOTIVE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 35,614	$ 32,586
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	15,007	14,280
Depreciation and amortization from discontinued operations	1,271	3,218
Change in allowance for doubtful accounts	96	(78)
(Gain) loss on sale of discontinued operations	(297)	966
Deferred income taxes	2,618	14,754
Loss from unconsolidated affiliates, net	-	100
Loss on sale of assets	454	48
Amortization of deferred finance fees	3,933	3,212
Change in operating assets and liabilities, net of effects from acquisitions and divestitures-		
Contracts-in-transit	4,810	12,441
Accounts receivable, net	(30,938)	(25,731)
Proceeds from the sale of accounts receivable	15,023	12,597
Inventories	60,517	14,030
Floor plan notes payable	(62,525)	(30,823)
Accounts payable and accrued liabilities	16,860	14,274
Other	5,621	4,007
Net cash provided by operating activities	68,064	69,881
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(33,434)	(38,102)
Proceeds from the sale of assets	682	1,380
Proceeds from the sale of discontinued operations	7,845	4,838
Acquisitions	(72,378)	(14,588)
Maturity of restricted marketable securities	1,826	1,826
Purchase of restricted asset	(750)	-
Net issuance of finance contracts	(2,818)	(276)
Other investing activities	-	(752)
Net cash used in investing activities	(99,027)	(45,674)
CASH FLOW FROM FINANCING ACTIVITIES:		
Distributions to members	(3,010)	(11,680)
Contributions	-	800
Repayments of debt	(32,339)	(352,362)
Proceeds from borrowings	100,689	272,629
Proceeds from initial public offering, net	-	65,415
Payment of debt issuance costs	-	(7,875)
Proceeds from the exercise of stock options	248	-
Purchase of treasury stock	(8,434)	-
Net cash provided by (used in) financing activities	57,154	(33,073)
Net increase (decrease) in cash and cash equivalents	26,191	(8,866)
CASH AND CASH EQUIVALENTS, beginning of period	22,613	60,506
CASH AND CASH EQUIVALENTS, end of period	$ 48,804	$ 51,640
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for-		
Interest	$ 35,826	$ 32,639
Income taxes	$ 13,287	$ 15,534

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated balance sheet at September 30, 2003, the consolidated statements of income for the three-month and nine-month periods ended September 30, 2003 and 2002, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2003 and 2002, are unaudited. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods were made. Certain items in the prior year's financial statements were reclassified to conform to the current financial statement presentation. Due to seasonality and other factors, the results of operations for interim periods are not necessarily indicative of the results that would be realized for the entire year. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, were omitted. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

2. INVENTORIES:

Inventories consisted of the following:

(In thousands)	September 30, 2003	December 31, 2002
New vehicles	$422,818	$464,501
Used vehicles	95,142	86,392
Parts, accessories and other	42,308	40,946
	$560,268	$591,839

3. EARNINGS PER SHARE:

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

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

(In thousands, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income applicable to common shares:				
Continuing operations	$17,166	$16,094	$39,528	$36,872
Discontinued operations	(922)	(1,450)	(3,914)	(4,286)
	$16,244	$14,644	$35,614	$32,586
Earnings per share:				
Basic-				
Continuing operations	$0.53	$0.47	$1.21	$1.12
Discontinued operations	(0.03)	(0.04)	(0.12)	(0.13)
	$0.50	$0.43	$1.09	$0.99

(In thousands, except per share data)	For the Three Months Ended September 30, 2003	2002	For the Nine Months Ended September 30, 2003	2002
Diluted-				
Continuing operations	$0.53	$0.47	$1.21	$1.12
Discontinued operations	(0.03)	(0.04)	(0.12)	(0.13)
	$0.50	$0.43	$1.09	$0.99
Common shares and common share equivalents outstanding:				
Basic weighted average common shares	32,419	34,000	32,721	32,813
Dilutive effect of common share equivalents (stock options)	193	1	40	21
Diluted weighted average common shares	32,612	34,001	32,761	32,834

4. INTANGIBLE ASSETS AND GOODWILL:

Intangible assets consist of the following (included in other assets on the accompanying consolidated balance sheets):

(In thousands)	September 30, 2003	December 31, 2002
Amortizable intangible assets:		
Noncompete agreements	$ 5,331	$ 5,331
Lease agreements (amortization is included in rent expense)	6,527	6,527
Total	11,858	11,858
Less – Accumulated amortization	(8,350)	(7,369)
Intangible assets, net	$ 3,508	$ 4,489
Unamortizable intangible assets – franchise rights	$ 8,000	$ 8,000

Amortization expense, net of discontinued operations, was $0.2 million and $0.3 million for the three months ended September 30, 2003 and 2002, respectively, and $0.7 million and $0.8 million for the nine months ended September 30, 2003 and 2002, respectively.

The changes in the carrying amounts of goodwill for the period ended September 30, 2003 are as follows:

(In thousands)	
Balance as of December 31, 2002	$402,133
Additions related to current year acquisitions	64,503
Goodwill associated with divestitures	(1,873)
Balance as of September 30, 2003	$464,763

5. COMPREHENSIVE INCOME:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income	$16,244	$14,644	$35,614	$32,586
Other comprehensive income, net of tax:				
Change in fair value of interest rate swaps	-	-	-	(1,985)
Income tax expense	-	-	-	127
	-	-	-	(1,858)
Reclassification adjustment of loss on interest rate swaps included in net income	46	54	159	72
Income tax expense	(13)	(17)	(59)	(24)
Comprehensive income	$16,277	$14,681	$35,714	$30,776

6. EQUITY-BASED COMPENSATION:

The Company accounts for equity-based compensation issued to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." APB 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. The Company makes disclosures of pro forma net earnings and earnings per share as if the fair-value-based method of accounting had been applied as required by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition Disclosure."

A reconciliation of the Company's net earnings to pro forma net earnings, and the related pro forma earnings per share amounts, is as follows:

(In thousands, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income	$16,244	$14,644	$35,614	$32,586
Adjustment to net earnings for:				
Stock-based compensation expense included in net earnings, net of tax	12	13	30	58
Pro forma stock-based compensation expense, net of tax	(1,001)	(1,439)	(2,817)	(4,061)
Pro forma net income	$15,255	$13,218	$32,827	$28,583
Earnings per share:				
Basic – as reported	$0.50	$0.43	$1.09	$0.99
Basic – pro forma	$0.47	$0.39	$1.00	$0.87
Diluted – as reported	$0.50	$0.43	$1.09	$0.99
Diluted – pro forma	$0.47	$0.39	$1.00	$0.87

7. DISCONTINUED OPERATIONS:

During the first nine months of 2003, the Company classified as discontinued operations eight full-service dealership locations (nine franchises), 10 used-only dealership locations and one ancillary business. Five full service dealerships were divested during the first nine months of the year and three dealerships were held for sale as of September 30, 2003. As of September 30, 2003, all of the 10 used-only dealership locations and the ancillary business had been closed. The results of operations of these entities are accounted for as discontinued operations in the consolidated statements of income. Summary statement of income information relating to the discontinued operations is as follows:

(In thousands)	For the Three Months Ended September 30, 2003	For the Three Months Ended September 30, 2002	For the Nine Months Ended September 30, 2003	For the Nine Months Ended September 30, 2002
Revenues	$8,382	$35,371	$54,611	$92,700
Cost of sales	7,306	31,210	48,338	80,043
Gross profit	1,076	4,161	6,273	12,657
Operating expenses	2,553	6,481	12,832	17,828
Loss from operations	(1,477)	(2,320)	(6,559)	(5,171)
Other, net	(5)	(146)	(240)	(502)
Net loss	(1,482)	(2,466)	(6,799)	(5,673)
Gain (loss) on disposition of discontinued operations	(32)	27	297	(966)
Loss before income taxes	(1,514)	(2,439)	(6,502)	(6,639)
Related tax benefit	592	989	2,588	2,353
Discontinued operations	$ (922)	$(1,450)	$(3,914)	$(4,286)

8. PROPERTY AND EQUIPMENT AND REAL ESTATE OPERATING LEASES:

During the nine months ended September 30, 2003, the Company sold, in connection with six sale/leaseback agreements, certain land and building assets for $23.0 million. Under the terms of these agreements, the Company is leasing the properties from the purchaser for periods ranging from 15 to 22 years. Under one of these sale/leaseback agreements, the Company sold land to an existing president of one of the Company's platforms, who is also a member of its Board of Directors. The sale price of the land of approximately $0.8 million was equal to the purchase price paid for the land in January 2003. The Company believes that this transaction was comparable to terms that would be obtained from an unaffiliated third party. The Company is accounting for all of these sale/ leaseback transactions as operating leases. The estimated annual rental expense under these agreements will be approximately $2.4 million.

During the nine months ended September 30, 2003, in connection with current year acquisitions, the Company entered into two agreements to lease land and building facilities. The Company is accounting for these transactions as operating leases. The leases have 15-year initial terms and the estimated annual rental expense under these agreements will be approximately $1.1 million.

9. ASSETS AND LIABILITIES HELD FOR SALE:

Assets and liabilities classified as held for sale as of September 30, 2003 and December 31, 2002 include dealerships held for sale, real estate held for sale and certain land and buildings which the Company intends to sell under sale/ leaseback agreements in the future, as discussed below. A summary of balance sheet information related to assets and liabilities held for sale is as follows:

(In thousands)	September 30, 2003	December 31, 2002
Inventories	$ 4,636	$12,952
Total current assets	4,636	12,952
Property and equipment, net	25,049	16,867
Other	-	40
Total assets	$29,685	$29,859
Floor plan notes payable	$ 3,815	$11,828
Total current liabilities	3,815	11,828
Other liabilities	17,781	125
Total liabilities	$ 21,596	$11,953

In connection with the construction and future sale/leaseback of dealership facilities, the Company has entered into agreements to sell land to an unaffiliated third party in the future. Under these agreements, the purchaser of the properties advanced funds equal to the book value of the land currently owned by the Company and advances the cost of construction for the dealership facilities based on costs incurred by the Company to date. The Company capitalized the cost of the land and continues to capitalize the cost of construction as Assets Held for Sale on the accompanying balance sheet. In addition, the Company records a corresponding liability equal to the amount of the advanced funds, included in Liabilities Associated with Assets Held for Sale on the accompanying balance sheet. The Company capitalizes the rent paid to the third party, under the terms of the agreements, during the construction period. The book value of the land and construction totaled $18.8 million and $8.3 million as of September 30, 2003 and December 31, 2002, respectively. Upon completion of construction, the Company will execute the sale/leaseback agreements with this third party and transfer the ownership of the land and building assets, satisfying the related obligations. The estimated annual rental expense under these agreements, based on advances made through September 30, 2003, will be approximately $1.6 million.

10. ACQUISITIONS:

For the nine months ended September 30, 2003, the Company made four acquisitions (ten franchises) for approximately $72.4 million in cash, which were funded under the Company’s existing credit facility. The purchase price was allocated to the underlying assets and liabilities based upon their estimated fair values. The resulting preliminary estimate of goodwill and intangibles assets from these transactions was approximately $64.5 million. The results of operations for these acquisitions are included in the Company’s consolidated results from the dates of acquisition.

The seller of one of the dealerships was the existing president of one of the Company’s platforms. The Company believes that this transaction involves terms that would be comparable to terms obtained from an unaffiliated third party.

11. NON-CASH INVESTING AND FINANCING ACTIVITY:

During the nine months ended September 30, 2003, the Company entered into a capital lease for land and buildings in the amount of approximately $2.4 million. The lease has an initial term of 15 years.

In connection with the divestitures mentioned in Note 7, approximately $5.7 million of the proceeds were paid directly to the Company’s lenders during the nine months ended September 30, 2003.

In connection with the sale/leaseback transactions mentioned in Notes 8 and 9, approximately $27.1 million of the sales proceeds were paid directly to the Company’s lenders during the nine months ended September 30, 2003. Of that amount, approximately $5.5 million related to proceeds for the sale of assets that were excluded from capital expenditures as shown on the consolidated statement of cash flows for the period ended September 30, 2003.

12. COMMITMENTS AND CONTINGENCIES:

A significant portion of the Company's vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, the Company's 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 or the countries from which the Company's 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 the Company to implement costly capital improvements to dealerships as a condition for renewing the Company's 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 the Company to divert its financial resources to capital projects from uses that management believes may be of higher long-term value to the Company, such as acquisitions.

Substantially all of the Company's 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 does the Company expect such compliance to have, any material effect upon the capital expenditures, net earnings, financial condition, liquidity or competitive position of the Company. Management believes that its current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements.

The Company is involved in legal proceedings and claims which arise in the ordinary course of its business and, with respect to certain of these claims, the sellers of previously acquired dealerships have indemnified the Company. In the opinion of management of the Company, the amount of ultimate liability with respect to these actions will not materially affect the financial condition, liquidity or the results of operations of the Company.

The dealerships operated by the Company hold franchise agreements with a number of vehicle manufacturers. In accordance with the individual franchise 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 franchise agreement could have a negative impact on the Company's operating results.

13. SUBSEQUENT EVENT

Subsequent to September 30, 2003, a decision was rendered in the arbitration proceedings with the estate of Brian E. Kendrick, the Company's former Chief Executive Officer. The arbitration panel unanimously concluded that the Company had fully satisfied its obligation under Mr. Kendrick's employment agreement when it tendered the 2001 bonus payment of $0.5 million and 17,876 shares of the Company's common stock in early 2002, and no further amounts are due the estate. This decision will have no impact on the Company's future results of operations, as all amounts related to the arbitration were properly accrued in a prior period.

INDEPENDENT ACCOUNTANTS' REPORT

To the Shareholders of Asbury Automotive Group, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Asbury Automotive Group, Inc. and subsidiaries ("the Company") as of September 30, 2003, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2003 and 2002, and of cash flows for the nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. 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 auditing standards generally accepted in the United States of America, 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 condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Asbury Automotive Group, Inc. and subsidiaries as of December 31, 2002, 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 February 25, 2003 (which includes an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets"), 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, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Stamford, Connecticut
October 30, 2003

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included in Item 1 of this report. In addition, reference should be made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2003, Compared to Three Months Ended September 30, 2002

Net income for the third quarter of 2003 was $16.2 million compared with $14.6 million in the corresponding period last year. Net income includes the results of discontinued operations, the majority of which consisted of certain now closed non-core businesses, including the closing costs associated with our Price 1 pilot program. Basic and diluted earnings per share, including discontinued operations, were $0.50 for the three months ended September 30, 2003 versus $0.43 for the same period in 2002.

Net income from continuing operations for the third quarter of 2003 was $17.2 million compared with $16.1 million in the corresponding period a year ago. Basic and diluted earnings per share from continuing operations for the third quarter of 2003 were $0.53 compared to $0.47 in the prior year period.

Income from continuing operations before income taxes totaled $27.7 million for the three months ended September 30, 2003, up 3% from $26.8 million for the same period last year. The increase is primarily attributable to strong finance and insurance ("F&I") and parts, service and collision repair ("fixed operations") performance and the impact of acquisitions.

Revenues-

(In thousands, except for unit and per vehicle data)	For the Three Months Ended September 30, 2003	For the Three Months Ended September 30, 2002	Increase (Decrease)	% Change
New Vehicle Data:				
Retail revenues – same store (1)	$ 741,220	$ 712,039	$ 29,181	4%
Retail revenues – acquisitions	37,492	-		
Total new retail	778,712	712,039	66,673	9%
Fleet revenues – same store (1)	7,133	10,812	(3,679)	(34%)
Fleet revenues –acquisitions	197	-		
Total new fleet revenues	7,330	10,812	(3,482)	(32%)
New vehicle revenue, as reported	$ 786,042	$ 722,851	$ 63,191	9%
New retail units – same store (1)	25,597	26,755	(1,158)	(4%)
New retail units – actual	26,867	26,755	112	0%
Used Vehicle Data:				
Retail revenues – same store (1)	$ 228,338	$ 233,763	$ (5,425)	(2%)
Retail revenues – acquisitions	11,474	-		
Total used retail revenues	239,812	233,763	6,049	3%
Wholesale revenues – same store (1)	75,372	72,270	3,102	4%
Wholesale revenues – acquisitions	3,844	-		
Total wholesale revenues	79,216	72,270	6,946	10%
Used vehicle revenue, as reported	$ 319,028	$ 306,033	$ 12,995	4%
Used retail units – same store (1)	15,124	15,119	5	0%
Used retail units – actual	15,774	15,119	655	4%

(In thousands, except for unit and per vehicle data)	For the Three Months Ended September 30, 2003	2002	Increase (Decrease)	% Change
Parts, Service and Collision Repair:				
Revenues – same store (1)	$ 135,671	$ 128,429	$ 7,242	6%
Revenues – acquisitions	7,361	-		
Parts, service and collision repair revenue, as reported	$ 143,032	$ 128,429	$ 14,603	11%
Finance and Insurance:				
Platform revenues – same store (1)	$ 34,749	$ 33,289	$ 1,460	4%
Corporate revenues	1,300	-		
Revenues – acquisitions	1,317	-		
Finance and insurance revenue, as reported	$ 37,366	$ 33,289	$ 4,077	12%
Total Revenue:				
Same store (1)	$1,222,483	$1,190,602	$ 31,181	3%
Corporate	1,300	-		
Acquisitions	61,685	-		
Total revenue, as reported	$1,285,468	$1,190,602	$ 94,866	8%

(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 the Company.

Revenues of $1.3 billion for the three months ended September 30, 2003, represented a $94.9 million or 8% increase over the three months ended September 30, 2002. Same store revenue grew $33.2 million or 3%, with the remaining increase of $61.7 million derived from acquisitions. On a same store basis, our new retail units were down 4% compared to the three months ended September 30, 2002. However, same store new vehicle retail revenues were up 4%, reflecting an increase in our average selling price which was driven by our strong luxury and midline import sales mix. Used retail vehicle unit sales were flat on a same store basis compared to prior year period. Fixed operations revenues were up 6% on a same store basis as strong import vehicle sales over the past several years has resulted in incremental import customer pay and warranty work. Same store F&I platform revenues grew 4% due to strong product sales, increased penetration rates (the number of F&I contracts sold to the combined total of retail unit sales), maturing of our preferred provider programs and our continued focus on improvement of underperforming stores.

Gross Profit-

(In thousands, except for unit and per vehicle data)	For the Three Months Ended September 30, 2003	2002	Increase (Decrease)	% Change
New Vehicle Data:				
Retail gross profit – same store (1)	$ 53,780	$ 56,657	$ (2,877)	(5%)
Retail gross profit – acquisitions	2,587	-		
Total new retail gross profit	56,367	56,657	(290)	(1%)
Fleet gross profit – same store (1)	301	361	(60)	(17%)
Fleet gross profit –acquisitions	(2)	-		
Total new fleet gross profit	299	361	(62)	(17%)
New vehicle gross profit, as reported	$ 56,666	$ 57,018	$ (352)	(1%)
New retail units – same store (1)	25,597	26,755	(1,158)	(4%)
New retail units – actual	26,867	26,755	112	0%

(In thousands, except for unit and per vehicle data)	For the Three Months Ended September 30, 2003	2002	Increase (Decrease)	% Change
Used Vehicle Data:				
Retail gross profit – same store (1)	$ 27,434	$ 28,916	$ (1,482)	(5%)
Retail gross profit – acquisitions	1,128	-		
Total used retail gross profit	28,562	28,916	(354)	(1%)
Wholesale gross profit – same store (1)	(857)	(1,749)	892	51%
Wholesale gross profit – acquisitions	7	-		
Total wholesale gross profit	(850)	(1,749)	899	51%
Used vehicle gross profit, as reported	$ 27,712	$ 27,167	$ 545	2%
Used retail units – same store (1)	15,124	15,119	5	0%
Used retail units – actual	15,774	15,119	655	4%
Parts, Service and Collision Repair:				
Gross profit – same store (1)	$ 72,525	$ 66,992	$ 5,533	8%
Gross profit – acquisitions	3,806	-		
Parts, service and collision repair gross profit, as reported	$ 76,331	$ 66,992	$ 9,339	14%
Finance and Insurance:				
Platform gross profit – same store (1)	$ 34,749	$ 33,289	$ 1,460	4%
Corporate gross profit	1,300	-		
Gross profit – acquisitions	1,317	-		
Finance and insurance gross profit, as reported	$ 37,366	$ 33,289	$ 4,077	12%
Platform gross profit per vehicle retailed – same store (1)	$ 853	$ 795	$ 58	7%
Platform gross profit per vehicle retailed – actual	$ 846	$ 795	$ 51	6%
Gross profit per vehicle retailed – actual	$ 876	$ 795	$ 81	10%
Total Gross Profit:				
Gross profit – same store (1)	$ 187,932	$ 184,466	$ 3,466	2%
Gross profit – corporate	1,300	-		
Gross profit – acquisitions	8,843	-		
Total gross profit, as reported	$ 198,075	$ 184,466	$ 13,609	7%

(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 the Company.

Gross profit for the quarter ended September 30, 2003, increased $13.6 million or 7% over the quarter ended September 30, 2002. Same store retail gross profit was up 3% for the same period. Consistent with our business model, we achieved same store gross profit growth of 4% in F&I platform gross profit and increases in same store fixed operations gross profit of 8% during the period. Same store F&I platform gross profit per vehicle retailed ("PVR") increased 7%. F&I platform gross profit provides an accurate measure of our finance and insurance performance as it excludes revenue resulting from corporate negotiated contracts which is not attributable to the retail units sold during the period. In addition, wholesale losses during the quarter were in line with our third quarter expectations, but significantly lower than the same quarter of the prior year, during which used car auction prices were under significant pressure. These items were offset by continued margin pressure on new and used vehicles.

Operating Expenses-

Selling, general and administrative ("SG&A) expenses for the quarter ended September 30, 2003, increased $11.4 million or 8% over the quarter ended September 30, 2002. Included in SG&A expenses for the quarter ended September 30, 2003 were $2.0 million of severance, relocation and hiring costs in connection with management changes at our Oregon and Texas platforms and at the corporate level. In addition, our insurance premiums were

$5.2 million for the quarter ended September 30, 2003, a $1.7 million increase compared to the same quarter in the prior year, reflecting the current insurance environment. Including the impact of these items, SG&A expenses as a percentage of gross profit increased only 60 basis points to 76.0% for the quarter ended September 30, 2003, when compared to the same period in 2002.

Depreciation and Amortization-

Depreciation and amortization expense increased approximately $0.6 million to $5.1 million for the quarter ended September 30, 2003, as compared to the same period in 2002. The increase is primarily related to acquisitions.

Other Income (Expense)-

Floor plan interest expense increased to $4.6 million for the three months ended September 30, 2003, from $4.4 million for the three months ended September 30, 2002. This 6% increase was primarily due to higher average inventory levels during the 2003 quarter resulting primarily from acquisitions during 2003. Non-floor plan interest expense remained essentially flat when compared to the prior year quarter.

Income Tax Provision-

Income tax expense was $10.5 million for the three months ended September 30, 2003 compared to $10.7 million for the same quarter in the prior year. Our effective tax rate for the three months ended September 30, 2003, was 38% compared to 39.9% for the prior year quarter. As we operate nationally, our effective tax rate is dependent upon our geographic revenue mix. We evaluate our effective tax rate periodically based on our revenue sources. We will continue to evaluate our effective tax rate in the future, and expect that our annual effective tax rate will fluctuate between 38% and 39%.

Discontinued Operations-

The loss from discontinued operations of approximately $0.9 million for the third quarter of 2003 included a loss associated with the sale of two “full service” dealerships, the cost of closing our Price 1 pilot program and losses incurred in the operation of three franchises which were classified as held for sale as of September 30, 2003. Subsequent to the end of the quarter, we closed one of the franchises that was held for sale and resigned the franchise. The loss from discontinued operations for the third quarter ended September 30, 2002 was $1.5 million, including the operating losses from the stores mentioned above, the operating losses generated during the quarter by the stores that were sold or closed during the twelve-month period ended June 30, 2003, and the net gain recognized on dealership and related real estate assets sold during the quarter.

Nine Months Ended September 30, 2003, Compared to Nine Months Ended September 30, 2002

Net income for the nine months ended September 30, 2003 was $35.6 million or $1.09 per basic and diluted share, including a $3.9 million loss from discontinued operations principally related to our Price 1 pilot program. Net income for the nine months ended September 30, 2002 was $32.6 million or $0.99 per basic and diluted share. For the nine months ended September 30, 2002, tax affected pro forma net income was $38.6 million or $1.17 per basic and diluted share. Pro forma net income from continuing operations for the nine months ended September 30, 2002 was $42.8 million or $1.26 per basic and diluted share. The pro forma results for the prior year exclude a nonrecurring deferred income tax provision required by Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes” related to our change in tax status from a limited liability company to a “C” corporation in conjunction with our March 2002 initial public offering (“IPO”). In addition, the pro forma results from continuing operations also assume that we were a publicly traded “C” corporation for the entire period. A reconciliation of pro forma net income from continuing operations to GAAP net income from continuing operations follows – see “Reconciliation of Non-GAAP Financial Information”.

Income from continuing operations before income taxes totaled $64.8 million for the nine months ended September 30, 2003, down 9% from $71.2 million for the nine months ended September 30, 2002. The decrease is attributable to continued vehicle margin pressure, deterioration of our expense structure in the first quarter, weak performance in our Oregon platform and charges of $3.2 million in connection with management changes at our Oregon and Texas platforms and at the corporate level. These items were offset by improvement in expense controls in the second and third quarters and the improved performance of the Arkansas platform, which was underperforming during 2002.

Revenues-

(In thousands, except for unit and per vehicle data)	For the Nine Months Ended September 30, 2003	2002	Increase (Decrease)	% Change
New Vehicle Data:				
Retail revenues – same store (1)	$2,072,222	$1,973,987	$ 98,235	5%
Retail revenues – acquisitions	75,594	310		
Total new retail	2,147,816	1,974,297	173,519	9%
Fleet revenues – same store (1)	36,822	32,955	3,867	12%
Fleet revenues –acquisitions	195	-		
Total new fleet revenues	37,017	32,955	4,062	12%
New vehicle revenue, as reported	$2,184,833	$2,007,252	$177,581	9%
New retail units – same store (1)	72,638	73,060	(422)	(1%)
New retail units – actual	75,141	73,072	2,069	3%
Used Vehicle Data:				
Retail revenues – same store (1)	$ 678,158	$ 678,941	$ (783)	0%
Retail revenues – acquisitions	25,401	268		
Total used retail revenues	703,559	679,209	24,350	4%
Wholesale revenues – same store (1)	204,357	208,036	(3,679)	(2%)
Wholesale revenues – acquisitions	7,929	2		
Total wholesale revenues	212,286	208,038	4,248	2%
Used vehicle revenue, as reported	$ 915,845	$ 887,247	$ 28,598	3%
Used retail units – same store (1)	44,616	44,463	153	0%
Used retail units – actual	46,145	44,479	1,666	4%
Parts, Service and Collision Repair:				
Revenues – same store (1)	$ 395,882	$ 373,854	$ 22,028	6%
Revenues – acquisitions	15,976	87		
Parts, service and collision repair revenue, as reported	$ 411,858	$ 373,941	$ 37,917	10%
Finance and Insurance:				
Platform revenues – same store (1)	$ 96,385	$ 87,701	$ 8,684	10%
Corporate revenues	1,300	-		
Revenues – acquisitions	2,812	20		
Finance and insurance revenue, as reported	$ 100,497	$ 87,721	$ 12,776	15%
Total Revenue:				
Same store (1)	$3,483,826	$3,355,474	$128,352	4%
Corporate	1,300	-		
Acquisitions	127,907	687		
Total revenue, as reported	$3,613,033	$3,356,161	$256,872	8%

(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 the Company.

Revenues of $3.6 billion for the nine months ended September 30, 2003, represented a $256.9 million or 8% increase over the nine months ended September 30, 2002. Same store revenue grew $129.7 million or 4%, with the remainder derived from acquisitions. On a same store basis, new retail units were down 1%. However, same store new vehicle retail revenues were up 5% reflecting an increase in our average selling price driven by our strong luxury and mid-line import sales mix. Used retail vehicle unit sales were unchanged compared to the same period of the prior year, as new vehicle incentives continued to adversely affect used vehicle sales. With ongoing focus on fixed operations and platform F&I, we achieved 6% and 10% same store growth, respectively, as we continue to benefit from the sharing of best practices between our platforms in these areas.

Gross Profit-

(In thousands, except for unit and per vehicle data)	For the Nine Months Ended September 30, 2003	2002	Increase (Decrease)	% Change
New Vehicle Data:				
Retail gross profit – same store (1)	$ 154,121	$ 163,325	$ (9,204)	(6%)
Retail gross profit – acquisitions	5,282	20		
Total new retail gross profit	159,403	163,345	(3,942)	(2%)
Fleet gross profit – same store (1)	877	980	(103)	(11%)
Fleet gross profit –acquisitions	(2)	-		
Total new fleet gross profit	875	980	(105)	(11%)
New vehicle gross profit, as reported	$ 160,278	$ 164,325	$ (4,047)	(2%)
New retail units – same store (1)	72,638	73,060	(422)	(1%)
New retail units – actual	75,141	73,072	2,069	3%
Used Vehicle Data:				
Retail gross profit – same store (1)	$ 80,996	$ 82,771	$ (1,775)	(2%)
Retail gross profit – acquisitions	2,549	32		
Total used retail gross profit	83,545	82,803	742	1%
Wholesale gross profit – same store (1)	(632)	(1,950)	1,318	68%
Wholesale gross profit – acquisitions	(71)	1		
Total wholesale gross profit	(703)	(1,949)	1,246	64%
Used vehicle gross profit, as reported	$ 82,842	$ 80,854	$ 1,988	2%
Used retail units – same store (1)	44,616	44,463	153	0%
Used retail units – actual	46,145	44,479	1,666	4%
Parts, Service and Collision Repair:				
Gross profit – same store (1)	$ 208,570	$ 196,888	$ 11,682	6%
Gross profit – acquisitions	9,349	57		
Parts, service and collision repair gross profit, as reported	$ 217,919	$ 196,945	$ 20,974	11%
Finance and Insurance:				
Platform gross profit – same store (1)	$ 96,385	$ 87,701	$ 8,684	10%
Gross profit – corporate	1,300	-		
Gross profit – acquisitions	2,812	20		
Finance and insurance gross profit, as reported	$ 100,497	$ 87,721	$ 12,776	15%
Platform gross profit per vehicle retailed – same store (1)	$ 822	$ 746	$ 76	10%
Platform gross profit per vehicle retailed – actual	$ 818	$ 746	$ 72	10%
Gross profit per vehicle retailed – actual	$ 829	$ 746	$ 83	11%
Total Gross Profit:				
Gross profit – same store (1)	$ 540,317	$ 529,715	$ 10,602	2%
Gross profit – corporate	1,300	-		
Gross profit – acquisitions	19,919	130		
Total gross profit, as reported	$ 561,536	$ 529,845	$ 31,691	6%

(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 the Company.

Gross profit for the nine months ended September 30, 2003, increased $31.7 million or 6% over the same period ended September 30, 2002. Same store gross profit increased 2% year over year driven by significant growth in F&I and fixed operations, at 10% and 6%, respectively. These increases were offset by same store decreases in gross profit for new and used vehicles.

Operating Expenses-

SG&A expenses for the nine months ended September 30, 2003 were $437.4 million, up 8.5% from $403.3 million for the nine months ended September 30, 2002. The majority of the increase was due to expense deterioration in several platforms in the first quarter and the severance, relocation and hiring costs discussed above. We experienced significant improvement in the second and third quarter with our successful expense reduction initiatives.

Depreciation and Amortization-

Depreciation and amortization expense increased approximately $0.7 million to $15.0 million for the nine months ended September 30, 2003, as compared to the same period in 2002. This increase is primarily related to acquisitions.

Other Income (Expense)-

Floor plan interest expense increased 9.2% to $14.3 million for the nine months ended September 30, 2003. This increase was due to higher average inventory levels during the first nine months of 2003 as compared to the corresponding period in 2002. The increase in non-floor plan interest expense of $1.3 million from the same period of the prior year was principally attributable to the higher interest rate on our Senior Subordinated Notes issued in June 2002.

Income Tax Provision-

Income tax expense was $25.3 million for the nine months ended September 30, 2003 compared to $34.3 million for the nine-month period ended September 30, 2002. Our effective tax rate for the nine months ended September 30, 2003, was 39% compared to 39.9% for the prior year period. As we operate nationally, our effective tax rate is dependent upon our geographic revenue mix. We evaluate our effective tax rate periodically based on our revenue sources. We will continue to evaluate our effective tax rate in the future, and expect that our annual effective tax rate will fluctuate between 38% and 39%.

For the time period from January 1, 2002 through the date of our IPO, we were structured as a limited liability company and only provided a tax provision in accordance with SFAS No. 109 for the nine "C" corporations that we owned directly or indirectly during that period. Effective with our IPO, which closed March 19, 2002, we converted to a corporation and became subject to federal, state and local income taxes. During the nine months ended September 30, 2002, we recorded, in accordance with SFAS No. 109, a one-time non-recurring charge of $11.6 million related to the establishment of a net deferred tax liability, in connection with our conversion. This liability represented the difference between the financial statement and tax basis of our assets and liabilities at the conversion date.

Discontinued Operations-

During the first nine months of 2003, we completed the sale of five "full service" dealerships, closed six "Thomason Select" used-only lots in Oregon and closed our four Price 1 pilot program used vehicle stores. As of September 30, 2003, we were actively pursuing the sale of three full service dealerships, one of which was closed subsequent to the end of the quarter. The $3.9 million loss from discontinued operations includes the operating losses of the dealerships mentioned above offset by a net gain on the sales of the stores sold in the first nine months of the year. The loss from discontinued operations for the nine months ended September 30, 2002 was $4.3 million, which included the results of operations of the dealerships mentioned above and the operating losses and net loss on the sale of four dealerships, and related real estate assets, sold during the first nine months of 2002.

LIQUIDITY AND CAPITAL RESOURCES

We require cash to fund working capital needs, finance acquisitions of new dealerships and fund capital expenditures. These requirements are met principally from cash flow from operations, borrowings under the First Amended and Restated Credit Agreement and the Floor Plan Facilities (as defined below), mortgage notes and proceeds from sale/leaseback transactions. As of September 30, 2003 we had cash and cash equivalents of $48.8 million.

Credit Facilities-

On January 17, 2001, we entered into a committed financing agreement with Ford Motor Credit Company, General Motors Acceptance Corporation and DaimlerChrysler Services North America, LLC (the "Lenders") with total availability of $550 million. The committed financing agreement is used for acquisition financing and working capital purposes. On June 6, 2003, we signed the First Amended and Restated Credit Agreement (the "ARCA"), retaining all the essential provisions of our original committed credit facility, but reducing the availability for borrowings to $450 million and increasing our working capital borrowing capacity from $25 million to $75 million. Our decision to amend the existing credit facility was driven by our desire to reduce the commitment fee paid to the Lenders, which is based on the unused portion of the facility, and to extend the facility by one year through January 2006. All borrowings under the ARCA and our original committed credit facility (collectively the "Committed Credit Facility") bear interest at variable rates based on one-month LIBOR plus a specified percentage that is dependent upon our adjusted debt level as of the end of each quarter.

During the third quarter of 2002, we obtained consent from the Lenders for a cash management sublimit of $75 million under our Committed Credit Facility. The cash management sublimit allows us to repay up to $75 million of debt outstanding under our Committed Credit Facility using cash that has been centrally collected by our cash management system. The net amount repaid under the cash management sublimit may be borrowed by us on short-term notice for general corporate purposes. At September 30, 2003, approximately $306 million was available for borrowings under the Committed Credit Facility, including $18 million under the cash management sublimit. Subsequent to September 30, 2003, we repaid an additional $45 million under the cash management sublimit.

Floor Plan Financing-

We finance substantially all of our new vehicle inventory and a portion of our used vehicle inventory under the floor plan financing credit facilities (the "Floor Plan Facilities"). The Floor Plan Facilities provide used vehicle financing up to a fixed percentage of the value of each financed used vehicle. In connection with the ARCA, total availability under the floor plan facilities was reduced from $750 million to $695 million. Amounts financed under the floor plan arrangements bear interest at variable rates, which are typically tied to LIBOR or the prime rate. As of September 30, 2003, we had $488.5 million outstanding under all of our floor plan financing agreements.

Sale/Leaseback and Operating Lease Agreements-

During the nine months ended September 30, 2003, we sold, in connection with six sale/leaseback agreements, certain land and building assets for approximately $23 million. Under the terms of these agreements, we have committed to leaseback the properties from the purchaser for periods ranging from 15 to 22 years. Under one of these sale/leaseback agreements, we sold land to an existing president of one of our platforms, who is also a member of our Board of Directors. The sale price of the land of approximately $0.8 million was equal to the purchase price paid for the land in January 2003. We believe that this transaction was comparable to terms that would be obtained from an unaffiliated third party. We are accounting for these transactions as operating leases. The estimated annual rental expense under these agreements will be approximately $2.4 million.

In addition to the sale/leaseback agreements discussed above, in connection with the construction and future sale/leaseback of dealership facilities, we have entered into agreements to sell additional land to an unaffiliated third party in the future. Under these agreements, the purchaser of the properties advanced funds equal to the book value of the land currently owned by us, and advances the cost of construction for the dealership facilities based on costs incurred to date. We capitalized the cost of the land and continue to capitalize the cost of construction included in Assets Held for Sale on the accompanying balance sheet and record a corresponding liability equal to the amount of the advanced funds included in Liabilities Associated with Assets Held for Sale on the accompanying balance sheet. In addition, we capitalize the rent paid to the third party, under the terms of the agreements, during the construction period. Upon completion of construction, we will enter into sale/ leaseback agreements with this third party and transfer the ownership of the land and building assets, satisfying the related obligations. The estimated annual rental expense under these agreements, based on advances made through September 30, 2003, will be approximately $1.6 million.

During the nine months ended September 30, 2003, in connection with current year acquisitions, we entered into two agreements to lease land and building facilities. We are accounting for these transactions as operating leases. The leases have 15-year initial terms and the estimated annual rental expense under these agreements will be approximately $1.1 million.

Acquisitions and Acquisition Financing-

For the nine months ended September 30, 2003, we made four acquisitions (ten franchises) for approximately $72.4 million in cash, which were funded under our Committed Credit Facility. The purchase price was allocated to the underlying assets and liabilities based upon their estimated fair values. The resulting preliminary estimate of goodwill and intangibles assets from these transactions was approximately $64.5 million. The results of operations for these acquisitions are included in our consolidated results from the dates of acquisition.

The seller of one of the dealerships was the existing president of one of our platforms. We believe that this transaction involves terms that would be comparable to terms that would be obtained from an unaffiliated third party.

Capital Expenditure Financing

During the first nine months of 2003 and 2002, $7.2 million and $5.6 million, respectively, of our capital expenditures were funded through collateralized borrowings.

Cash Flow

Operating Activities-

Net cash provided by operating activities totaled $68.1 million for the nine months ended September 30, 2003 consisting of net income of $35.6 million, non-cash items of $23.1 million (primarily depreciation and amortization), and a $9.4 million net increase in operating assets and liabilities. Operating assets in the aggregate increased due to an increase in accrued liabilities primarily driven by the timing of interest payments on our senior subordinated notes and improved collections of contracts in transit, partially offset by increases in accounts receivable due to normal seasonality.

Net cash provided by operating activities totaled $69.9 million for the nine months ended September 30, 2002 consisting of net income of $32.6 million, non-cash items of $36.5 million (primarily depreciation and amortization and deferred income taxes) and a $0.8 million net increase in operating assets and liabilities. This net increase was primarily the result of a reduction in contracts in transit and inventory and increased accounts payable and accrued liabilities, offset by increased payments on floor plan borrowings and increased accounts receivable.

Investing Activities-

Net cash used in investing activities for the nine months ended September 30, 2003 was $99.0 million, as capital expenditures of $33.4 million, dealership acquisitions of $72.4 million and the net issuance of finance contracts of $2.8 million was offset by the maturity of restricted marketable securities of $1.8 million and proceeds from the sale of discontinued operations of $7.8 million.

Net cash used in investing activities for the nine months ended September 30, 2002 was $45.7 million, as capital expenditures of $38.1 million and dealership acquisitions of $14.6 million were offset by the maturity of restricted marketable securities of $1.8 million, proceeds from the sale of discontinued operations of $4.8 million and proceeds from the sale of fixed assets of $1.4 million.

Financing Activities-

Net cash provided by financing activities for the nine months ended September 30, 2003 was $57.2 million, as proceeds from borrowings of $100.7 million offset debt repayments of $32.3 million, distributions to members in the first quarter of $3.0 million (our final limited liability company distribution to our members) and the repurchase of treasury stock of $8.4 million.

Net cash used in financing activities for the nine months ended September 30, 2002 was $33.1 million as proceeds from our initial public offering of $65.4 million and the net proceeds from borrowings of $264.8 million (mainly the issuance of the Senior Subordinated Notes), were offset by repayments of debt of $352.4 million (as we were required under our Committed Credit Facility to use the majority of IPO proceeds and all subordinated debt proceeds to repay existing debt), and distributions to members of $11.7 million.

Capital Expenditures

Capital spending other than for acquisitions, net of proceeds from and advances associated with sale/leaseback transactions, is expected to total approximately $44 million for the year ending December 31, 2003 and will be primarily related to operational improvements and manufacturer-required spending to upgrade existing dealership facilities.

Stock Repurchase

Pursuant to our Senior Subordinated Note indenture, we are permitted to repurchase shares subject to the following restrictions: (i) up to $15 million under a "Restricted Payments" building basket, plus (ii) up to $2 million per fiscal year under our "Stock Repurchase" basket. The Restricted Payments building basket equals the greater of $15 million, or 50% of the consolidated net income beginning April 1, 2002 (less the cumulative amount of any Restricted Payments since the Senior Subordinated Notes' inception). During 2002, we repurchased 772,824 shares of our common stock for a purchase price of $6.6 million. During the nine months ended September 30, 2003, we repurchased an additional 817,189 shares for an aggregate purchase price of $8.4 million.

Reconciliation of "Non-GAAP" Financial Information

For analysis purposes, in Management's Discussion and Analysis we discuss pro forma net income from continuing operations and related earnings per share for the nine months ended September 30, 2002. The consolidated statement of income reconciles GAAP net income to tax affected pro forma net income by assuming that we were taxed as a "C" corporation for all twelve months of 2002 and excluding the one-time charge for our conversion from a limited liability company to a corporation. The following table assumes that all discontinued entities were sold prior to 2002 and all shares issued in our IPO were outstanding on January 1, 2002.

(In thousands, except for per share data)	For the Nine Months Ended September 30, 2002
Tax affected pro forma net income	$38,551
Discontinued operations	4,286
Pro forma net income from continuing operations	$42,837
Pro forma earnings per share:	
Basic	$1.26
Diluted	$1.26
Pro forma common shares and share equivalents:	
Weighted average shares outstanding-	
Basic	32,813
Adjustment for 4,500 shares offered March 14, 2002 as if offered on January 1, 2002	1,187
Pro forma basic shares	34,000
Dilutive effect of common share equivalents (stock options)	21
Pro forma diluted shares	34,021

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 $277.2 million of variable rate long-term debt (including the current portion) outstanding at September 30, 2003, a 1% change in interest rates would result in a change of approximately $2.8 million to our annual other interest expense. Based on floor plan amounts outstanding at September 30, 2003, a 1% change in the interest rates would result in a $4.9 million change to annual floor plan interest expense.

We receive interest credit assistance from certain automobile manufacturers, which is reflected as a reduction in the cost of inventory on the balance sheet. Although we can provide no assurance as to the amount of future floor plan credits, 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.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company conducted an evaluation (under the supervision of and with the participation of the Company's management, including the chief executive officer and chief financial officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15e and 15d-15e under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that as of the end of such period: such disclosure controls and procedures were reasonably designed to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

CHANGES IN INTERNAL CONTROLS

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's 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 the Company's 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,
- the Company's relationships with vehicle manufacturers and other suppliers,
- risks associated with the Company's substantial indebtedness,
- risks related to pending and potential future acquisitions, and
- general economic conditions both nationally and locally and governmental regulations and legislation.

There can be no guarantees the Company's 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 and Reports on Form 8-K

a. Exhibits

10.1 Sublease dated July 28, 2003 between Monster Worldwide, Inc. and Asbury Automotive Group

10.2 Severance Agreement with Executive Vice President and Chief Financial Officer J. Gordon Smith, dated September 29, 2003

10.3 Indemnification Agreement with Executive Vice President and Chief Financial Officer J. Gordon Smith, dated September 29, 2003

31.1 Certificate of 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.

31.2 Certificate of 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.

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.

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.

b. Reports on Form 8-K

Report filed July 11, 2003, under Item 7, related to issuance of a press release announcing that the Company has reached a mutual agreement with Wal-Mart Stores, Inc. to end the pilot “Price 1” program.

Report filed July 30, 2003, under Item 9, related to the issuance of a press release announcing that Michael Kane has been named President and CEO of the Company’s Texas platform.

Report dated July 31, 2003, filed under Item 9 and furnished under Item 12, related to issuance of a press release announcing the Company’s earnings for the second quarter and six months ended June 30, 2003.

Report filed September 17, 2003, under Item 5, related to issuance of a press release announcing that J. Gordon Smith has been named the new Chief Financial Officer.

Report filed October 9, 2003, under Item 5, related to issuance of a press release announcing that the Company is hosting a live “Investor Day” video web cast on October 15, 2003.

Report filed October 15, 2003, under Item 5, related to issuance of a press release announcing that it disclosed selected preliminary financial information for the quarter ended September 30, 2003, in conjunction with its live “Investor Day” video web cast.

Report furnished October 30, 2003, under Item 12, related to issuance of a press release announcing the Company’s earnings for the third quarter and nine months ended September 30, 2003.

Report filed November 4, 2003, under Item 5, related to issuance of a press release announcing that a decision has been rendered in the private arbitration proceeding relating to amounts claimed by the estate of Brian E. Kendrick.

SIGNATURES

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: November 14, 2003

/s/ Kenneth B. Gilman
Kenneth B. Gilman
Chief Executive Officer

SIGNATURES

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: November 14, 2003

/s/ J. Gordon Smith
J. Gordon Smith
Senior Vice President and Chief Financial Officer

Index to Exhibits

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