
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2004
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(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

(Address of principal executive offices)

10017

(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 November 2, 2004, was 32,551,858 (net of 1,586,587 treasury shares).

ASBURY AUTOMOTIVE GROUP, INC.
INDEX

	<u>Page</u>
PART I – Financial Information	
Item 1.	Consolidated Financial Statements
	Consolidated Balance Sheets as of September 30, 2004 (Unaudited) and December 31, 2003 1
	Consolidated Statements of Income for the Three and Nine Months Ended
	September 30, 2004 and 2003 (Unaudited) 2
	Consolidated Statements of Cash Flows for the Nine Months Ended
	September 30, 2004 and 2003 (Unaudited) 3
	Notes to Consolidated Financial Statements (Unaudited) 4
	Report of Independent Registered Public Accounting Firm 21
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 38
Item 4.	Controls and Procedures 38
PART II – Other Information	
Item 6.	Exhibits 40
	Signatures..... 41
	Index to Exhibits..... 42

PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

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

ASSETS	September 30, 2004	December 31, 2003
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,255	\$ 106,711
Contracts-in-transit	87,145	93,881
Restricted investments	1,623	1,591
Accounts receivable (net of allowance of \$1,648 and \$2,371, respectively)	137,146	114,201
Inventories	692,300	650,397
Deferred income taxes	10,792	8,811
Prepaid and other assets	45,518	36,417
Assets held for sale	46,517	29,533
Total current assets	<u>1,039,296</u>	<u>1,041,542</u>
 PROPERTY AND EQUIPMENT, net	 191,078	 266,991
GOODWILL	455,184	404,143
RESTRICTED INVESTMENTS, net of current portion	1,596	2,974
OTHER ASSETS	106,763	98,629
Total assets	<u><u>\$1,793,917</u></u>	<u><u>\$1,814,279</u></u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable	\$ 557,181	\$ 602,167
Current maturities of long-term debt	33,760	33,250
Accounts payable	48,558	42,882
Accrued liabilities	94,430	78,727
Liabilities associated with assets held for sale	31,243	24,732
Total current liabilities	<u>765,172</u>	<u>781,758</u>
 LONG-TERM DEBT	 497,355	 559,128
DEFERRED INCOME TAXES	26,636	22,179
OTHER LIABILITIES	36,780	17,507
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 34,137,779 and 34,022,008 shares issued, including shares held in treasury, respectively	341	340
Additional paid-in capital	412,692	411,082
Retained earnings	75,060	37,832
Treasury stock, at cost, 1,586,587 and 1,590,013 shares held, respectively	(15,032)	(15,064)
Accumulated other comprehensive loss	(5,087)	(483)
Total shareholders' equity	<u>467,974</u>	<u>433,707</u>
Total liabilities and shareholders' equity	<u><u>\$1,793,917</u></u>	<u><u>\$1,814,279</u></u>

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,	
	2004	2003	2004	2003
REVENUES:				
New vehicle	\$ 862,863	\$ 761,340	\$2,421,645	\$2,114,259
Used vehicle	329,998	309,371	965,355	887,701
Parts, service and collision repair	157,416	136,385	450,506	389,012
Finance and insurance, net	39,749	35,923	110,569	96,241
Total revenues	<u>1,390,026</u>	<u>1,243,019</u>	<u>3,948,075</u>	<u>3,487,213</u>
COST OF SALES:				
New vehicle	802,562	706,314	2,248,480	1,958,751
Used vehicle	303,236	282,200	882,693	806,710
Parts, service and collision repair	75,985	63,817	214,890	181,804
Total cost of sales	<u>1,181,783</u>	<u>1,052,331</u>	<u>3,346,063</u>	<u>2,947,265</u>
GROSS PROFIT	<u>208,243</u>	<u>190,688</u>	<u>602,012</u>	<u>539,948</u>
OPERATING EXPENSES:				
Selling, general and administrative	168,836	144,474	481,344	419,596
Depreciation and amortization	4,993	5,004	15,419	14,602
Income from operations	<u>34,414</u>	<u>41,210</u>	<u>105,249</u>	<u>105,750</u>
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(5,383)	(4,207)	(15,233)	(12,871)
Other interest expense	(8,678)	(10,088)	(29,186)	(30,030)
Interest income	228	190	613	436
Gain (loss) on sale of assets	42	(94)	(99)	(432)
Other income (expense), net	129	(78)	226	2
Total other expense, net	<u>(13,662)</u>	<u>(14,277)</u>	<u>(43,679)</u>	<u>(42,895)</u>
Income before income taxes	20,752	26,933	61,570	62,855
INCOME TAX EXPENSE:	7,782	10,214	22,912	24,507
Income from continuing operations	<u>12,970</u>	<u>16,719</u>	<u>38,658</u>	<u>38,348</u>
DISCONTINUED OPERATIONS, net of tax	<u>(854)</u>	<u>(475)</u>	<u>(1,430)</u>	<u>(2,734)</u>
Net income	<u>\$ 12,116</u>	<u>\$ 16,244</u>	<u>\$ 37,228</u>	<u>\$ 35,614</u>
EARNINGS PER COMMON SHARE:				
Basic	<u>\$ 0.37</u>	<u>\$ 0.50</u>	<u>\$ 1.15</u>	<u>\$ 1.09</u>
Diluted	<u>\$ 0.37</u>	<u>\$ 0.50</u>	<u>\$ 1.14</u>	<u>\$ 1.09</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	<u>32,540</u>	<u>32,419</u>	<u>32,482</u>	<u>32,721</u>
Diluted	<u>32,647</u>	<u>32,612</u>	<u>32,675</u>	<u>32,761</u>

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,	
	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 37,228	\$ 35,614
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	15,419	14,602
Depreciation and amortization from discontinued operations	372	1,389
Amortization of deferred financing fees	1,231	2,582
Change in allowance for doubtful accounts	(723)	96
Loss on sale of assets	99	432
Loss (gain) on sale of discontinued operations	737	(297)
Change in deferred income taxes	5,550	2,617
Other adjustments	6,482	2,975
Changes in operating assets and liabilities, net of acquisitions and divestitures-		
Contracts-in-transit	4,703	4,810
Accounts receivable	(37,245)	(30,938)
Proceeds from the sale of accounts receivable	14,222	15,023
Inventories	(14,228)	72,934
Prepaid and other assets	(25,013)	(21,980)
Floor plan notes payable	(52,231)	(62,410)
Accounts payable and accrued liabilities	19,245	18,084
Other assets and liabilities	(2,051)	(999)
Net cash (used in) provided by operating activities	(26,203)	54,534
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(56,590)	(37,558)
Payments for acquisitions	(71,594)	(72,378)
Proceeds from the sale of assets	503	774
Proceeds from the sale of discontinued operations	3,543	7,845
Purchase of restricted marketable securities	(517)	(750)
Proceeds from the sale of restricted marketable securities	1,863	1,826
Net issuance of finance contracts	(533)	(2,818)
Net cash used in investing activities	(123,325)	(103,059)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	46,357	115,393
Repayments of debt	(108,655)	(59,392)
Proceeds from sale-leaseback activity	121,813	31,177
Purchase of treasury stock	-	(9,700)
Distributions to members	-	(3,010)
Proceeds from the exercise of stock options	1,557	248
Net cash provided by financing activities	61,072	74,716
Net (decrease) increase in cash and cash equivalents	(88,456)	26,191
CASH AND CASH EQUIVALENTS, beginning of period	106,711	22,613
CASH AND CASH EQUIVALENTS, end of period	\$ 18,255	\$ 48,804

See Note 11 for supplemental cash flow information

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 99 dealership locations (137 franchises) as of September 30, 2004. 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 nine regional dealership groups, or "platforms," which are marketed under different regional brands. Our platforms encompass 20 metropolitan markets in the Southeastern, Midwestern, Southwestern and Northwestern United States. In addition to our nine platforms, we operate two dealerships in two metropolitan markets in Northern California and three dealerships in two metropolitan markets in Southern California with the intention of expanding our operations in each of these respective areas through additional acquisitions.

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 interim consolidated financial statements as of September 30, 2004, and for the three and nine months ended September 30, 2004 and 2003 have been included. The results of operations for the three and nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the full year. Our interim consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2003.

The 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 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.

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 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 arrange financing for customers and receive commissions from financing institutions. 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.

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 Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-An amendment of FASB Statement No. 123."

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

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":

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
<i>(In thousands, except per share data)</i>				
Net income	\$ 12,116	\$ 16,244	\$ 37,228	\$ 35,614
Adjustments to net income:				
Stock-based compensation expense included in net income, net of tax	3	12	86	42
Pro forma stock-based compensation expense, net of tax	(1,410)	(1,002)	(4,012)	(2,811)
Pro forma net income	<u>\$ 10,709</u>	<u>\$ 15,254</u>	<u>\$ 33,302</u>	<u>\$ 32,845</u>
Net income per common share—basic (as reported)	<u>\$ 0.37</u>	<u>\$ 0.50</u>	<u>\$ 1.15</u>	<u>\$ 1.09</u>
Net income per common share—diluted (as reported)	<u>\$ 0.37</u>	<u>\$ 0.50</u>	<u>\$ 1.14</u>	<u>\$ 1.09</u>
Pro forma net income per common share—basic	<u>\$ 0.33</u>	<u>\$ 0.47</u>	<u>\$ 1.03</u>	<u>\$ 1.00</u>
Pro forma net income per common share—diluted	<u>\$ 0.33</u>	<u>\$ 0.47</u>	<u>\$ 1.02</u>	<u>\$ 1.00</u>

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 assumptions:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
Risk free interest rate	%	3.3 %	2.3 - 3.6 %	%
Expected life of options	years	5 years	4 years	years
Expected stock price volatility	%	62 %	50 - 53 %	%
Expected dividend yield			N	N

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 September 30, 2004 and December 31, 2003, 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 and nine months ended September 30, 2003, have been reclassified to reflect the status of our discontinued operations as of September 30, 2004.

3. ACQUISITIONS

We did not complete any acquisitions during the three months ended September 30, 2004. During the three months ended September 30, 2003, we acquired three dealership locations (seven franchises) for an aggregate purchase price of \$32.7 million, which was paid in cash through the use of available funds.

During the nine months ended September 30, 2004, we acquired six dealership locations (six franchises) for an aggregate purchase price of \$74.2 million, of which \$71.6 million was paid in cash through the use of available funds, with the remaining \$2.6 million representing the fair value of future payments associated with our acquisitions. During the nine months ended September 30, 2003, we acquired five dealership locations (ten franchises) and one ancillary business for an aggregate purchase price of \$72.4 million, of which \$0.3 million was paid in cash through the use of available funds and \$72.1 million was funded through borrowings under our committed credit facility.

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

The allocation of purchase price for acquisitions is as follows:

<i>(In thousands)</i>	For the Nine Months Ended September 30,	
	2004	2003
Working capital	\$ 5,140	\$ 4,597
Fixed assets	3,723	3,674
Other assets	257	-
Goodwill	53,555	64,496
Franchise rights	11,500	-
Other liabilities	-	(389)
Total purchase price	<u>\$ 74,175</u>	<u>\$ 72,378</u>

The allocation of purchase price to assets acquired and liabilities assumed for certain current and prior year acquisitions was based on preliminary estimates of fair value and may be revised as additional information concerning valuation of such assets and liabilities becomes available.

4. INVENTORIES

Inventories consist of the following:

<i>(In thousands)</i>	September 30, 2004	December 31, 2003
New vehicles	\$ 550,504	\$ 517,227
Used vehicles	98,298	90,683
Parts and accessories	43,498	42,487
Total inventories	<u>\$ 692,300</u>	<u>\$ 650,397</u>

The lower of cost or market reserves for inventory totaled \$5.9 million and \$4.6 million as of September 30, 2004 and December 31, 2003, respectively.

5. GOODWILL AND MANUFACTURER FRANCHISE RIGHTS

Goodwill represents the excess cost of businesses acquired over the fair market value of the identifiable net assets. The changes in the carrying amount of goodwill for the nine months ended September 30, 2004 are as follows:

<i>(In thousands)</i>	
Balance, December 31, 2003	\$ 404,143
Current year acquisitions	53,555
Adjustments associated with prior year acquisitions	(817)
Current year divestitures	(1,697)
Balance, September 30, 2004	<u>\$ 455,184</u>

During the nine months ended September 30, 2004, we allocated \$11.5 million of the purchase price of our current year acquisitions to manufacturer franchise rights and increased manufacturer franchise rights \$1.0 million related to an acquisition completed during 2003. Manufacturer franchise rights totaled \$50.5 million and \$38.0 million as of September 30, 2004 and December 31, 2003, respectively, and are included in Other Assets on the accompanying Consolidated Balance Sheets.

6. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale as of September 30, 2004 include (1) assets and liabilities associated with discontinued operations and real estate associated with former dealership locations, (2) real estate of new dealership locations where an unaffiliated third party purchased land and is advancing funds to us equal to the cost of construction of dealership facilities being

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

constructed on the land and (3) leasehold improvements that an unaffiliated third party has agreed to purchase upon completion of the construction.

Assets and liabilities associated with discontinued operations included four dealership locations (six franchises) and real estate associated with three former dealership locations as of September 30, 2004, and two dealership locations (three franchises) and real estate associated with two former dealership locations as of December 31, 2003. Assets associated with discontinued operations totaled \$28.2 million and \$6.7 million, and liabilities associated with discontinued operations totaled \$17.2 million and \$2.0 million as of September 30, 2004 and December 31, 2003, respectively.

In connection with the construction of certain new dealership locations, we have entered into sale-leaseback agreements whereby an unaffiliated third party purchased the land and is advancing funds to us equal to the cost of construction of dealership facilities being constructed on the land. The agreements include an option for the third party to cancel the agreement and require us to return the advanced funds in the event we fail to complete construction of the facilities, among other customary conditions. As a result, we capitalize the cost of the land, facilities and rent during the construction period and record a corresponding liability equal to the amount of the advanced funds. 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 rent on a straight-line basis over the lease term. As of September 30, 2004, the book value of these assets held for sale and the related liabilities totaled \$15.7 million and \$14.0 million, respectively. The book value of these assets held for sale and the related liabilities each totaled \$22.8 million as of December 31, 2003.

During the three months ended September 30, 2004, we sold land and buildings with a net book value of \$102.5 million to an unaffiliated third party for net proceeds of \$114.9 million in a sale-leaseback transaction. The gain on the transaction of \$12.4 million, which is net of estimated deal costs, is being amortized as a component of selling, general and administrative expense over the lease terms. In addition, we repaid \$63.7 million of the related mortgages with the proceeds from the sale-leaseback transaction. Under the terms of the sale-leaseback agreement, we have agreed to make certain leasehold improvements and the unaffiliated third party has agreed to purchase those improvements upon completion of the construction. The costs of construction for the leasehold improvements are included in Assets Held for Sale on our Consolidated Balance Sheets. We expect that the construction of these dealership facilities will be substantially complete by December 31, 2005. The book value of the construction-in-progress totaled \$2.6 million as of September 30, 2004. We estimate that the annualized rent associated with these leases will be approximately \$9.2 million, including the effects of the deferred gain amortization and excluding estimated rent increases as a result of the anticipated sale of leasehold improvements.

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

<i>(In thousands)</i>	<u>September 30, 2004</u>	<u>December 31, 2003</u>
Assets:		
Inventories	\$ 17,115	\$ 2,116
Property and equipment, net	25,720	27,417
Other assets	3,682	-
Total assets	<u>46,517</u>	<u>29,533</u>
Liabilities:		
Floor plan notes payable	15,767	1,954
Long-term debt	13	-
Other liabilities	15,463	22,778
Total liabilities	<u>31,243</u>	<u>24,732</u>
Net assets held for sale	<u>\$ 15,274</u>	<u>\$ 4,801</u>

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

7. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(In thousands)</i>	<u>September 30, 2004</u>	<u>December 31, 2003</u>
9% Senior Subordinated Notes due 2012	\$250,000	\$250,000
8% Senior Subordinated Notes due 2014	200,000	200,000
Mortgage notes payable	50,895	116,664
Notes payable collateralized by loaner vehicles	22,156	15,744
Capital lease obligations	4,610	4,226
Other notes payable	3,454	5,744
	<u>531,115</u>	<u>592,378</u>
Less—current portion	(33,760)	(33,250)
Long—term debt	<u>\$497,355</u>	<u>\$559,128</u>

8. COMPREHENSIVE INCOME

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

<i>(In thousands)</i>	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net income	\$ 12,116	\$ 16,244	\$ 37,228	\$ 35,614
Other comprehensive income:				
Change in fair value of interest rate swaps	(696)	-	(7,397)	-
Income tax benefit associated with interest rate swaps	261	-	2,793	-
	<u>(435)</u>	<u>-</u>	<u>(4,604)</u>	<u>-</u>
Reclassification adjustment of loss on interest rate swaps included in net income	-	46	-	159
Income tax expense associated with interest rate swaps	-	(13)	-	(59)
Comprehensive income	<u>\$ 11,681</u>	<u>\$ 16,277</u>	<u>\$ 32,624</u>	<u>\$ 35,714</u>

In December 2003, we entered into two forward interest rate swaps with a combined notional principal amount of \$200.0 million, which will 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. During the second quarter of 2004, we reduced the notional principal amount of these swap agreements to \$170.0 million. This transaction resulted in a gain of \$0.4 million, which is included in Other Liabilities on our Consolidated Balance Sheet as of September 30, 2004, and will be amortized on a straight-line basis as an offset to interest expense over the swap period, beginning in March 2006. The swap agreements were designated and qualify as interest rate hedges of future changes in interest rates of our variable rate floor plan indebtedness and we expect that these hedges, which may contain minor ineffectiveness, will be highly effective during the swap period from March 2006 through February 2014. As of September 30, 2004, the swap agreements had a fair value of \$6.2 million, which is included in Other Liabilities on the accompanying Consolidated Balance Sheets.

In December 2003, 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 this 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 fixed rate senior subordinated debt and does not contain any ineffectiveness. As of September 30, 2004, the swap agreement had a fair value of \$1.9 million, which is included in Other Liabilities on the accompanying Consolidated Balance Sheets.

9. DISCONTINUED OPERATIONS AND DISPOSITIONS

During the three months ended September 30, 2004, we sold five dealership locations (six franchises), one of which was placed into discontinued operations in the same period. In addition, during the three months ended September 30, 2004, we placed three

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

dealership locations (five franchises) into discontinued operations. As of September 30, 2004, four dealership locations (six franchises) and real estate associated with three former dealership locations were pending disposition. The accompanying Consolidated Statements of Income for the three and nine months ended September 30, 2003, have been reclassified to reflect the status of our discontinued operations as of September 30, 2004.

The following table provides further information regarding our discontinued operations as of September 30, 2004, and includes the results of businesses sold prior to September 30, 2004, and businesses pending disposition as of September 30, 2004:

	For the Three Months Ended September 30, 2004			For the Three Months Ended September 30, 2003		
	Sold	Pending Disposition	Total	Sold*	Pending Disposition**	Total
<i>(Dollars in thousands)</i>						
Franchises	6	6	12	12	6	18
Used-only locations	-	-	-	11	-	11
Ancillary businesses	-	-	-	2	-	2
Revenues	\$ 2,893	\$ 29,945	\$ 32,838	\$ 20,854	\$ 30,725	\$ 51,579
Cost of sales	2,745	25,705	28,450	17,553	25,784	43,337
Gross profit	148	4,240	4,388	3,301	4,941	8,242
Operating expenses	858	4,435	5,293	4,226	4,550	8,776
Income (loss) from operations	(710)	(195)	(905)	(925)	391	(534)
Other expense, net	(13)	(185)	(198)	(69)	(143)	(212)
Net income (loss)	(723)	(380)	(1,103)	(994)	248	(746)
Loss on disposition of discontinued Operations	(263)	-	(263)	(32)	-	(32)
Income (loss) before income taxes	(986)	(380)	(1,366)	(1,026)	248	(778)
Income tax benefit (expense)	370	142	512	399	(96)	303
Discontinued operations, net of tax	\$ (616)	\$ (238)	\$ (854)	\$ (627)	\$ 152	\$ (475)
	For the Nine Months Ended September 30, 2004			For the Nine Months Ended September 30, 2003		
	Sold	Pending Disposition	Total	Sold***	Pending Disposition**	Total
<i>(Dollars in thousands)</i>						
Franchises	8	6	14	14	6	20
Used-only locations	-	-	-	11	-	11
Ancillary businesses	-	-	-	2	-	2
Revenues	\$ 27,459	\$ 86,529	\$ 113,988	\$ 88,680	\$ 90,458	\$179,138
Cost of sales	23,396	73,454	96,850	76,202	75,705	151,907
Gross profit	4,063	13,075	17,138	12,478	14,753	27,231
Operating expenses	4,719	13,213	17,932	17,991	13,068	31,059
Income (loss) from operations	(656)	(138)	(794)	(5,513)	1,685	(3,828)
Other expense, net	(175)	(582)	(757)	(513)	(497)	(1,010)
Net income (loss)	(831)	(720)	(1,551)	(6,026)	1,188	(4,838)
(Loss) gain on disposition of discontinued operations	(737)	-	(737)	297	-	297
Income (loss) before income taxes	(1,568)	(720)	(2,288)	(5,729)	1,188	(4,541)
Income tax benefit (expense)	588	270	858	2,280	(473)	1,807
Discontinued operations, net of tax	\$ (980)	\$ (450)	\$ (1,430)	\$ (3,449)	\$ 715	\$ (2,734)

* Businesses were sold between July 1, 2003 and September 30, 2004

** Businesses pending disposition as of September 30, 2004

*** Businesses were sold between January 1, 2003 and September 30, 2004

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

10. EARNINGS PER SHARE

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:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
<i>(In thousands, except per share data)</i>				
Net income:				
Continuing operations	\$ 12,970	\$ 16,719	\$ 38,658	\$ 38,348
Discontinued operations	(854)	(475)	(1,430)	(2,734)
	<u>\$ 12,116</u>	<u>\$ 16,244</u>	<u>\$ 37,228</u>	<u>\$ 35,614</u>
Earnings per share – basic and diluted:				
Continuing operations – basic	\$ 0.40	\$ 0.52	\$ 1.19	\$ 1.17
Discontinued operations - basic	(0.03)	(0.02)	(0.04)	(0.08)
	<u>\$ 0.37</u>	<u>\$ 0.50</u>	<u>\$ 1.15</u>	<u>\$ 1.09</u>
Continuing operations – diluted	\$ 0.40	\$ 0.51	\$ 1.18	\$ 1.17
Discontinued operations - diluted	(0.03)	(0.01)	(0.04)	(0.08)
	<u>\$ 0.37</u>	<u>\$ 0.50</u>	<u>\$ 1.14</u>	<u>\$ 1.09</u>
Common shares and common share equivalents:				
Weighted average common shares outstanding – basic	32,540	32,419	32,482	32,721
Common share equivalents (stock options)	107	193	193	40
Weighted average common shares outstanding – diluted	<u>32,647</u>	<u>32,612</u>	<u>32,675</u>	<u>32,761</u>

11. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2004 and 2003, we made interest payments, net of amounts capitalized, totaling \$44.5 million and \$35.8 million, respectively. During the nine months ended September 30, 2004, we received \$4.9 million 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 nine months ended September 30, 2004 and 2003, we made income tax payments totaling \$11.0 million and \$13.3 million, respectively.

During the nine months ended September 30, 2004, we executed a sale-leaseback transaction, which resulted in the sale of approximately \$17.6 million of Assets Held for Sale and the removal of \$17.6 million of Liabilities Associated with Assets Held for Sale from our Consolidated Balance Sheets.

During the nine months ended September 30, 2004 and 2003, we entered into capital leases totaling \$1.1 million and \$2.4 million, respectively.

12. COMMITMENTS AND CONTINGENCIES

Litigation

We are involved in legal proceedings and claims that have arisen in the ordinary course of business, and with respect to certain of these claims, we have been indemnified by the sellers of dealerships we have acquired. We do not expect that the cost of resolving these legal proceedings and claims will materially affect our financial condition, liquidity, results of operations or financial statement disclosures.

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

Guarantees

We have guaranteed a loan made by a financial institution directly to a non-consolidated entity controlled by a current platform executive, which totaled approximately \$2.7 million as of September 30, 2004. 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.

Environmental Matters

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 financial condition, liquidity, results of operations or financial statement disclosures. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements.

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.

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

Condensed Consolidating Balance Sheet
As of September 30, 2004
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ -	\$ 18,255	\$ -	\$ 18,255
Inventories	-	643,822	48,478	-	692,300
Other current assets	-	254,083	39,685	(11,544)	282,224
Assets held for sale	-	46,517	-	-	46,517
Total current assets	-	944,422	106,418	(11,544)	1,039,296
Property and equipment, net	-	185,850	5,228	-	191,078
Goodwill	-	393,883	61,301	-	455,184
Other assets	-	91,882	16,477	-	108,359
Investment in subsidiaries	467,974	76,829	-	(544,803)	-
Total assets	<u>\$ 467,974</u>	<u>\$ 1,692,866</u>	<u>\$ 189,424</u>	<u>\$(556,347)</u>	<u>\$ 1,793,917</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Floor plan notes payable	\$ -	\$ 518,588	\$ 38,593	\$ -	\$ 557,181
Other current liabilities	-	115,286	73,006	(11,544)	176,748
Liabilities associated with assets held for sale	-	31,243	-	-	31,243
Total current liabilities	-	665,117	111,599	(11,544)	765,172
Long-term debt	-	497,315	40	-	497,355
Other liabilities	-	62,460	956	-	63,416
Shareholders' equity	467,974	467,974	76,829	(544,803)	467,974
Total liabilities and shareholders' equity	<u>\$ 467,974</u>	<u>\$ 1,692,866</u>	<u>\$ 189,424</u>	<u>\$(556,347)</u>	<u>\$ 1,793,917</u>

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

Condensed Consolidating Balance Sheet
As of December 31, 2003
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 98,927	\$ 7,784	\$ -	\$ 106,711
Inventories	-	601,923	48,474	-	650,397
Other current assets	-	206,910	47,991	-	254,901
Assets held for sale	-	29,533	-	-	29,533
Total current assets	-	937,293	104,249	-	1,041,542
Property and equipment, net	-	262,450	4,541	-	266,991
Goodwill	-	342,831	61,312	-	404,143
Other assets	-	90,800	10,803	-	101,603
Investment in subsidiaries	433,707	69,240	-	(502,947)	-
Total assets	<u>\$ 433,707</u>	<u>\$1,702,614</u>	<u>\$ 180,905</u>	<u>\$(502,947)</u>	<u>\$ 1,814,279</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Floor plan notes payable	\$ -	\$ 558,586	\$ 43,581	\$ -	\$ 602,167
Other current liabilities	-	93,064	61,795	-	154,859
Liabilities associated with assets held for sale	-	24,732	-	-	24,732
Total current liabilities	-	676,382	105,376	-	781,758
Long-term debt	-	559,079	49	-	559,128
Other liabilities	-	33,446	6,240	-	39,686
Shareholders' equity	433,707	433,707	69,240	(502,947)	433,707
Total liabilities and shareholders' equity	<u>\$ 433,707</u>	<u>\$1,702,614</u>	<u>\$ 180,905</u>	<u>\$(502,947)</u>	<u>\$ 1,814,279</u>

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

Condensed Consolidating Statement of Income
For the Three Months Ended September 30, 2004
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ -	\$1,219,721	\$ 173,374	\$ (3,069)	\$ 1,390,026
Cost of sales	-	1,036,552	148,300	(3,069)	1,181,783
Gross profit	-	183,169	25,074	-	208,243
Operating expenses:					
Selling, general and administrative	-	149,855	18,981	-	168,836
Depreciation and amortization	-	4,517	476	-	4,993
Income from operations	-	28,797	5,617	-	34,414
Other income (expense):					
Floor plan interest expense	-	(4,998)	(385)	-	(5,383)
Other interest expense	-	(7,609)	(1,069)	-	(8,678)
Other income, net	-	384	15	-	399
Equity in earnings of subsidiaries	12,116	2,611	-	(14,727)	-
Total other income (expense), net	12,116	(9,612)	(1,439)	(14,727)	(13,662)
Income from continuing operations before income taxes	12,116	19,185	4,178	(14,727)	20,752
Income tax expense	-	6,215	1,567	-	7,782
Income from continuing operations	12,116	12,970	2,611	(14,727)	12,970
Discontinued operations, net of tax	-	(854)	-	-	(854)
Net income	<u>\$ 12,116</u>	<u>\$ 12,116</u>	<u>\$ 2,611</u>	<u>\$ (14,727)</u>	<u>\$ 12,116</u>

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

Condensed Consolidating Statement of Income
For the Three Months Ended September 30, 2003
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ -	\$ 1,074,121	\$ 171,700	\$ (2,802)	\$ 1,243,019
Cost of sales	-	908,351	146,782	(2,802)	1,052,331
Gross profit	-	165,770	24,918	-	190,688
Operating expenses:					
Selling, general and administrative	-	126,778	17,696	-	144,474
Depreciation and amortization	-	4,723	281	-	5,004
Income from operations	-	34,269	6,941	-	41,210
Other income (expense):					
Floor plan interest expense	-	(3,651)	(556)	-	(4,207)
Other interest expense	-	(9,809)	(279)	-	(10,088)
Other income (expense), net	-	60	(42)	-	18
Equity in earnings of subsidiaries	16,244	3,755	-	(19,999)	-
Total other income (expense), net	16,244	(9,645)	(877)	(19,999)	(14,277)
Income from continuing operations before income taxes	16,244	24,624	6,064	(19,999)	26,933
Income tax expense	-	7,905	2,309	-	10,214
Income from continuing operations	16,244	16,719	3,755	(19,999)	16,719
Discontinued operations, net of tax	-	(475)	-	-	(475)
Net income	<u>\$ 16,244</u>	<u>\$ 16,244</u>	<u>\$ 3,755</u>	<u>\$ (19,999)</u>	<u>\$ 16,244</u>

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

Condensed Consolidating Statement of Income
For the Nine Months Ended September 30, 2004
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ -	\$ 3,452,881	\$ 506,022	\$ (10,828)	\$ 3,948,075
Cost of sales	-	2,922,499	434,392	(10,828)	3,346,063
Gross profit	-	530,382	71,630	-	602,012
Operating expenses:					
Selling, general and administrative	-	427,529	53,815	-	481,344
Depreciation and amortization	-	14,118	1,301	-	15,419
Income from operations	-	88,735	16,514	-	105,249
Other income (expense):					
Floor plan interest expense	-	(14,137)	(1,096)	-	(15,233)
Other interest expense	-	(25,869)	(3,317)	-	(29,186)
Other income, net	-	697	43	-	740
Equity in earnings of subsidiaries	37,228	7,590	-	(44,818)	-
Total other income (expense), net	37,228	(31,719)	(4,370)	(44,818)	(43,679)
Income from continuing operations before income taxes	37,228	57,016	12,144	(44,818)	61,570
Income tax expense	-	18,358	4,554	-	22,912
Income from continuing operations	37,228	38,658	7,590	(44,818)	38,658
Discontinued operations, net of tax	-	(1,430)	-	-	(1,430)
Net income	<u>\$ 37,228</u>	<u>\$ 37,228</u>	<u>\$ 7,590</u>	<u>\$ (44,818)</u>	<u>\$ 37,228</u>

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

Condensed Consolidating Statement of Income
For the Nine Months Ended September 30, 2003
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ -	\$3,008,202	\$ 488,880	\$ (9,869)	\$3,487,213
Cost of sales	-	2,536,656	420,478	(9,869)	2,947,265
Gross profit	-	471,546	68,402	-	539,948
Operating expenses:					
Selling, general and administrative	-	369,045	50,551	-	419,596
Depreciation and amortization	-	13,450	1,152	-	14,602
Income from operations	-	89,051	16,699	-	105,750
Other income (expense):					
Floor plan interest expense	-	(11,738)	(1,133)	-	(12,871)
Other interest expense	-	(27,894)	(2,136)	-	(30,030)
Other income (expense), net	-	129	(123)	-	6
Equity in earnings of subsidiaries	35,614	8,115	-	(43,729)	-
Total other income (expense), net	35,614	(31,388)	(3,392)	(43,729)	(42,895)
Income from continuing operations before income taxes	35,614	57,663	13,307	(43,729)	62,855
Income tax expense	-	19,315	5,192	-	24,507
Income from continuing operations	35,614	38,348	8,115	(43,729)	38,348
Discontinued operations, net of tax	-	(2,734)	-	-	(2,734)
Net income	<u>\$ 35,614</u>	<u>\$ 35,614</u>	<u>\$ 8,115</u>	<u>\$ (43,729)</u>	<u>\$ 35,614</u>

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

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2004
(In thousands)

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash (used in) provided by operating activities	\$ -	\$ (52,918)	\$ 26,715	\$ -	\$ (26,203)
Cash flow from investing activities:					
Capital expenditures	-	(54,492)	(2,098)	-	(56,590)
Payments for acquisitions	-	(71,594)	-	-	(71,594)
Other investing activities	-	4,859	(11,544)	11,544	4,859
Net cash used in investing activities	-	(121,227)	(13,642)	11,544	(123,325)
Cash flow from financing activities:					
Proceeds from borrowings	-	57,901	-	(11,544)	46,357
Repayments of debt	-	(105,660)	(2,995)	-	(108,655)
Proceeds from sale-leaseback activity	-	121,420	393	-	121,813
Other financing activities	-	1,557	-	-	1,557
Net cash provided by (used in) financing activities	-	75,218	(2,602)	(11,544)	61,072
Net (decrease) increase in cash and cash equivalents	-	(98,927)	10,471	-	(88,456)
Cash and cash equivalents, beginning of period	-	98,927	7,784	-	106,711
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,255</u>	<u>\$ -</u>	<u>\$ 18,255</u>

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

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2003
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ -	\$ 53,438	\$ 1,096	\$ -	\$ 54,534
Cash flow from investing activities:					
Capital expenditures	-	(37,037)	(521)	-	(37,558)
Payments for acquisitions	-	(72,378)	-	-	(72,378)
Other investing activities	-	6,877	-	-	6,877
Net cash used in investing activities	-	(102,538)	(521)	-	(103,059)
Cash flow from financing activities:					
Proceeds from borrowings	-	111,624	3,769	-	115,393
Repayments of debt	-	(56,057)	(3,335)	-	(59,392)
Proceeds from sale-leaseback activity	-	31,177	-	-	31,177
Distributions to members	-	(3,010)	-	-	(3,010)
Purchase of treasury stock	-	(9,700)	-	-	(9,700)
Other financing activities	-	248	-	-	248
Net cash provided by financing activities	-	74,282	434	-	74,716
Net increase in cash and cash equivalents	-	25,182	1,009	-	26,191
Cash and cash equivalents, beginning of period	-	18,779	3,834	-	22,613
Cash and cash equivalents, end of period	\$ -	\$ 43,961	\$ 4,843	\$ -	\$ 48,804

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

14. SUBSEQUENT EVENTS

Divestitures

During the fourth quarter of 2004, we sold one dealership location (one franchise) for net proceeds of \$1.7 million, resulting in a gain of approximately \$0.9 million. This gain is net of estimated costs to complete these transactions, which may be adjusted in the fourth quarter as additional information becomes available.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and 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, 2004, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2004 and 2003, and statements of cash flows for the nine-month periods ended September 30, 2004 and 2003. 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 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 standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2003, 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 5, 2004 (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, 2003 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
November 8, 2004

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

We are a national automotive retailer, operating 99 dealership locations (137 franchises) in 11 states and 24 metropolitan markets in the United States as of September 30, 2004. We offer 33 different brands of new vehicles, including four heavy truck brands. We also operate 23 collision repair centers that serve our markets.

Our revenues are derived primarily from three basic offerings: (i) the sale of new and used vehicles; (ii) maintenance and collision repair services and the sale of automotive parts (collectively, "fixed operations"); and (iii) the arrangement of vehicle financing and the sale of various insurance and warranty products (collectively, "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.

Since inception, we have grown our business through the acquisition of nine "platforms" and numerous "tuck-in" acquisitions. "Tuck-in" acquisitions refer to the purchase of dealerships in the market areas of our existing platforms. 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 our "platform" overhead costs. In addition to our nine established platforms, we operate two franchises in Northern California and three franchises in Southern California, with the intention of expanding our operations in each of these regions through additional acquisitions. All acquisitions were accounted for using the purchase method of accounting, and the operations of the acquired dealerships are included in the Consolidated Statements of Income commencing on the date acquired. We evaluate the organic growth of our revenue and gross profit on a same store basis.

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 vehicle sales decrease as a percentage of total sales, we expect that our overall gross profit percentage would increase.

Selling, general and administrative ("SG&A") expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other typical 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 and all other SG&A expenses in the aggregate as a percentage of 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 the performance of our used vehicle sales, fixed operations, variable cost structure, regional diversity and advantageous brand mix. Historically, our brand mix, which is weighted towards luxury and mid-line imports, has tended to be less affected by market volatility than the U.S. automobile industry as a whole.

Our operations typically have been subject to modest seasonal variations that have been somewhat offset by our regional diversity. We typically generate more revenue and operating income in the second and third quarters than in the first and fourth quarters. Generally, seasonality is based upon, among other factors, weather conditions, manufacturer incentive programs, model changeovers and consumer buying patterns.

Over the past several years, certain automobile manufacturers have used a combination of vehicle pricing and financing incentive programs to stimulate customer demand for new vehicles. These programs have served to increase competition with late-model used vehicles. We anticipate 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 order to increase the percentage of used vehicle inventory that can be sold at lower price points, thereby reducing competition with our new vehicle sales. In addition, we expect to 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.

We expect the industry-wide gain in market share of the luxury and mid-line import brands to continue in the near future. We feel that our brand mix, which is heavily weighted toward these brands, is well positioned to take advantage of this continued shift in customer buying habits.

Interest rates over the past several years have been at historical 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 5.5% over 60 months increases by only \$5.80 with each 50-basis-point increase in interest rates.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2004, Compared to Three Months Ended September 30, 2003

Net income decreased \$4.1 million, or \$0.13 per diluted share, to \$12.1 million, or \$0.37 per diluted share, for the three months ended September 30, 2004, from \$16.2 million, or \$0.50 per diluted share, for the three months ended September 30, 2003.

Income from continuing operations decreased \$3.7 million, or \$0.11 per diluted share, to \$13.0 million, or \$0.40 per diluted share, for the three months ended September 30, 2004, from \$16.7 million, or \$0.51 per diluted share, for the three months ended September 30, 2003.

The decrease in net income and income from continuing operations for the three months ended September 30, 2004, compared to the three months ended September 30, 2003, resulted from several factors, including: (i) the impact of four major hurricanes on our Florida operations, which resulted in damage to several of our facilities and to our inventory, caused business interruptions at many of our dealerships for extended periods of time; and, to a lesser extent, the storms caused general disruption of our operations in Georgia, North Carolina and Mississippi, (ii) a decline in used retail unit volumes as the manufacturer incentives on new vehicles continue to have an adverse impact on the used vehicle market, (iii) lower gross profit levels on new vehicles and incremental advertising costs incurred in an effort to maintain new vehicle sales volumes and (iv) "start-up" costs associated with opening new dealership locations and our entrance into the Southern California market. These factors were partially offset by (i) the results of franchises we acquired subsequent to June 30, 2003, (ii) the sale of non-profitable dealerships and (iii) the continued strong performance of our fixed operations and F&I.

Revenues-

<i>(Dollars in thousands)</i>	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2004	2003		
New vehicle data:				
Retail revenues-same store (1)	\$ 763,799	\$ 754,866	\$ 8,933	1%
Retail revenues-acquisitions	81,315	-		
Total new retail revenues	845,114	754,866	90,248	12%
Fleet revenues-same store (1)	17,378	6,474	10,904	168%
Fleet revenues-acquisitions	371	-		
Total fleet revenues	17,749	6,474	11,275	174%
New vehicle revenue, as reported	<u>\$ 862,863</u>	<u>\$ 761,340</u>	\$ 101,523	13%
New retail units-same store (1)	25,378	25,900	(522)	(2)%
New retail units-actual	<u>28,411</u>	<u>25,900</u>	2,511	10%
Used vehicle data:				
Retail revenues-same store (1)	\$ 223,506	\$ 232,717	\$ (9,211)	(4)%
Retail revenues-acquisitions	22,111	-		
Total used retail revenues	245,617	232,717	12,900	6%
Wholesale revenues-same store (1)	76,023	76,654	(631)	(1)%
Wholesale revenues-acquisitions	8,358	-		
Total wholesale revenues	84,381	76,654	7,727	10%
Used vehicle revenue, as reported	<u>\$ 329,998</u>	<u>\$ 309,371</u>	\$ 20,627	7%
Used retail units-same store (1)	14,379	15,202	(823)	(5)%
Used retail units-actual	<u>15,645</u>	<u>15,202</u>	443	3%
Parts, service and collision repair:				
Revenues-same store (1)	\$ 143,349	\$ 136,385	\$ 6,964	5%
Revenues-acquisitions	14,067	-		
Parts, service and collision repair revenue, as reported	<u>\$ 157,416</u>	<u>\$ 136,385</u>	\$ 21,031	15%

	For the Three Months Ended September 30,			
(Dollars in thousands)	2004	2003	Increase (Decrease)	% Change
Finance and insurance, net:				
Platform revenues-same store (1)	\$ 35,208	\$ 34,623	\$ 585	2%
Platform revenues-acquisitions	3,133	-		
Platform finance and insurance revenue	38,341	34,623	3,718	11%
Corporate revenues	1,408	1,300		
Finance and insurance revenue, as reported	<u>\$ 39,749</u>	<u>\$ 35,923</u>	\$ 3,826	11%
Total revenue:				
Same store (1)	\$1,259,263	\$1,241,719	\$ 17,544	1%
Corporate	1,408	1,300		
Acquisitions	129,355	-		
Total revenue, as reported	<u>\$1,390,026</u>	<u>\$1,243,019</u>	\$ 147,007	12%

(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.

Revenues – Florida Operations (as reported and same store) -

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
(Dollars in thousands)	2004	2003		
New vehicle data:				
New retail revenues	\$ 229,771	\$ 234,401	\$ (4,630)	(2)%
Fleet revenues	9,095	2,787	6,308	226%
New vehicle revenue	<u>238,866</u>	<u>237,188</u>	\$ 1,678	1%
Used vehicle data:				
Used retail revenues	71,084	83,658	\$ (12,574)	(15)%
Wholesale revenues	22,505	22,910	(405)	(2)%
Used vehicle revenue	<u>93,589</u>	<u>106,568</u>	\$ (12,979)	(12)%
Parts, service and collision repair revenue	38,172	36,201	\$ 1,971	5%
Finance and insurance revenue	<u>11,844</u>	<u>12,622</u>	\$ (778)	(6)%
Total revenue – Florida operations	<u>\$ 382,471</u>	<u>\$ 392,579</u>	\$ (10,108)	(3)%
New retail units	<u>8,196</u>	<u>8,580</u>	(384)	(4)%
Used retail units	<u>5,030</u>	<u>6,030</u>	(1,000)	(17)%

Total revenues increased 12% to \$1.4 billion for the three months ended September 30, 2004, from \$1.2 billion for the three months ended September 30, 2003. Same store revenues were up 1% to \$1.3 billion for the three months ended September 30, 2004, compared to the three months ended September 30, 2003. Revenues at our Florida dealerships were down \$10.1 million, or 3% on a same store basis, primarily as a result of the hurricanes in the third quarter of 2004. Same store new retail units were down 522 units as compared to the third quarter of 2003, with the majority of the decrease, 384 units, coming from our Florida operations; however, same store new vehicle retail revenues were up 1% reflecting a shift in our sales mix toward luxury and mid-line import sales. Same store used vehicle retail revenue decreased 4% to \$223.5 million for the three months ended September 30, 2004, from \$232.7 million for the three months ended September 30, 2003, as manufacturer incentive programs on new vehicles continue to negatively impact our used retail unit sales volume and sales revenue per used vehicle retailed. Same store used retail units were down 823 units for the three months ended September 30, 2004, as compared to the prior year quarter, with our Florida operations down 1,000 units. We anticipate that manufacturer incentives on new vehicles will continue to drive customers toward new vehicles during the remainder of 2004. We expect that this environment will continue to have a negative impact on the used vehicle retail market.

Fixed operations revenue increased 15%, 5% on a same store basis, for the three months ended September 30, 2004, compared to the three months ended September 30, 2003, primarily due to an increase in our “customer pay” and warranty parts and service

businesses, collectively up approximately 9% on a same store basis. The growth in our "customer pay" business is a result of our continued service adviser training, expansion of our product offerings and 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 than domestic brands. We expect existing manufacturer recalls will continue through the end of 2004. These improvements were offset by reduction in our collision repair center business, which decreased 9% for the three months ended September 30, 2004, compared to the three months ended September 30, 2003. The decrease in our collision repair center business is primarily attributable to the Texas region, where a major hailstorm in the second quarter of 2003 resulted in incremental collision repair revenues in the third quarter of 2003.

Platform F&I increased \$0.6 million to \$35.2 million on a same store basis for the three months ended September 30, 2004, compared to the three months ended September 30, 2003, despite a \$0.8 million decrease in F&I revenues from our Florida operations. This increase is attributable to additional product offerings, the utilization of menus in the F&I sales process, the maturation of our corporate-sponsored programs and the sharing of best practices among our platforms. Also contributing to our same store Platform F&I results is the 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. Platform F&I excludes revenue resulting from contracts negotiated by our corporate office, which is attributable to retail units sold during prior periods. Total F&I revenue increased 11% to \$39.7 million for the three months ended September 30, 2004, from \$35.9 million for the three months ended September 30, 2003.

We expect total revenue to increase as we continue to acquire dealerships and expand our service capacity in order to meet anticipated future demand. In addition, the relatively high volume of new vehicles sales over the past several years, resulting from the highly "incentivized" new vehicle market, will drive future service demand.

Gross Profit-

	For the Three Months Ended September 30,		Increase	%
	2004	2003	(Decrease)	Change
(Dollars in thousands, except for per vehicle data)				
New vehicle data:				
Retail gross profit-same store (1)	\$ 52,986	\$ 54,734	\$ (1,748)	(3)%
Retail gross profit-acquisitions	6,693	-		
Total new retail gross profit	59,679	54,734	4,945	9%
Fleet gross profit-same store (1)	620	291	329	113%
Fleet gross profit-acquisitions	2	-		
Total fleet gross profit	622	291	331	114%
New vehicle gross profit, as reported	\$ 60,301	\$ 55,025	\$ 5,276	10%
New retail units-same store (1)	25,378	25,900	(522)	(2)%
New retail units-actual	28,411	25,900	2,511	10%
Used vehicle data:				
Retail gross profit-same store (1)	\$ 25,763	\$ 27,992	\$ (2,229)	(8)%
Retail gross profit-acquisitions	2,315	-		
Total used retail gross profit	28,078	27,992	86	-
Wholesale gross profit-same store (1)	(1,064)	(821)	(243)	(30)%
Wholesale gross profit-acquisitions	(252)	-		
Total wholesale gross profit	(1,316)	(821)	(495)	(60)%
Used vehicle gross profit, as reported	\$ 26,762	\$ 27,171	\$ (409)	(2)%
Used retail units-same store (1)	14,379	15,202	(823)	(5)%
Used retail units-actual	15,645	15,202	443	3%
Parts, service and collision repair:				
Gross profit-same store (1)	\$ 74,440	\$ 72,569	\$ 1,871	3%
Gross profit-acquisitions	6,991	-		
Parts, service and collision repair gross profit, as reported	\$ 81,431	\$ 72,569	\$ 8,862	12%

(Dollars in thousands, except for per vehicle data)

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2004	2003		
Finance and insurance, net:				
Platform gross profit-same store (1)	\$ 35,208	\$ 34,623	\$ 585	2%
Platform gross profit-acquisitions	3,133	-		
Platform finance and insurance gross profit (2)	38,341	34,623	3,718	11%
Gross profit-corporate	1,408	1,300		
Finance and insurance gross profit, as reported	<u>\$ 39,749</u>	<u>\$ 35,923</u>	\$ 3,826	11%
Platform gross profit PVR-same store (1)	\$ 886	\$ 842	\$ 44	5%
Platform gross profit PVR-actual (2)	\$ 870	\$ 842	\$ 28	3%
Gross profit PVR-actual	\$ 902	\$ 874	\$ 28	3%
Total gross profit:				
Same store (1)	\$ 187,953	\$ 189,388	\$ (1,435)	(1)%
Corporate	1,408	1,300		
Acquisitions	18,882	-		
Total gross profit, as reported	<u>\$ 208,243</u>	<u>\$ 190,688</u>	\$ 17,555	9%

- (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 – Florida Operations (as reported and same store) -

(Dollars in thousands, except for per vehicle data))

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2004	2003		
New vehicle data:				
New retail gross profit	\$ 16,464	\$ 17,807	\$ (1,343)	(8)%
Fleet gross profit	431	332	99	30%
New vehicle gross profit	16,895	18,139	\$ (1,244)	(7)%
Used vehicle data:				
Total used retail gross profit	9,714	10,895	\$ (1,181)	(11)%
Total wholesale gross profit	(652)	(210)	(442)	(210)%
Used vehicle gross profit	9,062	10,685	\$ (1,623)	(15)%
Parts, service and collision repair gross profit	21,409	21,574	\$ (165)	(1)%
Finance and insurance gross profit	11,844	12,622	\$ (778)	(6)%
Total gross profit – Florida operations	<u>\$ 59,210</u>	<u>\$ 63,020</u>	\$ (3,810)	(6)%
New retail units	8,196	8,580	(384)	(4)%
Used retail units	5,030	6,030	(1,000)	(17)%
Platform gross profit PVR	\$ 896	\$ 864	\$ 32	4%
Gross profit PVR	\$ 896	\$ 864	\$ 32	4%

Gross profit increased 9% to \$208.2 million for the three months ended September 30, 2004, from \$190.7 million for the three months ended September 30, 2003. Same store gross profit decreased \$1.4 million to \$188.0 million for the three months ended September 30, 2004, from \$189.4 million for the three months ended September 30, 2003, with our Florida operations down \$3.8 million.

Same store gross profit on new retail vehicle sales decreased \$1.7 million for the three months ended September 30, 2004 to \$53.0 million, compared to the three months ended September 30, 2003, with the majority of the decrease, \$1.3 million, coming from our

Florida operations. Excluding our Florida operations, same store gross profit increased 2% for the three months ended September 30, 2004, compared to the prior year period. The remaining deterioration in gross profit on new retail vehicle same store sales was primarily due to general market conditions, which forced us to reduce our gross profit PVR in order to maintain unit sales volumes.

Same store gross profit on used vehicle retail sales decreased \$2.2 million to \$25.8 million for the three months ended September 30, 2004, from \$28.0 million for the three months ended September 30, 2003. Approximately \$1.2 million of this decrease was attributable to our Florida operations. Same store gross profit decreased as the highly competitive used vehicle market and manufacturer incentives on new vehicles, which encouraged many customers who otherwise would have purchased used vehicles to purchase new vehicles instead, continued to negatively impact used vehicle unit sales volumes.

Same store gross profit from fixed operations increased 3% to \$74.4 million for the three months ended September 30, 2004, from \$72.6 million for the three months ended September 30, 2003, despite a \$0.2 million decrease from our Florida operations. The increases in fixed operations gross profit resulted primarily from increased "customer pay" and warranty work in both parts and service.

Selling, General and Administrative Expenses-

SG&A expenses increased \$24.3 million to \$168.8 million for the three months ended September 30, 2004, from \$144.5 million for the three months ended September 30, 2003. SG&A expenses as a percentage of gross profit for the three months ended September 30, 2004, increased to 81.1%, from 75.8% for the three months ended September 30, 2003.

Contributing to the increase in SG&A expenses as percentage of gross profit was (i) the performance of our Florida operations as a result of the severe weather during the quarter, (ii) additional rent expense resulting from the sale-leaseback transaction completed in the third quarter of 2004 and (iii) "start-up" operations. SG&A expense as a percentage of gross profit of our Florida operations increased to 79.2% for the third quarter of 2004 from 69.8% for the same period in 2003. Additional rent resulting from a sale-leaseback transaction completed during the quarter accounted for 2.0% of the increase. In addition, SG&A expenses continued to increase as percentage of gross profit during the quarter as compared to last year as a result of our entrance into the Southern California market and our new Honda location in North Dallas. These four locations incurred \$7.5 million of SG&A expenses during the quarter while only contributing \$6.3 million of gross profit. In addition, advertising expense continued to rise as a percentage of gross profit as we continued an aggressive advertising strategy aimed at maintaining our vehicle market share.

We expect SG&A expenses to increase in the future as we incur incremental rent costs resulting from operating leases associated with the sale-leaseback transaction with an unaffiliated third party that we completed in July 2004. We estimate that the annualized rent expense associated with these leases will be approximately \$9.2 million.

Depreciation and Amortization-

Depreciation and amortization expense was flat at \$5.0 million for the three months ended September 30, 2004, as compared to the three months ended September 30, 2003; as increased depreciation and amortization from property and equipment additions were offset primarily by reductions in property and equipment sold in sale-leaseback transactions completed in the third quarter of 2004.

We expect depreciation and amortization expense to increase slightly in the future due to ongoing capital improvement projects and dealership acquisitions.

Other Income (Expense)-

Floor plan interest expense increased \$1.2 million to \$5.4 million for the three months ended September 30, 2004, from \$4.2 million for the three months ended September 30, 2003. This increase was attributable to higher average floor plan notes payable levels during the third quarter of 2004, compared to the third quarter of 2003, resulting primarily from the additional inventory of acquired franchises, which was off-set by our decision to use the proceeds from a sale-leaseback transaction in July 2004 to repay a portion of our floor plan notes payable. In addition, interest rates on our floor plan notes payable were higher in the third quarter of 2004 as compared to 2003.

Other interest expense decreased \$1.4 million to \$8.7 million for the three months ended September 30, 2004, from \$10.1 million for the three months ended September 30, 2003. The decrease was principally attributable to the repayment of \$63.7 million of our mortgage indebtedness with the proceeds from a sale-leaseback transaction in July 2004 and the effect of capitalized interest on a higher level of construction in progress in the third quarter of 2004 as compared to 2003. Other interest expense is dependent upon increases or decreases in the interest rates on our variable debt and the use of our committed credit facility to finance future acquisitions. However, we expect that other interest expense will remain relatively consistent for the near future, as we anticipate our next several acquisitions will be funded with our available cash.

Income Tax Provision-

Income tax expense decreased \$2.4 million to \$7.8 million for the three months ended September 30, 2004, from \$10.2 million for the three months ended September 30, 2003, due, in part, to a \$6.2 million decrease in income from continuing operations before taxes for the three months ended September 30, 2004, compared to the three months ended September 30, 2003. In addition, our effective tax rate was 37.5% for the three months ended September 30, 2004, compared to 37.9% for the three months ended September 30, 2003. We reduced our effective tax rate in the second half of 2003, which resulted in an effective tax rate of 38.0% for the year ended December 31, 2003, after adjusting for a goodwill impairment charge at our Oregon platform and the related tax benefit. As we operate 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 between 37.0% and 37.5% for the year ending December 31, 2004.

Discontinued Operations-

During the three months ended September 30, 2004, we sold five dealership locations (six franchises), and as of September 30, 2004, we were actively pursuing the sale of four dealership locations (six franchises) and real estate associated with three former dealership locations. The \$0.9 million loss from discontinued operations is attributable to the loss on sale of dealerships sold during the quarter and the operating losses of the franchises mentioned above. The loss from discontinued operations for the three months ended September 30, 2003, of \$0.5 million included the results of operations of the dealerships mentioned above; one dealership location (two franchises) that was sold during the first six months of 2004; three dealership locations (four franchises), eleven used-only dealership locations and two ancillary businesses that were sold during 2003; and the net loss on the sale of businesses during the three months ended September 30, 2003.

Nine Months Ended September 30, 2004, Compared to Nine Months Ended September 30, 2003

Net income increased \$1.6 million, or \$.05 per diluted share, to \$37.2 million, or \$1.14 per diluted share, for the nine months ended September 30, 2004, from \$35.6 million, or \$1.09 per diluted share, for the nine months ended September 30, 2003.

Income from continuing operations increased \$0.4 million, or \$0.01 per diluted share, to \$38.7 million, or \$1.18 per diluted share, for the nine months ended September 30, 2004, from \$38.3 million, or \$1.17 per diluted share, for the nine months ended September 30, 2003.

The increases in net income and income from continuing operations for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, resulted from several factors, including: (i) the operations of franchises we acquired subsequent to December 31, 2002, (ii) the sale of non-profitable dealerships and (iii) continued strong performance of our fixed operations and F&I; which were offset by (i) the impact of the hurricanes in Florida during the third quarter of 2004, (ii) gross margin pressure on new vehicle sales and decreased used vehicle unit volumes in a challenging retail vehicle market, (iii) increases in SG&A expenses in the second and third quarters including incremental advertising in an effort to increase new vehicle sales volume and (iv) the costs associated with opening new locations and entering new markets.

Revenues-

	For the Nine Months Ended September 30,		Increase (Decrease)	% Change
(Dollars in thousands)	2004	2003		
New vehicle data:				
Retail revenues – same store (1)	\$2,147,385	\$2,079,269	\$ 68,116	3%
Retail revenues – acquisitions	228,389	-		
Total new retail revenues	2,375,774	2,079,269	296,505	14%
Fleet revenues – same store (1)	45,266	34,990	10,276	29%
Fleet revenues – acquisitions	605	-		
Total fleet revenues	45,871	34,990	10,881	31%
New vehicle revenue, as reported	\$2,421,645	\$2,114,259	\$ 307,386	15%
New retail units – same store (1)	71,996	72,327	(331)	-
New retail units – actual	79,979	72,327	7,652	11%

<i>(Dollars in thousands)</i>	For the Nine Months Ended September 30,		Increase (Decrease)	% Change
	2004	2003		
Used vehicle data:				
Retail revenues – same store (1)	\$ 652,780	\$ 682,182	\$ (29,402)	(4)%
Retail revenues – acquisitions	67,882	-		
Total used retail revenues	720,662	682,182	38,480	6%
Wholesale revenues – same store (1)	220,596	205,519	15,077	7%
Wholesale revenues – acquisitions	24,097	-		
Total wholesale revenues	244,693	205,519	39,174	19%
Used vehicle revenue, as reported	\$ 965,355	\$ 887,701	\$ 77,654	9%
Used retail units – same store (1)	42,799	44,470	(1,671)	(4)%
Used retail units – actual	46,534	44,470	2,064	5%
Parts, service and collision repair:				
Revenues – same store (1)	\$ 407,990	\$ 389,012	\$ 18,978	5%
Revenues – acquisitions	42,516	-		
Parts, service and collision repair revenue, as reported	\$ 450,506	\$ 389,012	\$ 61,494	16%
Finance and insurance:				
Platform revenues – same store (1)	\$ 97,801	\$ 94,941	\$ 2,860	3%
Platform revenues – acquisitions	8,212	-		
Platform finance and insurance revenue	106,013	94,941	11,072	12%
Corporate revenues	4,556	1,300		
Finance and insurance revenue, as reported	\$ 110,569	\$ 96,241	\$ 14,328	15%
Total revenue:				
Same store (1)	\$3,571,818	\$3,485,913	\$ 85,905	2%
Corporate	4,556	1,300		
Acquisitions	371,701	-		
Total revenue, as reported	\$3,948,075	\$3,487,213	\$ 460,862	13%

(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 13% to \$3.9 billion for the nine months ended September 30, 2004, from \$3.5 billion for the nine months ended September 30, 2003. Same store revenue grew 2% to \$3.6 billion for the nine months ended September 30, 2004, from \$3.5 billion for the nine months ended September 30, 2003, despite a 3% decrease in revenue from our Florida operations, which resulted primarily from the hurricanes during the third quarter of 2004. Same store new vehicle retail revenue grew \$68.1 million, or 3%, during the first nine months of 2004, compared to the first nine months of 2003, reflecting a shift in our sales mix toward luxury and mid-line import sales. Same store used vehicle retail revenue decreased \$29.4 million, or 4%, to \$652.8 million on 1,671 less units in the first nine months of 2004, compared to the same period of 2003. The majority of our volume loss was in the second quarter of 2004, as we were forced to focus on new vehicle retail sales volumes during a period of declining demand and devoted less effort to our used retail vehicle business.

Fixed operations revenue increased 16%, 5% on a same store basis, for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, as “customer pay” and warranty parts and service businesses, collectively up approximately 8% on a same store basis, were offset by an 8% decrease in our collision repair center business, virtually all in the second and third quarters, especially at our Texas platform. Our warranty business continued its positive performance, driven by continued manufacturer recall programs and increased work on import brands, which typically generate higher revenues than domestic brands. The decrease in our collision repair center business is primarily attributable to the Texas platform, where a major hailstorm in the second quarter of 2003 resulted in incremental collision repair revenues in the second and third quarters of 2003.

Platform F&I increased \$2.9 million to \$97.8 million on a same store basis for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, as we continued to benefit from increased product offerings, the utilization of menus in the F&I sales process, the maturation of our corporate-sponsored programs and the sharing of best practices among our

platforms. Also contributing to our same store Platform F&I results is the improvement of the F&I operations at franchises we acquired in prior periods. Total F&I revenue increased 15% to \$110.6 million for the nine months ended September 30, 2004, compared to \$96.2 million for the nine months ended September 30, 2003.

Gross Profit-

(Dollars in thousands, except for unit and per vehicle data)

	For the Nine Months Ended September 30,		Increase	%
	2004	2003	(Decrease)	Change
New vehicle data:				
Retail gross profit-same store (1)	\$ 152,310	\$ 154,643	\$ (2,333)	(2)%
Retail gross profit-acquisitions	19,228	-		
Total new retail gross profit	171,538	154,643	16,895	11%
Fleet gross profit-same store (1)	1,624	865	759	88%
Fleet gross profit-acquisitions	3	-		
Total fleet gross profit	1,627	865	762	88%
New vehicle gross profit, as reported	<u>\$ 173,165</u>	<u>\$ 155,508</u>	<u>\$ 17,657</u>	<u>11%</u>
New retail units-same store (1)	71,996	72,327	(331)	-
New retail units-actual	<u>79,979</u>	<u>72,327</u>	<u>7,652</u>	<u>11%</u>
Used vehicle data:				
Retail gross profit-same store (1)	\$ 77,987	\$ 81,670	\$ (3,683)	(5)%
Retail gross profit-acquisitions	7,255	-		
Total used retail gross profit	85,242	81,670	3,572	4%
Wholesale gross profit-same store (1)	(2,250)	(679)	(1,571)	(231)%
Wholesale gross profit-acquisitions	(330)	-		
Total wholesale gross profit	(2,580)	(679)	(1,901)	(280)%
Used vehicle gross profit, as reported	<u>\$ 82,662</u>	<u>\$ 80,991</u>	<u>\$ 1,671</u>	<u>2%</u>
Used retail units-same store (1)	42,799	44,470	(1,671)	(4)%
Used retail units-actual	<u>46,534</u>	<u>44,470</u>	<u>2,064</u>	<u>5%</u>
Parts, service and collision repair:				
Gross profit-same store (1)	\$ 214,413	\$ 207,208	\$ 7,205	3%
Gross profit-acquisitions	21,203	-		
Parts, service and collision repair gross profit, as reported	<u>\$ 235,616</u>	<u>\$ 207,208</u>	<u>\$ 28,408</u>	<u>14%</u>
Finance and insurance, net:				
Platform gross profit-same store (1)	\$ 97,801	\$ 94,941	\$ 2,860	3%
Platform gross profit-acquisitions	8,212	-		
Platform finance and insurance gross profit (2)	106,013	94,941	11,072	12%
Gross profit-corporate	4,556	1,300		
Finance and insurance gross profit, as reported	<u>\$ 110,569</u>	<u>\$ 96,241</u>	<u>\$ 14,328</u>	<u>15%</u>
Platform gross profit PVR-same store (1)	\$ 852	\$ 813	\$ 39	5%
Platform gross profit PVR-actual (2)	\$ 838	\$ 813	\$ 25	3%
Gross profit PVR-actual	\$ 874	\$ 824	\$ 50	6%
Total gross profit:				
Same store (1)	\$ 541,885	\$ 538,648	\$ 3,237	1%
Corporate	4,556	1,300		
Acquisitions	55,571	-		
Total gross profit, as reported	<u>\$ 602,012</u>	<u>\$ 539,948</u>	<u>\$ 62,064</u>	<u>11%</u>

-
- (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 11% to \$602.0 million for the nine months ended September 30, 2004, from \$539.9 million for the nine months ended September 30, 2003. Same store gross profit increased 1% to \$541.9 million for the nine months ended September 30, 2004, from \$538.6 million for the nine months ended September 30, 2003.

Same store gross profit on new retail vehicle sales decreased 2% for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, driven primarily by a 6% decrease in same store gross profit from our Florida operations during the third quarter of 2004 compared to the same period of the prior year. In addition, the general market conditions, particularly in the second and third quarters of 2004, forced us to reduce our gross profit PVR in order to maintain unit sales volumes.

Same store gross profit on used vehicle retail sales decreased 5% to \$78.0 million for the nine months ended September 30, 2004, from \$81.7 million for the nine months ended September 30, 2003, as the used vehicle market continued to be affected by the use of new vehicle incentives by manufacturers, encouraging many customers who otherwise would have purchased used vehicles to purchase new vehicles instead.

Same store gross profit from fixed operations increased 3% to \$214.4 million for the nine months ended September 30, 2004, from \$207.2 million for the nine months ended September 30, 2003, resulting primarily from increased “customer pay” and warranty work in both parts and service.

Selling, General and Administrative Expenses-

For the nine months ended September 30, 2004, SG&A expenses increased \$61.7 million to \$481.3 million, from \$419.6 million for the nine months ended September 30, 2003. SG&A expenses as a percentage of gross profit for the nine months ended September 30, 2004 increased to 80.0%, from 77.7% for the nine months ended September 30, 2003.

SG&A expenses as a percentage of gross profit increased, in particular in the third quarter of 2004, as the result of (i) the hurricanes in Florida, (ii) the impact of a new store opening in Texas and our entrance into the Southern California market, (iii) increased rent resulting from a sale-leaseback transaction completed in July 2004 and (iv) increased advertising expense in the second and third quarters in an effort to maintain retail unit volumes.

Depreciation and Amortization-

Depreciation and amortization expense increased \$0.8 million to \$15.4 million for the nine months ended September 30, 2004, from \$14.6 million for the nine months ended September 30, 2003. This increase is primarily related to the addition of property and equipment acquired during 2003 and 2004, offset by a reduction in property and equipment sold in sale-leaseback transactions completed during 2003 and 2004.

Other Income (Expense)-

Floor plan interest expense increased \$2.3 million to \$15.2 million for the nine months ended September 30, 2004, from \$12.9 million for the nine months ended September 30, 2003. This increase was attributable to higher average new vehicle inventory levels during the first nine months of 2004, compared to the same period in 2003, resulting primarily from the additional inventory of acquired franchises, and higher average interest rates on our floor plan note payable. These factors were offset by our decision to use the proceeds from a sale-leaseback transaction to repay a portion of our floor plan notes payable.

Other interest expense decreased \$0.8 million to \$29.2 million for the nine months ended September 30, 2004, as compared to the nine months ended September 30, 2003. The decrease was attributable to the \$63.7 million repayment of mortgage debt in connection with a sale-leaseback transaction in July 2004 and the effect of capitalized interest on a higher level of construction in progress during the 2004 period, compared to the 2003 period. These factors were offset by a higher average debt balance during the nine months ended September 30, 2004, compared to the prior year period.

Income Tax Provision-

Income tax expense decreased \$1.6 million to \$22.9 million for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, due, in part, to the \$1.3 million decrease in income from continuing operations before taxes for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003. In addition, our effective tax rate for the nine months ended September 30, 2004, was 37.2% compared to 39.0% for the nine months ended September 30, 2003. During the second quarter of 2004, we received a state tax benefit of \$0.2 million, which had the effect of reducing our effective tax rate for the nine months ended September 30, 2004, from 37.5% to 37.2%.

Discontinued Operations-

During the nine months ended September 30, 2004, we sold six dealership locations (eight franchises), and as of September 30, 2004, we were actively pursuing the sale of four dealership locations (six franchises) and real estate associated with three former dealership locations. The \$1.4 million loss from discontinued operations is attributable to the loss on sale of dealerships sold during the nine months ended September 30, 2004 and the operating losses of the franchises mentioned above. The loss from discontinued operations for the nine months ended September 30, 2003, of \$2.7 million includes the net operating losses of the dealerships mentioned above and five dealership locations (six franchises), eleven used-only dealership locations and two ancillary businesses that were sold during 2003, offset by the net gain on the sale of businesses during the nine months ended September 30, 2003.

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 September 30, 2004, our funds generated through future operations and the funds available for borrowings under our committed credit facility, floor plan financing agreements, mortgage notes 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 September 30, 2004, we had cash and cash equivalents of \$18.3 million and working capital of \$274.1 million. In addition, we had \$100.0 million available for borrowings under our committed credit facility for acquisition financing, of which we are permitted to borrow \$75.0 million for general corporate purposes. During the third quarter of 2004, we received net proceeds of approximately \$114.9 million from the sale of land and buildings in a sale-leaseback transaction, of which we used \$63.7 million to repay the related mortgage indebtedness.

Floor Plan Financing-

We finance substantially our entire new vehicle inventory and a portion of our used vehicle inventory under floor plan financing agreements. The floor plan financing agreements provide used vehicle financing up to a fixed percentage of the value of each financed used vehicle. As of September 30, 2004, availability under the floor plan financing agreements with the Ford Motor Credit Company, DaimlerChrysler Financial Services North America, L.L.C and General Motors Acceptance Corporation totaled \$695.0 million. In addition, we had total availability of \$32.2 million as of September 30, 2004, under ancillary floor plan financing agreements with Comerica Bank and Navistar Financial for the heavy trucks business operated by our Atlanta platform. As of September 30, 2004, we had \$557.2 million outstanding under all our floor plan financing agreements.

Acquisitions and Acquisition Financing-

During the nine months ended September 30, 2004, we acquired six automotive dealership locations (six franchises) for an aggregate purchase price of \$74.2 million, of which \$71.6 million was paid in cash through the use of available funds, with the remaining \$2.6 million representing the fair value of future payments associated with our acquisitions.

We plan to use our available cash, borrowings under our committed credit facility or proceeds from future sale-leaseback transactions to finance future acquisitions.

Pending Acquisitions and Divestitures-

As of September 30, 2004, we had executed contracts to acquire three dealership locations (three franchises) representing combined annual revenues of approximately \$135.0 million for approximately \$36.0 million.

As of September 30, 2004, we were actively pursuing the divestiture of four dealership locations (six franchises) and real estate associated with three former dealership locations. During the fourth quarter of 2004, we sold one dealership location (one franchise) for

net proceeds of \$1.7 million resulting in a gain of approximately \$0.9 million. This gain is net of estimated costs to complete these transactions, which may be adjusted in future periods as additional information becomes available.

Sale-Leaseback Transactions

During the third quarter of 2004, we executed a sale-leaseback transaction, pursuant to which, among other things, we sold certain land and buildings with a net book value of \$102.5 million to a third party for \$116.0 million and entered into long-term operating leases for these facilities. The gain on the transaction of \$12.4 million, which is net of estimated deal costs, is being amortized as a component of SG&A expenses over the lease terms. We used \$63.7 million of the proceeds from this transaction to repay the related mortgage indebtedness.

Debt Covenants-

We are subject to certain financial covenants in connection with our debt and lease agreements, including the financial covenants described below. Our 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 1.4 to 1 as of September 30, 2004; (ii) a fixed charge coverage ratio of at least 1.2 to 1, of which our ratio was approximately 1.3 to 1 as of September 30, 2004 and (iii) a leverage ratio of not more than 4.4 to 1, of which our ratio was approximately 0.4 to 1 as of September 30, 2004. A breach of these covenants could cause an acceleration of repayment and termination of the facility by the Lenders. 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 1.4 to 1 as of September 30, 2004 and (ii) an EBITDA based coverage ratio of at least 1.5 to 1, of which our ratio was approximately 2.5 to 1 as of September 30, 2004. 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 September 30, 2004, we were in compliance with all our debt and lease agreement covenants.

Cash Flows for the Nine Months Ended September 30, 2004 Compared to the Nine Months Ended September 30, 2003

Operating Activities-

Net cash used in operating activities totaled \$26.2 million and net cash provided by operating activities totaled \$54.5 million for the nine months ended September 30, 2004, and 2003, respectively. Cash flow from operating activities 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 decrease in cash provided by operating activities for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, was primarily attributable to differences in the timing of inventory purchases and obtaining the related floor plan financing and our decision to use a portion of the cash proceeds from a sale-leaseback transaction in July 2004 to repay floor plan notes payable. These timing differences and the repayment of our floor plan note payable during the third quarter of 2004 resulted in net cash outflow of \$66.5 million during the nine months ended September 30, 2004 and net cash inflow of \$10.5 million for the nine months ended September 30, 2003.

Investing Activities-

Net cash used in investing activities totaled \$123.3 million and \$103.1 million for the nine months ended September 30, 2004 and 2003, respectively. Cash used in investing activities relate primarily to capital expenditures and acquisitions.

Capital expenditures totaled \$56.6 million and \$37.6 million for the nine months ended September 30, 2004 and 2003, respectively. We finance a substantial portion of our capital expenditures through sale-leaseback transactions. We received \$10.1 million and \$4.1 million in advances from unaffiliated third party lessors under certain of our sale-leaseback agreements during the nine months ended September 30, 2004 and 2003, respectively, which is included in investing activities on our Consolidated Statements of Cash Flows. In addition, under certain of our sale-leaseback agreements, we are constructing facilities on property owned by an unaffiliated third party lessor, and will sell the facilities to the lessor upon completion of the construction. As of September 30, 2004, we had invested \$2.6 million in the construction of these facilities that is included in Assets Held for Sale on our Consolidated Balance Sheets, which the lessor has committed to purchase. Capital expenditures are related to manufacturer-required improvements of our existing dealerships, upgrades of existing facilities and construction of new facilities. Future capital expenditures will be primarily related to operational improvements to maintain our current operations or to provide us with acceptable rates of return on investments and manufacturer-required spending to upgrade existing dealership facilities. We expect that capital expenditures will total between \$70.0 million and \$75.0 million for 2004.

Cash used to acquire dealerships totaled \$71.6 million for the nine months ended September 30, 2004, compared to \$72.4 million for the nine months ended September 30, 2003. During the nine months ended September 30, 2004, we paid for the acquisition of six dealership locations (six franchises) in cash using available funds. During the nine months ended September 30, 2003, we funded the acquisition of five dealerships (ten franchises) and one ancillary business, of which \$0.3 million was paid in cash and \$72.1 million was funded through borrowings under our committed credit facility.

Financing Activities-

Cash provided by financing activities totaled \$61.1 million and \$74.7 million for the nine months ended September 30, 2004, and 2003, respectively. Cash flow from financing activities consisted primarily of proceeds from mortgage notes payable, loaner vehicle financing and sale-leaseback transactions. Cash flow used in financing activity consisted of payments under our committed credit facility and mortgages associated with our real estate, proceeds from sale-leaseback activity and, during 2003, purchases of treasury stock and distributions to our former members.

During the nine months ended September 30, 2004, our borrowings of \$46.4 million and repayments of debt of \$108.7 million related primarily to mortgages associated with our real estate. During the nine months ended September 30, 2003, our borrowings of \$115.4 million related primarily to borrowings under our committed credit facility for acquisitions and mortgages associated with our real estate, and our repayments of debt of \$59.4 million related primarily to mortgages.

During the nine months ended September 30, 2004, we received \$121.8 million of proceeds from lessors in connection with sale-leaseback activity. In July 2004, we sold land and buildings under a sale-leaseback transaction for net proceeds of approximately \$114.9 million (net of \$1.1 million in transactions fees), of which we received cash of approximately \$111.7 million during the third quarter of 2004. We expect to receive the additional \$3.2 million upon satisfaction of the terms of the agreement in the fourth quarter of 2004. The remaining proceeds from sale-leaseback transactions relate to advances from lessors for facility construction and improvement projects at our dealership locations. During the nine months ended September 30, 2003, we received proceeds of \$31.2 million from the sale of assets under sale-leaseback transactions and advances from lessors in connection with future sale-leaseback transactions. The advances from lessors under our sale-leaseback transactions during 2003 related primarily to facility construction and improvement projects at our dealership locations.

During the nine months ended September 30, 2003, we paid \$9.7 million to repurchase shares of our common stock. We have no immediate plans to repurchase additional shares of our common stock.

We distributed \$3.0 million to our former members (current shareholders) during the 2003 period to cover their income tax liabilities. This distribution represented our final limited liability company distribution to our former members.

Off-Balance Sheet Transactions

We had no 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. We have disclosed all significant accounting policies in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003. We have identified the following policies, which were discussed with the Audit Committee of our Board of Directors, as critical to understanding our results of operations.

Inventories-

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 that have a cost basis in excess of fair value. These reserves were \$5.9 million and \$4.6 million as of September 30, 2004 and December 31, 2003, respectively. In assessing lower of cost or market for new vehicles, we primarily consider the aging of vehicles 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 history, current aging of the inventory and current market conditions.

Notes Receivable-Finance Contracts-

As of September 30, 2004 and December 31, 2003, we had outstanding notes receivable from finance contracts of \$32.2 million and \$33.1 million, respectively (net of an allowance for credit losses of \$6.0 million and \$4.7 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 consider the value of the underlying collateral in our assessment of the reserve.

Chargeback Reserve-

We receive commissions from the sale of various insurance and vehicle service contracts to customers and through the arrangement of vehicle financing for customers. We may be charged back ("chargeback") for such commissions in the event of early termination of the contracts by customers. The revenues from financing fees and commissions are recorded at the time of the sale of the vehicles and a reserve for future chargebacks is established at that time. The reserve considers our historical chargeback experience, including timing, as well as national industry trends. This data is evaluated on a product-by-product basis. These reserves totaled \$10.8 million and \$11.8 million as of September 30, 2004 and December 31, 2003, respectively.

Goodwill and Other Intangible Assets-

Our intangible assets relate primarily to goodwill and manufacturer franchise rights associated with acquisitions of dealerships, which we account for under the purchase method of accounting as required by SFAS No. 141, "Business Combinations." In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we do not amortize goodwill and other intangible assets, which are deemed to have indefinite lives, but test the value of 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 franchise rights are allocated to each reporting unit at the platform and franchise 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 manufacturer franchise right. 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 on January 1, 2002, we determined that each of our platforms qualified as a reporting unit as we operated in one segment, and 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. We are continuously adapting our operating structure and searching for ways to standardize policies, share best practices and centralize administrative functions. In the future, if we determine that our platforms no longer meet the requirements of a reporting unit, we will reevaluate the reporting units with respect to the changes in our reporting structure.

We review the value of platform goodwill and manufacturer franchise rights for impairment during the fourth quarter of each year. The first step of the impairment test identifies potential impairments by comparing the estimated fair value of each reporting unit with its corresponding net book value, including goodwill. If the net book value of a reporting unit exceeds its fair value, the second step of the impairment test determines the potential impairment loss by comparing the estimated fair value of goodwill with its carrying amount. If the estimated fair value of goodwill is less than the carrying amount, the carrying value of goodwill is adjusted to reflect its estimated fair value.

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 3-15 years and are tested for impairment when circumstances indicate that the carrying value of the asset might be impaired.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

Platform Finance and Insurance Gross Profit PVR-

We evaluate our finance and insurance gross profit performance on a 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 and nine months ended September 30, 2004, that was attributable to retail vehicles sold during prior periods. We believe that platform finance and 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:

	For the Three	For the Nine
	Months Ended	Months Ended
	September 30, 2004	September 30, 2004
<i>(In thousands, except for unit and per vehicle data)</i>		
Finance and insurance gross profit, net (as reported)	\$ 39,749	\$ 110,569
Less: Corporate finance and insurance gross profit	(1,408)	(4,556)
Platform finance and insurance gross profit	<u>\$ 38,341</u>	<u>\$ 106,013</u>
Platform finance and insurance gross profit PVR	<u>\$ 870</u>	<u>\$ 838</u>
Retail units sold:		
New retail units	28,411	79,979
Used retail units	15,645	46,534
Total	<u>44,056</u>	<u>126,513</u>

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 \$263.0 million of variable rate long-term debt (including the current portion) outstanding at September 30, 2004, a 1% change in interest rates would result in a change of approximately \$2.6 million to our annual other interest expense. Based on floor plan amounts outstanding at September 30, 2004, a 1% change in the interest rates would result in a change of approximately \$5.6 million to annual floor plan interest expense.

We receive interest credit assistance from certain automobile manufacturers, which is accounted for as a reduction in the cost of Inventories on the accompanying Consolidated Balance Sheet and recognized as a reduction to cost of sales upon the sale of the related inventory. For the nine months ended September 30, 2004, we recognized \$18.9 million as a reduction to cost of sales associated with interest credit assistance. 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 use interest rate swaps to manage our capital structure. In December 2003, we entered into two forward interest rate swaps with a combined notional principal amount of \$200.0 million, which will 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. During the second quarter of 2004, we reduced the notional principal amount of these swap agreements to \$170.0 million. This transaction resulted in a gain of \$0.4 million, which is included in Other Liabilities on the accompanying Consolidated Balance Sheets and will be amortized on a straight-line basis as an offset to interest expense over the swap period, beginning in March 2006. The swap agreements were designated and qualify as interest rate hedges of future changes in interest rates of our variable rate floor plan indebtedness and we expect that these hedges, which may contain minor ineffectiveness, will be highly effective during the swap period from March 2006 through February 2014. As of September 30, 2004, the swap agreements had a fair value of \$6.2 million, which is included in Other Liabilities on the accompanying Consolidated Balance Sheets.

During December 2003, 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 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 fixed rate senior subordinated debt and does not contain any ineffectiveness. As of September 30, 2004, the swap had a fair value of \$1.9 million, which is included in Other Liabilities on the accompanying Consolidated Balance Sheets.

Item 4. Controls and Procedures

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-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the Exchange Act) were effective as of September 30, 2004, and (ii) no change in internal control over financial reporting occurred during the quarter ended September 30, 2004, that has materially affected, or is reasonably likely to materially affect, such 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,
- 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.

Item 6. Exhibits

a. Exhibits

- 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

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 8, 2004

By: /s/ KENNETH B. GILMAN

Name: Kenneth B. Gilman

Title: Chief Executive Officer and President

Date: November 8, 2004

By: /s/ J. GORDON SMITH

Name: J. Gordon Smith

Title: Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	Description of Documents
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