ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
November 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**01-0609375**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
622 Third Avenue, 37th Floor **New York, New York**	**10017**
(Address of principal executive offices)	(Zip Code)

(212) 885-2500

(Registrant s telephone number, including area code)

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

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of November 3, 2006, was 33,442,119 (net of 1,537,576 treasury shares).

ASBURY AUTOMOTIVE GROUP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	September 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 133,475	$ 57,194
Contracts-in-transit	95,222	122,250
Accounts receivable (net of allowance of $690 and $1,216, respectively)	152,039	167,203
Inventories	715,458	709,791
Deferred income taxes	19,825	19,825
Prepaid and other current assets	59,698	57,419
Assets held for sale	12,451	51,498
Total current assets	1,188,168	1,185,180
PROPERTY AND EQUIPMENT, net	201,053	193,457
GOODWILL	449,785	457,405
OTHER LONG-TERM ASSETS	91,741	94,758
Total assets	$ 1,930,747	$ 1,930,800
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable manufacturer affiliated	$ 293,928	$ 204,044
Floor plan notes payable non-manufacturer affiliated	319,446	410,338
Current maturities of long-term debt	26,263	24,522
Accounts payable	64,610	72,432
Accrued liabilities	93,756	100,043
Liabilities associated with assets held for sale		26,847
Total current liabilities	798,003	838,226
LONG-TERM DEBT	456,283	472,427
DEFERRED INCOME TAXES	44,055	44,287
OTHER LONG-TERM LIABILITIES	30,090	28,094
COMMITMENTS AND CONTINGENCIES (Note 14)		
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, 34,921,981 and 34,435,252 shares issued, including shares held in treasury, respectively	349	344
Additional paid-in capital	427,535	417,055
Retained earnings	191,073	148,986
Treasury stock, at cost; 1,537,576 and 1,586,587 shares held, respectively	(14,567)	(15,032)
Accumulated other comprehensive loss	(2,074)	(3,587)
Total shareholders equity	602,316	547,766
Total liabilities and shareholders equity	$ 1,930,747	$ 1,930,800

See Notes to Condensed Consolidated Financial Statements.

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

	For the Three Months Ended September 30, 2006	2005	For the Nine Months Ended September 30, 2006	2005
REVENUES:				
New vehicle	$ 913,194	$ 891,491	$ 2,652,347	$ 2,535,068
Used vehicle	394,402	360,029	1,137,069	1,028,901
Parts, service and collision repair	171,652	165,126	513,576	474,798
Finance and insurance, net	41,198	40,133	120,042	114,687
Total revenues	1,520,446	1,456,779	4,423,034	4,153,454
COST OF SALES:				
New vehicle	848,979	830,005	2,466,609	2,360,850
Used vehicle	357,864	327,670	1,032,966	937,903
Parts, service and collision repair	83,843	81,780	253,587	233,421
Total cost of sales	1,290,686	1,239,455	3,753,162	3,532,174
GROSS PROFIT	229,760	217,324	669,872	621,280
OPERATING EXPENSES:				
Selling, general and administrative	174,996	168,395	512,360	486,947
Depreciation and amortization	5,076	4,930	15,164	14,390
Income from operations	49,688	43,999	142,348	119,943
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(10,311)	(6,533)	(30,712)	(20,521)
Other interest expense	(11,225)	(10,314)	(33,268)	(30,183)
Interest income	1,523	163	3,271	598
Loss on extinguishment of long-term debt, net	(914)		(914)	
Other income, net	400	14	1,225	455
Total other expense, net	(20,527)	(16,670)	(60,398)	(49,651)
Income before income taxes	29,161	27,329	81,950	70,292
INCOME TAX EXPENSE	10,935	10,248	30,731	26,359
INCOME FROM CONTINUING OPERATIONS	18,226	17,081	51,219	43,933
DISCONTINUED OPERATIONS, net of tax	(1,047)	(2,128)	(2,483)	(3,354)
NET INCOME	$ 17,179	$ 14,953	$ 48,736	$ 40,579
EARNINGS PER COMMON SHARE:				
Basic				
Continuing operations	$ 0.55	$ 0.52	$ 1.55	$ 1.35
Discontinued operations	(0.03)	(0.06)	(0.08)	(0.11)
Net income	$ 0.52	$ 0.46	$ 1.47	$ 1.24
Diluted				
Continuing operations	$ 0.54	$ 0.52	$ 1.51	$ 1.34
Discontinued operations	(0.03)	(0.07)	(0.07)	(0.10)
Net income	$ 0.51	$ 0.45	$ 1.44	$ 1.24
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	33,258	32,737	33,087	32,644
Diluted	33,841	33,032	33,853	32,847

See Notes to Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended September 30, 2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 48,736	$ 40,579
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	15,164	14,390
Depreciation and amortization from discontinued operations	209	1,405
Share-based compensation	3,258	
Amortization of deferred financing fees	1,759	1,606
Change in allowance for doubtful accounts	(526)	(1,016)
(Gain) loss on sale of discontinued operations, net	(2,076)	416
Deferred income taxes	(1,221)	
Loss on extinguishment of long-term debt, net	914	
Other adjustments	5,403	5,195
Changes in operating assets and liabilities, net of acquisitions and divestitures-		
Contracts-in-transit	27,028	23,399
Accounts receivable	534	(6,438)
Proceeds from the sale of accounts receivable	14,347	12,390
Inventories	11,413	132,676
Prepaid and other current assets	(25,334)	(19,114)
Floor plan notes payable manufacturer affiliated	89,884	(175,442)
Accounts payable and accrued liabilities	(4,800)	2,381
Excess tax benefits from share-based payment arrangements	(1,723)	
Other long-term assets and liabilities	5,392	4,987
Net cash provided by operating activities	188,361	37,414
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures internally financed	(22,814)	(26,598)
Capital expenditures externally financed	(11,871)	(24,355)
Construction reimbursements associated with sale-leaseback agreements	3,383	4,127
Acquisitions		(24,621)
Proceeds from the sale of assets	43,691	12,794
Other investing activities	(1,297)	(707)
Net cash provided by (used in) investing activities	11,092	(59,360)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-manufacturer affiliated	1,838,366	2,454,384
Floor plan repayments non-manufacturer affiliated	(1,946,033)	(2,406,138)
Proceeds from borrowings	987	23,266
Repayments of debt	(17,524)	(49,748)
Payments of debt issuance costs		(4,975)
Net proceeds from share-based payment arrangements	5,958	3,062
Payments of dividends	(6,649)	
Excess tax benefits from share-based payment arrangements	1,723	
Net cash (used in) provided by financing activities	(123,172)	19,851
Net increase (decrease) in cash and cash equivalents	76,281	(2,095)
CASH AND CASH EQUIVALENTS, beginning of period	57,194	28,093
CASH AND CASH EQUIVALENTS, end of period	$ 133,475	$ 25,998

See Note 13 for supplemental cash flow information

See Notes to Condensed Consolidated Financial Statements

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

1. DESCRIPTION OF BUSINESS

Asbury Automotive Group, Inc. is a national automotive retailer, operating 120 franchises (87 dealership locations) in 21 metropolitan markets within 10 states as of September 30, 2006. We offer an extensive range of automotive products and services, including new and used vehicles, vehicle maintenance, replacement parts, collision repair services, and financing, insurance and service contracts. We offer 33 domestic and foreign brands of new vehicles, including four heavy truck brands. We also operate 24 collision repair centers that serve our markets.

Our retail network is currently organized into four regions and includes ten dealership groups, each marketed under different local brands: (i) Florida (comprising our Coggin dealerships, operating primarily in Jacksonville and Orlando, and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas and our Spirit dealership operating in Los Angeles, California), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and Southern Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia, and our North Point dealerships operating in Little Rock, Arkansas). Our Plaza dealerships operating in St. Louis, Missouri, our Gray Daniels dealerships operating in Jackson, Mississippi and our Northern California Dealerships operating in Sacramento and Fresno, remain standalone operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Accordingly, actual results could differ from these estimates. Estimates and assumptions are reviewed quarterly and the effects of revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary. Refer to Critical Accounting Estimates in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations for more information on our critical estimates.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the unaudited interim condensed consolidated financial statements as of September 30, 2006, and for the three and nine months ended September 30, 2006 and 2005 have been included. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the full year. Our interim unaudited condensed consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005, have been classified as Assets Held for Sale and Liabilities Associated with Assets Held for Sale for franchises, ancillary businesses and completed construction projects held for sale at each balance sheet date. In addition, the accompanying Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2005, have been reclassified to reflect the status of our discontinued operations as of September 30, 2006.

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 incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a reduction of new vehicle cost of sales when earned, generally at the time the related vehicles are sold.

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We receive commissions from third party lending and insurance institutions for arranging customer financing and for the sale of vehicle service contracts, credit life insurance and disability insurance to customers (collectively F&I). We may be charged back (chargebacks) for F&I commissions in the event a contract is terminated. F&I 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. F&I commissions, net of estimated chargebacks, are included in Finance and insurance, net in the accompanying Condensed Consolidated Statements of Income.

Goodwill and Other Intangible Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Goodwill represents the excess cost of the businesses acquired over the fair market value of the identifiable net assets. We have determined that based on how we operate our business, allocate resources, and regularly review our financial data and operating results that we qualify as a single reporting unit for purposes of testing goodwill for impairment. We evaluate our operations and financial results in the aggregate by dealership. The dealership general managers are responsible for customer facing activities, including inventory management, advertising and personnel decisions; and have the flexibility to respond to local market conditions while the corporate management team, with input from the regional management teams, is responsible for infrastructure and general strategy decisions.

The fair market value of our manufacturer franchise rights is determined at the acquisition date through discounting the projected cash flows specific to each franchise. 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. Due to the fact that manufacturer franchise rights are specific to the location in which we acquire a dealership, we have determined that the dealership is the reporting unit for purposes of testing for impairment.

Share-Based Compensation

Effective January 2006, we adopted SFAS No. 123R Share-Based Payment under the modified prospective transition method and therefore we record share-based compensation expense under the fair value method on a straight-line basis over the vesting period. Accordingly, prior periods have not been restated. Prior to January 2006, including the three and nine months ended September 30, 2005, we recorded share-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB Opinion No. 25 required 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.

Derivative Instruments and Hedging Activities

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

The changes in fair value of the effective portion of cash flow hedges are reported as a component of accumulated other comprehensive income (loss). Amounts in accumulated other comprehensive income (loss) are reclassified to interest expense to the extent the hedge becomes ineffective. The change in fair value of fair value hedges are recorded as a component of interest expense. Changes in the fair value of the associated hedged exposures are also recorded as a component of interest expense.

Measurements of hedge effectiveness are based on comparisons between the gains or losses of the actual interest rate swaps and the gains or losses of hypothetical interest rate swaps, which are designed to reflect the critical terms of the defined hedged exposures. Ineffective portions of these interest rate swaps are reported as a component of interest expense in the accompanying Condensed Consolidated Statements of Income. We recognized minor ineffectiveness during the nine months ended September 30, 2006 and September 30, 2005.

Statements of Cash Flows

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

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

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

Externally financed capital expenditures include all expenditures that we have financed during the reporting period or intend to finance in future reporting periods through sale-leaseback transactions or mortgage financing. Internally financed capital expenditures include all capital expenditures which were paid using available cash and for which we do not intend to seek external financing.

Tax benefits related to share-based awards that are fully vested prior to the adoption of SFAS No. 123R are included as cash inflows from financing activities and cash outflows from operating activities on the accompanying Condensed Consolidated Statements of Cash Flows. Excess tax benefits related to share-based awards that are partially vested upon or granted after the adoption of SFAS No. 123R are also included as cash inflows from financing activities and cash outflows from operating activities on the accompanying Condensed Consolidated Statements of Cash Flows.

Net proceeds from share-based payment arrangements include payments from employees upon the exercise of stock options, net of payments of employee income taxes in connection with net share settlements of share-based awards. Net share settlements of share-based awards result in (i) the issuance of shares of our common with a value equal to the employee s intrinsic value and (ii) the payment of the income tax on behalf of the employee in lieu of issuing additional shares of common stock.

Recent Accounting Pronouncements

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144,   Accounting for the Impairme

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109 Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Earlier application is encouraged if the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. We are currently evaluating the impact of FIN No. 48 on our condensed consolidated financial statements and disclosures.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using both a balance sheet and an income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings. The provisions of SAB 108 are effective for the year ending December 31, 2006. The adoption of SAB 108 is not expected to have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS No. 157 provides guidance for, among other things, the definition of fair value and the methods used to measure fair value. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 157 on our condensed consolidated financial statements and disclosures.

3. SHARE-BASED COMPENSATION

We have established two share-based compensation plans (the Plans) under which we have granted non-qualified stock options, performance share units and restricted share units to our directors, officers and employees at fair market value on the date of the grant. Stock options generally vest ratably over three years from the date of grant and expire ten years from the date of grant. Performance share units generally vest after two to three years from the date of grant and provide the holder the opportunity to receive additional shares of common stock if certain performance criteria are achieved. The actual number of shares earned by a holder of performance share units may range from 0% to 180% of the target number of shares to be granted to such a holder, depending on the achievement of certain performance criteria over a defined period of timeare achieved. Restricted share units vest ratably over two to three years from the date of grant and have voting and dividends rights prior to vesting. We have granted a total of 4,310,954 non-qualified stock options and 175,500 performance share units to certain of our key employees and officers and 12,500 restricted share units to members of our board of directors. As of September 30, 2006, there were 1,674,820 non-qualified stock options, 174,500 performance share units and 12,500 restricted share units outstanding. In addition, there were approximately 2,225,000 share-based awards available for grant under our share-based compensation plans as of September 30, 2006. We expect to continue to issue performance share units and restricted share units in lieu of non-qualified stock options.

Effective January 2006, we adopted SFAS No. 123R under the modified prospective transition method. As a result we have recorded share-based compensation expense for the three and nine months ended September 30, 2006, under the fair value method. Prior to January 2006, including the three and nine months ended September 30, 2005, we accounted for share-based awards under the intrinsic value method in accordance with APB Opinion No. 25 and therefore did not record any share-based compensation expense. During the nine months ended September 30, 2006, the adoption of SFAS No. 123R resulted in incremental share-based compensation expense of $2.1 million (excluding $1.2 million associated with our decision to issue performance share units and restricted share units). The incremental share-based compensation expense decreased income before income taxes by $2.1 million, net income by $1.3 million and basic and diluted earnings per common share by $0.04 per share. Net cash provided by operating activities decreased and net cash used in financing activities decreased by $1.7 million related to excess tax benefits from share-based payment arrangements.

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model. The fair value of each performance share unit and restricted share unit is calculated using the closing market price of our common stock on the date of grant. Expected volatilities are based on the historical volatility of our common stock. We use historical data to estimate the rate of option exercises and employee turnover within the valuation model. The expected term of options granted represents the period of time that the related options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

We recorded $1.0 million in compensation expense and an associated tax benefit of $0.4 million for the three months ended September 30, 2006; and $3.3 million in compensation expense and an associated tax benefit of $1.2 million for the nine months ended September 30, 2006. We did not recognize any material share-based compensation expense during the nine months ended September 30, 2005. As of September 30, 2006, there was $3.7 million of total unrecognized share-based compensation expense related to non-vested share-based awards granted under the Plans. That cost is expected to be recognized over a weighted average period of 0.7 years. The following table illustrates the effect on net income and net income per share had our share-based awards been recorded using the fair value method of SFAS No. 123R for the three and nine months ended September 30, 2005:

(In thousands, except per share data)	**For the Three Months Ended September 30, 2005**	**For the Nine Months Ended September 30, 2005**
Net income	$ 14,953	$ 40,579
Adjustments to net income:		
Share-based compensation expense included in net income, net of tax		1
Pro forma share-based compensation expense, net of tax	(669)	(2,009)
Pro forma net income	$ 14,284	$ 38,571
Net income per common share basic (as reported)	$ 0.46	$ 1.24
Net income per common share diluted (as reported)	$ 0.45	$ 1.24
Pro forma net income per common share basic	$ 0.44	$ 1.18
Pro forma net income per common share diluted	$ 0.43	$ 1.17

A summary of options outstanding and exercisable under the Plans as of September 30, 2006, and changes during the nine months then ended is presented below:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value*
Options outstanding - December 31, 2005	2,941,262	$ 15.35		
Granted				
Exercised	(1,224,229)	$ 16.38		
Expired / Forfeited	(42,213)	$ 15.01		
Options outstanding September 30, 2006	1,674,820	$ 14.61	4.3	$ 10,032,172
Options exercisable September 30, 2006	1,287,285	$ 14.51	6.5	$ 7,839,566

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

* Based on the closing price of our common stock on September 30, 2006

Cash received from option exercises for the nine months ended September 30, 2006 totaled $6.8 million. The actual intrinsic value of options exercised during the nine months ended September 30, 2006 was $4.8 million. The actual tax benefit realized for the tax deductions from option exercises totaled $1.8 million for the nine months ended September 30, 2006.

A summary of performance share units and restricted share units as of September 30, 2006, and changes during the nine months then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Performance Share Units December 31, 2005		$
Granted	175,500	$ 16.86
Performance estimate	43,875	$ 16.86
Vested		$
Forfeited	(1,000)	$ 16.86
Performance Share Units September 30, 2006*	218,375	$ 16.86

* Includes an estimate of 43,875 out of a maximum of 140,400 issuable upon attaining certain performance metrics

	Shares	Weighted Average Grant Date Fair Value
Restricted Share Units December 31, 2005		$
Granted	12,500	$ 19.81
Vested		$
Forfeited		$
Restricted Share Units September 30, 2006	12,500	$ 19.81

Each performance share unit provides an opportunity for the employee to receive a number of shares of our common stock based on our performance during a three year period as measured against objective performance goals as determined by the compensation committee of our board of directors. The actual number of shares earned may range from 0% to 180% of the target number of shares depending upon achievement of the performance goals.

4. INVENTORIES

Inventories consist of the following:

(In thousands)	As of September 30, 2006	December 31, 2005
New vehicles	$ 550,404	$ 556,141
Used vehicles	121,485	111,000
Parts and accessories	43,569	42,650
Total inventories	$ 715,458	$ 709,791

The lower of cost or market reserves for inventory totaled $5.2 million and $4.3 million as of September 30, 2006 and December 31, 2005, respectively. In addition to the inventories shown above, we had $18.9 million of inventory as of December 31, 2005 classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheet as they were associated with franchises held for sale. There was no inventory classified as Assets Held for Sale as of September 30, 2006.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

5. ACQUISITIONS

We did not acquire any franchises during the nine months ended September 30, 2006. During the nine months ended September 30, 2005, we acquired three franchises (one dealership location) for an aggregate purchase price of $26.8 million, including $9.3 million of cash, $15.3 million of borrowings from our floor plan facilities, the exchange of two of our franchises valued at $1.5 million and $0.7 million of future payments.

The allocation of purchase price for acquisitions is as follows:

(In thousands)	**For the Nine Months Ended September 30, 2005**
Inventories	$ 17,156
Fixed assets	344
Other assets	1
Goodwill	6,400
Franchise rights	2,850
Total purchase price	$ 26,751

6. GOODWILL AND MANUFACTURER FRANCHISE RIGHTS

During the nine months ended September 30, 2006, we sold six franchises (five dealership locations) and one ancillary business resulting in the removal of approximately $7.6 million of Goodwill from our Condensed Consolidated Balance Sheets. There were no manufacturer franchise rights associated with these franchises at the time of sale as these franchises were purchased prior to the adoption of SFAS No. 142 Goodwill and Other Intangibles. Manufacturer franchise rights totaled $41.8 million as of September 30, 2006 and December 31, 2005, and are included in Other Long-term Assets on the accompanying Condensed Consolidated Balance Sheets.

7. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale include (i) assets and liabilities associated with discontinued operations held for sale at each balance sheet date and (ii) costs of completed construction projects included in pending sale-leaseback transactions where an unaffiliated third party reimburses us during construction or will reimburse us upon completion of the transaction.

Assets associated with discontinued operations include real estate associated with former dealership locations in Texas as of September 30, 2006. As of December 31, 2005, assets and liabilities associated with discontinued operations included two franchises (two dealership locations) in Oregon and two franchises (two dealership locations) in Southern California. During the nine months ended September 30, 2006, we sold the franchises that had been held for sale as of December 31, 2005, as well as two additional franchises (one dealership location) and one ancillary business in Florida for proceeds of $43.5 million, resulting in a net gain of $2.1 million. Assets associated with discontinued operations totaled $12.5 million and $39.6 million as of September 30, 2006 and December 31, 2005, respectively. Liabilities associated with discontinued operations totaled $16.8 million as of December 31, 2005. There were no liabilities associated with discontinued operations as of September 30, 2006.

Included in Assets Held for Sale as of December 31, 2005, were $11.9 million of costs associated with two completed projects included in pending sale-leaseback transactions. As of December 31, 2005, Liabilities Associated with Assets Held for Sale included $10.0 million of reimbursements associated with the two completed construction projects. During the nine months ended September 30, 2006, we incurred $1.5 million of additional construction costs associated with the completion of these two sale-leaseback transactions resulting in (i) the sale of $13.4 million of assets; (ii) the receipt of the remaining $3.4 million of reimbursements and (iii) the commencement of long-term operating leases for the assets sold.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

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

(In thousands)	As of September 30, 2006	December 31, 2005
Assets:		
Inventories	$	$ 18,940
Property and equipment, net	12,451	32,558
Total assets	12,451	51,498
Liabilities:		
Floor plan notes payable		16,775
Other liabilities		10,072
Total liabilities		26,847
Net assets held for sale	$ 12,451	$ 24,651

Included in Prepaid and Other Current Assets on the accompanying Condensed Consolidated Balance Sheets are costs associated with construction projects, which we intend to sell through sale-leaseback transactions but have not been completed and therefore are not available for sale. In connection with these construction projects, we have entered into sale-leaseback agreements whereby an unaffiliated third party purchased the land and is reimbursing us, or will reimburse us, for the cost of construction of dealership facilities being constructed on the land. We capitalize the cost of the construction during the construction period and record a corresponding liability equal to the amount of any reimbursed funds. Upon completion of the construction, we will execute the sale-leaseback transaction and remove the cost of construction and the related liability from our Condensed Consolidated Balance Sheets. The book value of assets associated with construction projects that have not been completed as of September 30, 2006 and December 31, 2005 totaled $11.1 million and $2.9 million, respectively. As of September 30, 2006 and December 31, 2005, there were no liabilities associated with these construction projects.

8. LONG-TERM DEBT

Long-term debt consists of the following:

(In thousands)	As of September 30, 2006	December 31, 2005
9% Senior Subordinated Notes due 2012	$ 250,000	$ 250,000
8% Senior Subordinated Notes due 2014 ($185.0 million and $200.00 million face value, respectively, net of hedging activity of $8,229 and $8,028, respectively)	176,771	191,972
Mortgage notes payable	27,079	26,764
Loaner vehicle obligations	24,146	21,676
Capital lease obligations	3,691	4,548
Other notes payable	859	1,989
	482,546	496,949
Less current portion	(26,263)	(24,522)
Long-term debt	$ 456,283	$ 472,427

In September 2006, we recognized a $0.9 million loss on the extinguishment of $15.0 million of our 8% Notes. Included in the $0.9 million loss is a $0.7 million write-off of a portion of the unamortized value of our terminated fair value swap and a $0.4 million write-off of a portion of the unamortized debt issuance costs associated with the 8% Notes, offset by a $0.2 million market discount on the 8% Notes. This transaction will reduce our other interest expense annually by $1.2 million**.** Our board of directors has authorized us to repurchase up to an additional $25.0 million of our Senior Subordinated Notes, which we may do depending on market conditions.

In March 2006, we amended our Committed Credit Facility to include DaimlerChrysler Financial Services (DCFS) as a lender and extended its maturity to March 2009. In addition, DCFS has agreed to provide a maximum of $120.0 million of floor plan financing outside of the Committed Credit Facility to finance inventory purchases at our Mercedes-Benz, Chrysler, Dodge and Jeep dealerships (DaimlerChrysler Dealerships). As a result of the execution of this amendment, floor plan borrowings from DCFS are now included in Floor Plan Notes Payable Manufacturer Affiliated on our Condensed Consolidated Balance Sheets. The DCFS floor plan facility has no stated termination date. Borrowings will accrue interest based on LIBOR. Further, we reduced our working capital borrowing capacity of our Committed Credit Facility from $150.0 million to $125.0 million and reduced the floor plan borrowing capacity of our Committed Credit Facility from $650.0 million to

$425.0 million.

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In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

9. FLOOR PLAN NOTES PAYABLE

In connection with the amendment to our Committed Credit Facility in March 2006, we refinanced the floor plan notes payable at our DaimlerChrysler Dealerships through the repayment of $85.4 million of floor plan notes payable non-manufacturer affiliated with borrowings from DCFS, a manufacturer affiliated lender. As a result, floor plan notes payable at our DaimlerChrysler Dealerships are included in Floor Plan Notes Payable Manufacturer Affiliated on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2006. Floor plan notes payable at our DaimlerChrysler Dealerships totaled $90.8 million and $95.4 million as of September 30, 2006 and December 31, 2005, respectively. In addition, during the nine months ended September 30, 2006, our Floor Plan Repayments Non-manufacturer Affiliated and Floor Plan Notes Payable Manufacturer Affiliated each increased by $85.4 million on the accompanying Condensed Consolidated Statements of Cash Flows.

As of September 30, 2006, we had $613.4 million of floor plan notes payable outstanding on the accompanying Condensed Consolidated Balance Sheets. As of December 31, 2005, we had $631.2 million of floor plan notes payable outstanding, including $16.8 million classified as Liabilities Associated with Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

Three of our interest rate swap agreements terminated in March 2006, which resulted in a cash payment of $13.7 million, which equaled the fair market value of the swap agreements. Included in Accumulated Other Comprehensive Loss on our Condensed Consolidated Balance Sheet as of September 30, 2006 was $3.6 million ($2.2 million, net of tax) of unrecognized amortization related to our two terminated cash flow swaps, which are being amortized through March 2014 as a component of Floor Plan Interest Expense on the accompanying Condensed Consolidated Statements of Income. In addition, included as a reduction to our 8% Notes as of September 30, 2006 was $8.2 million of unrecognized amortization related to our terminated fair value swap, which is being amortized through March 2014 as a component of Other Interest Expense on the accompanying Condensed Consolidated Statements of Income. The amortization of the termination costs of these three swap agreements will increase floor plan and other interest expense by $0.7 million and $0.9 million, respectively, during 2006.

We have an interest rate swap agreement with a notional principal amount of $14.3 million as of September 30, 2006, as a hedge against future cash flows that result from changes in the interest rate of our variable rate mortgage notes payable. Under the terms of the swap agreement, we are required to make payments at a fixed rate and receive a variable rate based on LIBOR. This swap agreement was designated and qualifies as a cash flow hedge of changes in the interest rate of our variable rate mortgage notes payable and will contain minor ineffectiveness. As of September 30, 2006 and December 31, 2005, the swap agreement had a fair value of $0.4 million and $0.3 million, respectively, which is included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheets.

11. COMPREHENSIVE INCOME

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

(In thousands)	**For the Three Months Ended September 30, 2006**	**2005**	**For the Nine Months Ended September 30, 2006**	**2005**
Net income	$ 17,179	$ 14,953	$ 48,736	$ 40,579
Other comprehensive income:				
Change in fair value of cash flow swaps	(326)	5,165	1,862	(114)
Amortization of terminated cash flow swaps	239		557	
Income tax expense (benefit) associated with cash flow swaps	33	(1,937)	(906)	43
Comprehensive income	$ 17,125	$ 18,181	$ 50,249	$ 40,508

12. DISCONTINUED OPERATIONS

During the nine months ended September 30, 2006, we placed three franchises (one dealership location) and one ancillary business into discontinued operations and sold six franchises (five dealership locations) and one ancillary business for proceeds of $43.5 million, resulting in a net gain of $2.1 million. As of September 30, 2006, one franchise was pending disposition. The accompanying Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2005, have been reclassified to reflect the status of our discontinued operations as of September 30, 2006. The following table provides further information regarding our discontinued operations as of September 30, 2006, and includes the results of businesses sold between January 1, 2005 and September 30, 2006, and businesses pending disposition as of

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In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

September 30, 2006:

(Dollars in thousands)	For the Three Months Ended September 30, 2006 Sold	Pending Disposition	Total	For the Three Months Ended September 30, 2005 Sold(a)	Pending Disposition(b)	Total
Franchises:						
Mid-line Domestic				7		7
Mid-line Import				3		3
Value				2		2
Luxury		1	1		1	1
Total		1	1	12	1	13
Ancillary Businesses	1		1	2		2
Revenues	$ 1,026	$ 1,591	$ 2,617	$ 101,427	$ 1,912	$ 103,339
Cost of sales	82	1,377	1,459	86,588	1,700	88,288
Gross profit	944	214	1,158	14,839	212	15,051
Operating expenses	2,265	74	2,339	16,813	77	16,890
Income (loss) from operations	(1,321)	140	(1,181)	(1,974)	135	(1,839)
Other income (expense), net	85	(38)	47	(1,113)	(27)	(1,140)
Loss on disposition of discontinued operations, net	(541)		(541)	(426)		(426)
Income (loss) before income taxes	(1,777)	102	(1,675)	(3,513)	108	(3,405)
Income tax (expense) benefit	666	(38)	628	1,317	(40)	1,277
Discontinued operations, net of tax	$ (1,111)	$ 64	$ (1,047)	$ (2,196)	$ 68	$ (2,128)

(a) Businesses were sold between July 1, 2005 and September 30, 2006.

(b) Businesses were pending disposition as of September 30, 2006.

(Dollars in thousands)	For the Nine Months Ended September 30, 2006 Sold	Pending Disposition	Total	For the Nine Months Ended September 30, 2005 Sold(a)	Pending Disposition(b)	Total
Franchises:						
Mid-line Domestic	3		3	10		10
Mid-line Import	2		2	3		3
Value	1		1	2		2
Luxury		1	1	1	1	2
Total	6	1	7	16	1	17
Ancillary Businesses	1		1	2		2
Revenues	$ 37,737	$ 6,422	$ 44,159	$ 310,036	$ 5,026	$ 315,062
Cost of sales	28,926	5,703	34,629	260,811	4,437	265,248
Gross profit	8,811	719	9,530	49,225	589	49,814
Operating expenses	14,414	215	14,629	51,351	197	51,548
Income (loss) from operations	(5,603)	504	(5,099)	(2,126)	392	(1,734)
Other expense, net	(432)	(127)	(559)	(3,143)	(73)	(3,216)
Gain (loss) on disposition of discontinued operations, net	2,076		2,076	(416)		(416)

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Income (loss) before income taxes	(3,959)	377	(3,582)	(5,685)	319	(5,366)
Income tax (expense) benefit	1,241	(142)	1,099	2,132	(120)	2,012
Discontinued operations, net of tax	$ (2,718)	$ 235	$ (2,483)	$ (3,553)	$ 199	$ (3,354)

(a) Businesses were sold between January 1, 2005 and September 30, 2006.

(b) Businesses were pending disposition as of September 30, 2006.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

13. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2006 and 2005, we made interest payments, net of amounts capitalized, totaling $60.6 million and $51.3 million, respectively. During the nine months ended September 30, 2006 and 2005, we received $0.5 million and $3.7 million, respectively, of proceeds associated with our fair value swap that was entered into in connection with the issuance of our 8% Notes.

During the nine months ended September 30, 2006 and 2005, we made income tax payments totaling $18.5 million and $17.8 million, respectively.

During the nine months ended September 30, 2006 and 2005, we completed sale-leaseback transactions resulting in the sale of $13.4 million and $15.7 million of Assets Held for Sale and the removal of the corresponding liabilities from our Condensed Consolidated Balance Sheets, respectively.

14. COMMITMENTS AND CONTINGENCIES

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

Manufacturers may direct us to implement costly capital improvements to dealerships as a condition upon entering into franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to divert our financial resources to capital projects from uses that management believes may be of higher long-term value, such as acquisitions.

Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements.

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

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

15. SECONDARY OFFERING OF COMMON STOCK

In September 2006, Asbury Automotive Holdings L.L.C., an affiliate of Ripplewood Investments L.L.C, and our principal shareholder, completed a secondary offering of our common stock in which it sold approximately 8,555,700 of its shares at $18.50 per share. Shares sold by Asbury Automotive Holdings L.L.C. were sold for the account of funds affiliated with Ripplewood Investments L.L.C. and Freeman Spogli & Co., Incorporated. We did not receive any net proceeds from the secondary offering. The secondary offering resulted in the reduction of our principal shareholder s ownership percentage from approximately 53% to approximately 27%.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

16. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Our 8% Notes and our Committed Credit Facility 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 Condensed Consolidated financial statements.

Condensed Consolidating Balance Sheet
As of September 30, 2006
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 133,475	$	$	$ 133,475
Inventories		666,586	48,872		715,458
Other current assets		287,552	39,232		326,784
Assets held for sale		12,451			12,451
Total current assets		1,100,064	88,104		1,188,168
Property and equipment, net		194,561	6,492		201,053
Goodwill		396,583	53,202		449,785
Other assets		91,468	273		91,741
Investment in subsidiaries	602,316	80,281		(682,597)	
Total assets	$ 602,316	$ 1,862,957	$ 148,071	$ (682,597)	$ 1,930,747
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Floor plan notes payable manufacturer affiliated	$	$ 293,928	$	$	$ 293,928
Floor plan notes payable non manufacturer affiliated		281,494	37,952		319,446
Other current liabilities		154,841	29,788		184,629
Total current liabilities		730,263	67,740		798,003
Long-term debt		456,233	50		456,283
Other liabilities		74,145			74,145
Shareholders equity	602,316	602,316	80,281	(682,597)	602,316
Total liabilities and shareholders equity	$ 602,316	$ 1,862,957	$ 148,071	$ (682,597)	$ 1,930,747

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

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Condensed Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 57,194	$	$	$ 57,194
Inventories		658,820	50,971		709,791
Other current assets		334,403	32,294		366,697
Assets held for sale		51,498			51,498
Total current assets		1,101,915	83,265		1,185,180
Property and equipment, net		187,077	6,380		193,457
Goodwill		404,203	53,202		457,405
Other assets		94,470	288		94,758
Investment in subsidiaries	547,766	71,809		(619,575)	
Total assets	$ 547,766	$ 1,859,474	$ 143,135	$ (619,575)	$ 1,930,800
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities:					
Floor plan notes payable - manufacturer affiliated	$	$ 204,044	$	$	$ 204,044
Floor plan notes payable - non-manufacturer affiliated		368,213	42,125		410,338
Other current liabilities		167,929	29,068		196,997
Liabilities associated with assets held for sale		26,847			26,847
Total current liabilities		767,033	71,193		838,226
Long-term debt		472,359	68		472,427
Other liabilities		72,316	65		72,381
Shareholders equity	547,766	547,766	71,809	(619,575)	547,766
Total liabilities and shareholders equity	$ 547,766	$ 1,859,474	$ 143,135	$ (619,575)	$ 1,930,800

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Condensed Consolidating Statement of Income
For the Three Months Ended September 30, 2006
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$ 1,334,581	$ 188,949	$ (3,084)	$ 1,520,446
Cost of sales		1,132,980	160,790	(3,084)	1,290,686
Gross profit		201,601	28,159		229,760
Operating expenses:					
Selling, general and administrative		155,172	19,824		174,996
Depreciation and amortization		4,625	451		5,076
Income from operations		41,804	7,884		49,688
Other income (expense):					
Floor plan interest expense		(9,601)	(710)		(10,311)
Other interest expense		(9,518)	(1,707)		(11,225)
Other income, net		927	82		1,009
Equity in earnings of subsidiaries	17,179	3,468		(20,647)	
Total other expense, net	17,179	(14,724)	(2,335)	(20,647)	(20,527)
Income before income taxes	17,179	27,080	5,549	(20,647)	29,161
Income tax expense		8,854	2,081		10,935
Income from continuing operations	17,179	18,226	3,468	(20,647)	18,226
Discontinued operations, net of tax		(1,047)			(1,047)
Net income	$ 17,179	$ 17,179	$ 3,468	$ (20,647)	$ 17,179

Condensed Consolidating Statement of Income
For the Three Months Ended September 30, 2005
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$ 1,281,715	$ 175,938	$ (874)	$ 1,456,779
Cost of sales		1,089,961	150,368	(874)	1,239,455
Gross profit		191,754	25,570		217,324
Operating expenses:					
Selling, general and administrative		149,910	18,485		168,395
Depreciation and amortization		4,552	378		4,930
Income from operations		37,292	6,707		43,999
Other income (expense):					
Floor plan interest expense		(6,099)	(434)		(6,533)
Other interest expense		(8,921)	(1,393)		(10,314)
Other income, net		174	3		177
Equity in earnings of subsidiaries	14,953	2,789		(17,742)	
Total other expense, net	14,953	(12,057)	(1,824)	(17,742)	(16,670)
Income before income taxes	14,953	25,235	4,883	(17,742)	27,329
Income tax expense		8,417	1,831		10,248
Income from continuing operations	14,953	16,818	3,052	(17,742)	17,081
Discontinued operations, net of tax		(1,865)	(263)		(2,128)
Net income	$ 14,953	$ 14,953	$ 2,789	$ (17,742)	$ 14,953

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Condensed Consolidating Statement of Income
For the Nine Months Ended September 30, 2006
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$ 3,895,763	$ 536,082	$ (8,811)	$ 4,423,034
Cost of sales		3,306,073	455,900	(8,811)	3,753,162
Gross profit		589,690	80,182		669,872
Operating expenses:					
Selling, general and administrative		455,645	56,715		512,360
Depreciation and amortization		13,798	1,366		15,164
Income from operations		120,247	22,101		142,348
Other income (expense):					
Floor plan interest expense		(28,591)	(2,121)		(30,712)
Other interest expense		(28,532)	(4,736)		(33,268)
Other income, net		3,280	302		3,582
Equity in earnings of subsidiaries	48,736	9,716		(58,452)	
Total other expense, net	48,736	(44,127)	(6,555)	(58,452)	(60,398)
Income before income taxes	48,736	76,120	15,546	(58,452)	81,950
Income tax expense		24,901	5,830		30,731
Income from continuing operations	48,736	51,219	9,716	(58,452)	51,219
Discontinued operations, net of tax		(2,483)			(2,483)
Net income	$ 48,736	$ 48,736	$ 9,716	$ (58,452)	$ 48,736

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Condensed Consolidating Statement of Income
For the Nine Months Ended September 30, 2005
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$ 3,665,260	$ 492,777	$ (4,583)	$ 4,153,454
Cost of sales		3,116,062	420,695	(4,583)	3,532,174
Gross profit		549,198	72,082		621,280
Operating expenses:					
Selling, general and administrative		434,915	52,032		486,947
Depreciation and amortization		13,323	1,067		14,390
Income from operations		100,960	18,983		119,943
Other income (expense):					
Floor plan interest expense		(19,307)	(1,214)		(20,521)
Other interest expense		(26,322)	(3,861)		(30,183)
Other income, net		1,036	17		1,053
Equity in earnings of subsidiaries	40,579	8,282		(48,861)	
Total other expense, net	40,579	(36,311)	(5,058)	(48,861)	(49,651)
Income before income taxes	40,579	64,649	13,925	(48,861)	70,292
Income tax expense		21,137	5,222		26,359
Income from continuing operations	40,579	43,512	8,703	(48,861)	43,933
Discontinued operations, net of tax		(2,933)	(421)		(3,354)
Net income	$ 40,579	$ 40,579	$ 8,282	$ (48,861)	$ 40,579

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In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2006
(In thousands)

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$	$ 172,043	$ 16,318	$	$ 188,361
Cash flow from investing activities:					
Capital expenditures		(33,151)	(1,534)		(34,685)
Other investing activities		45,758	19		45,777
Net cash provided by (used in) investing activities		12,607	(1,515)		11,092
Cash flow from financing activities:					
Floor plan borrowings non-manufacturer affiliated		1,501,397	336,969		1,838,366
Floor plan repayments non-manufacturer affiliated		(1,604,893)	(341,140)		(1,946,033)
Proceeds from borrowings		987			987
Repayments of debt		(17,477)	(47)		(17,524)
Intercompany financing		10,585	(10,585)		
Other financing activities		1,032			1,032
Net cash used in financing activities		(108,369)	(14,803)		(123,172)
Net increase in cash and cash equivalents		76,281			76,281
Cash and cash equivalents, beginning of period		57,194			57,194
Cash and cash equivalents, end of period	$	$ 133,475	$	$	$ 133,475

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2005
(In thousands)

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$	$ 34,497	$ 2,917	$	$ 37,414
Cash flow from investing activities:					
Capital expenditures		(48,697)	(2,256)		(50,953)
Acquisitions		(24,621)			(24,621)
Other investing activities		16,128	86		16,214
Net cash used in investing activities		(57,190)	(2,170)		(59,360)
Cash flow from financing activities:					
Floor plan borrowings non-manufacturer affiliated		2,058,214	396,170		2,454,384
Floor plan repayments non-manufacturer affiliated		(2,003,966)	(402,172)		(2,406,138)
Proceeds from borrowings		23,266			23,266
Repayments of debt		(49,731)	(17)		(49,748)
Intercompany financing		(5,272)	5,272		
Other financing activities		(1,913)			(1,913)
Net cash provided by (used in) financing activities		20,598	(747)		19,851
Net decrease in cash and cash equivalents		(2,095)			(2,095)
Cash and cash equivalents, beginning of period		28,093			28,093
Cash and cash equivalents, end of period	$	$ 25,998	$	$	$ 25,998

17. SUBSEQUENT EVENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

On October 24, 2006, our Board of Directors declared a quarterly dividend of $0.20 per common share payable on November 16, 2006 to shareholders of record as of November 2, 2006.

On November 3, 2006 we entered into an interest rate swap agreement with a notional principal amount of $150.0 million, as a hedge against future cash flows that result from changes in the interest rate of our variable rate floor plan notes payable for a period of two years commencing November 7, 2006. Under the terms of the swap agreement, we are required to make payments at a fixed rate and receive a variable rate based on LIBOR. This swap agreement was designated and qualifies as a cash flow hedge of changes in the interest rate of our variable rate floor plan notes payable and will not contain any ineffectiveness.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

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, 2006, and the related condensed consolidated statements of income for the three and nine-month periods ended September 30, 2006 and 2005, and statements of cash flows for the nine-month periods ended September 30, 2006 and 2005. 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 the 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, 2005, 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 15, 2006, 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, 2005 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 6, 2006

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

We are one of the largest automotive retailers in the United States, operating 120 franchises (87 dealership locations) in 21 metropolitan markets within 10 states as of September 30, 2006. We offer 33 different brands of new vehicles, including four heavy truck brands. We also operate 24 collision repair centers that serve our markets.

Our revenues are derived primarily from four offerings: (i) the sale of new vehicles to individual retail customers (new retail) and the sale of new vehicles to commercial customers (fleet) (the terms new retail and fleet being collectively referred to as new); (ii) the sale of used vehicles to individual retail customers (used retail) and the sale of used vehicles to other dealers at auction (wholesale) (the terms used retail and wholesale being collectively referred to as used); (iii) maintenance and collision repair services and the sale of automotive parts (collectively referred to as fixed operations); and (iv) the arrangement of vehicle financing and the sale of various insurance and warranty products (collectively referred to as F&I). We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle retailed (PVR), our fixed operations based on aggregate gross profit, and F&I based on gross profit PVR. We assess the organic growth of our revenue and gross profit by comparing the year-to-year results of stores that we have operated for at least twelve months (same store).

We have grown our business through the acquisition of large dealership groups and numerous tuck-in acquisitions. Tuck-in acquisitions refer to the purchase of dealerships, which we intend to operate under our existing regional management structure. We use tuck-in acquisitions to increase the number of vehicle brands we offer in a particular market area and to create a larger gross profit base over which to spread overhead costs.

Our retail network is currently principally organized into four regions and includes ten dealership groups, each marketed under different local brands: (i) Florida (comprising our Coggin dealerships, operating primarily in Jacksonville and Orlando, and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas and our Spirit dealership operating in Los Angeles, California), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and Southern Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia and our North Point dealerships operating in Little Rock, Arkansas). Our Plaza dealerships operating in St. Louis, Missouri, our Gray Daniels dealerships operating in Jackson, Mississippi and our Northern California Dealerships operating in Sacramento and Fresno, remain standalone operations.

Our gross profit margin varies with our revenue mix. The sale of vehicles generally results in lower gross profit percentages than our fixed operations. As a result, when fixed operations revenue increases as a percentage of total revenue, we expect our overall gross profit margin to increase.

Selling, general and administrative (SG&A) expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other customary operating expenses. A significant portion of our 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 total gross profit. In January 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R Share-Based Payment under the modified prospective transition method and decided to issue performance share units and restricted share units to our employees and directors in lieu of stock options. As a result, we have recorded share-based compensation expense under the fair value method for the three and nine months ended September 30, 2006. Prior to January 2006, including the three and nine months ended September 30, 2005, we accounted for share-based compensation expense under the intrinsic value method and therefore did not recognize any share-based compensation expense.

Sales of 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 (i) our advantageous brand mix, which is heavily weighted towards luxury and mid-line import brands, (ii) used vehicle sales, (iii) stability of our fixed operations, (iv) our variable cost structure and (v) our regional diversity. We believe that, historically, we have been less affected by market volatility than the U.S. automobile retail industry as a whole as a result of our brand mix. We expect the recent industry-wide gain in market share of the luxury and mid-line import brands to continue in the near future.

Our operations are generally subject to seasonal variations as we tend to generate more revenue and operating income in the second and third quarters of the calendar year than in the first and fourth quarters. Generally, the seasonal variations in our operations are caused by many factors, including weather conditions, changes in 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 generate increased customer demand for new vehicles. We anticipate that certain manufacturers will continue to use these incentive programs in the future. In addition, we will continue to expand our service capacity in order to meet anticipated future demand, as we expect the recent increases in

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In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

market share of the mid-line import and luxury brands and our focused effort on creating and maintaining customer relationships will drive future service demand at our dealership locations.

Interest rates have continued to increase during 2006. We do not believe that changes in interest rates significantly impact overall customer 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 8.5% over 60 months increases by approximately $6.05 with each 50 basis-point increase in short-term interest rates. However, the continued increases in interest rates have significantly impacted our net income as amounts payable on our floor plan facilities and a portion of our mortgage notes payable accrue interest based upon LIBOR or the Prime Rate. The increases in interest rates have lowered our net income by approximately $1.9 million and $7.3 million for the three and nine months ended September 30, 2006 as compared to the corresponding 2005 period.

RESULTS OF OPERATIONS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Three Months Ended September 30, 2006, Compared to the Three Months Ended September 30, 2005

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

	For the Three Months Ended September 30,								
	2006	% of Gross Profit		2005	% of Gross Profit		Increase (Decrease)	% Change	
	(Dollars in thousands, except per share data)								
REVENUES:									
New Vehicle	$ 913,194			$ 891,491			$ 21,703	2	%
Used Vehicle	394,402			360,029			34,373	10	%
Parts, service and collision repair	171,652			165,126			6,526	4	%
Finance and insurance, net	41,198			40,133			1,065	3	%
Total revenues	1,520,446			1,456,779			63,667	4	%
COST OF SALES	1,290,686			1,239,455			51,231	4	%
GROSS PROFIT	229,760	100.0	%	217,324	100.0	%	12,436	6	%
OPERATING EXPENSES:									
Selling, general and administrative	174,996	76.2	%	168,395	77.5	%	6,601	4	%
Depreciation and amortization	5,076	2.2	%	4,930	2.3	%	146	3	%
Income from operations	49,688	21.6	%	43,999	20.2	%	5,689	13	%
OTHER INCOME (EXPENSE):									
Floor plan interest expense	(10,311)	(4.4)	%	(6,533)	(3.0)	%	3,778	58	%
Other interest expense	(11,225)	(4.9)	%	(10,314)	(4.6)	%	911	9	%
Interest and other income, net	1,923	0.8	%	177		%	1,746	986	%
Loss on extinguishment of long-term debt	(914)	(0.4)	%				914	100	%
Total other expense, net	(20,527)	(8.9)	%	(16,670)	(7.6)	%	3,857	23	%
Income before income taxes	29,161	12.7	%	27,329	12.6	%	1,832	7	%
INCOME TAX EXPENSE	10,935	4.8	%	10,248	4.7	%	687	7	%
INCOME FROM CONTINUING OPERATIONS	18,226	7.9	%	17,081	7.9	%	1,145	7	%
DISCONTINUED OPERATIONS, net of tax	(1,047)	(0.4)	%	(2,128)	(1.0)	%	1,081	51	%
NET INCOME	$ 17,179	7.5	%	$ 14,953	6.9	%	$ 2,226	15	%
EARNINGS PER COMMON SHARE (DILUTED):									
Continuing operations	$ 0.54			$ 0.52			$ 0.02	4	%
Discontinued operations	(0.03)			(0.07)					
Net income	$ 0.51			$ 0.45			$ 0.06	13	%

Net income increased 15%, or $0.06 per diluted share, to $17.2 million, or $0.51 per diluted share, for the three months ended September 30, 2006, from $15.0 million, or $0.45 per diluted share, for the three months ended September 30, 2005.

Income from continuing operations increased 7%, or $0.02 per diluted share, to $18.2 million, or $0.54 per diluted share, for the three months ended September 30, 2006, from $17.1 million, or $0.52 per diluted share, for the three months ended September 30, 2005. Income from continuing operations for the three months ended September 30, 2006, includes (i) $0.6 million (net of tax) of costs associated with the extinguishment of $15.0 million of our 8% Senior Subordinated Notes

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In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

due 2014 (8% Notes), (ii) $0.5 million (net of tax) of costs associated with a secondary offering of common stock, and (iii) $0.6 million (net of tax) of share-based compensation expense. Excluding these items, adjusted income from continuing operations increased 14% to $19.9 million for the three months ended September 30, 2006, from $17.5 million for the three months ended September 30, 2005. We believe that excluding these items provides a more meaningful representation of our year over year financial performance.

The increase in adjusted income from continuing operations was achieved despite a challenging new retail environment primarily resulting from attractive domestic manufacturer promotions in the prior period. The increase in adjusted income from continuing operations was the result of several factors, including: (i) an 11% increase in used retail gross profit, (ii) a 5% increase in fixed operations gross profit, (iii) a 4% increase in new retail gross profit; and (iv) expense control initiatives that reduced personnel and advertising costs, which together contributed 100 basis points to the overall 180 basis point improvement in our adjusted SG&A expenses as a percentage of gross profit. These factors were partially offset by a 58% increase in floor plan interest expense resulting primarily from a 170 basis point increase in short-term interest rates over last year s third quarter. We believe our diversified business model, specifically our used vehicle, fixed operations and F&I businesses, allow us to achieve improved results in a challenging new retail vehicle environment.

Total revenues increased 4% during the three months ended September 30, 2006, as a result of a 10% increase in used vehicle revenue and a 2% increase in new vehicle revenue. We expect total revenue will continue to increase as a result of (i) our brand mix as mid-line import and luxury brands continue to increase market share, (ii) our expansion of our service capacity, (iii) improved performance of our high margin businesses as a result of our focused investments in these areas, and (iv) acquiring additional dealerships.

Total gross profit increased 6% to $229.8 million for the three months ended September 30, 2006, from $217.3 million for the three months ended September 30, 2005. The increase in gross profit was driven by solid performances across our four business lines, all of which delivered either improved gross profit margins or gross profit PVR, or both. Used vehicle and fixed operations each contributed gross profit increases of over $4.0 million, while new retail gross profit increased $2.4 million despite a 3% decline in new retail unit sales, primarily due to a highly incentivized prior period.

	For the Three Months Ended September 30, 2006			2005 (Dollars in thousands, except PVR data)			Increase (Decrease)	% Change
New Vehicle								
Revenues:								
New retail revenues same store(1)								
Luxury	$ 264,419	31	%	$ 277,231	32	%	$ (12,812)	(5)%
Mid-line import	363,467	42	%	352,577	41	%	10,890	3 %
Mid-line domestic	138,525	16	%	161,724	19	%	(23,199)	(14)%
Value	18,225	2	%	22,971	3	%	(4,746)	(21)%
Total passenger vehicle retail revenue same store	784,636			814,503			(29,867)	(4)%
Heavy trucks	81,009	9	%	47,137	5	%	33,872	72 %
Total new retail revenues same store(1)	865,645	100	%	861,640	100	%	4,005	%
New retail revenues acquisitions	8,539							
Total new retail revenues	874,184			861,640			12,544	1 %
Fleet revenues same store(1)	38,893			29,851			9,042	30 %
Fleet revenues acquisitions	117							
Total fleet revenues	39,010			29,851			9,159	31 %
New vehicle revenues, as reported	$ 913,194			$ 891,491			$ 21,703	2 %
New retail units:								
New retail units same store(1)								
Luxury	5,993	21	%	6,351	22	%	(358)	(6)%
Mid-line import	15,028	54	%	14,925	51	%	103	1 %
Mid-line domestic	4,820	17	%	5,772	20	%	(952)	(16)%
Value	878	3	%	1,190	4	%	(312)	(26)%
Total passenger vehicle retail units same store	26,719			28,238			(1,519)	(5)%
Heavy trucks	1,288	5	%	858	3	%	430	50 %
Total new retail units same store(1)	28,007	100	%	29,096	100	%	(1,089)	(4)%
New retail units acquisitions	287							
Retail units actual	28,294			29,096			(802)	(3)%
New revenue PVR same store(1)	$ 30,908			$ 29,614			$ 1,294	4 %
New revenue PVR actual	$ 30,896			$ 29,614			$ 1,282	4 %

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

(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.

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	For the Three Months Ended September 30, 2006		2005		Increase (Decrease)	% Change
	(Dollars in thousands, except PVR data)					
Gross Profit:						
New retail gross profit same store(1)						
Luxury	$ 21,317	34 %	$ 22,088	36 %	$ (771)	(3)%
Mid-line import	26,691	43 %	24,194	40 %	2,497	10 %
Mid-line domestic	10,328	16 %	10,677	18 %	(349)	(3)%
Value	1,256	2 %	2,059	3 %	(803)	(39)%
Total passenger vehicle retail gross profit same store	59,592		59,018		574	1 %
Heavy trucks	3,125	5 %	1,758	3 %	1,367	78 %
Total new retail gross profit same store(1)	62,717	100 %	60,776	100 %	1,941	3 %
New retail gross profit acquisitions	490					
Total retail gross profit	63,207		60,776		2,431	4 %
Fleet gross profit same store(1)	1,003		710		293	41 %
Fleet gross profit acquisitions	5					
Total fleet gross profit	1,008		710		298	42 %
New vehicle gross profit, as reported	$ 64,215		$ 61,486		$ 2,729	4 %
New gross profit PVR same store(1)	$ 2,239		$ 2,089		$ 150	7 %
New gross profit PVR actual	$ 2,234		$ 2,089		$ 145	7 %
New retail gross margin same store(1)	7.2 %		7.1 %		0.1 %	1 %
New retail gross margin actual	7.2 %		7.1 %		0.1 %	1 %

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

(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.

New vehicle revenues increased 2% to $913.2 million for the three months ended September 30, 2006, from $891.5 million for the three months ended September 30, 2005. The overall increase in new vehicle revenues is a result of our heavy trucks business in Atlanta, Georgia, which delivered a 72% increase in new vehicle revenue and a 50% increase in unit sales. We have seen a significant increase in our heavy trucks business as we believe future changes in emission laws on heavy trucks have created a significant current period demand. New vehicle revenues excluding heavy trucks (passenger vehicle) decreased 1% to $832.2 million for the three months ended September 30, 2006 from $844.4 million for the three months ended September 30, 2005. Our passenger vehicle unit sales, which decreased 5%, were not as adversely impacted by the challenging new retail market as was the overall U.S. passenger vehicle industry, which decreased 6.2%. We continue to benefit from our brand mix, heavily weighted toward luxury and mid-line import brands that continue to take market share.

New vehicle gross profit increased 4% to $64.2 million for the three months ended September 30, 2006, from $61.5 million for the three months ended September 30, 2005. The increase in new vehicle gross profit was driven by a $2.5 million, or 10%, increase in mid-line import retail gross profit as these brands continue their strong performance, and a $1.4 million, or 78%, increase from our heavy trucks business. These increases were offset by the performance of our value and mid-line domestic brands, which decreased $0.8 million and $0.3 million, or 39% and 3%, respectively. During the 2005 period the employee pricing sales campaign created a significant demand for domestic vehicles, particularly General Motors, which creates a difficult comparison for the 2006 period.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

	For the Three Months Ended September 30, 2006	2005	Increase (Decrease)	% Change
		(Dollars in thousands, except PVR data)		
Used Vehicle				
Revenues:				
Retail revenues same store(1)	$ 304,131	$ 272,505	$ 31,626	12 %
Retail revenues acquisitions	55			
Total used retail revenues	304,186	272,505	31,681	12 %
Wholesale revenues same store(1)	90,188	87,524	2,664	3 %
Wholesale revenues acquisitions	28			
Total wholesale revenues	90,216	87,524	2,692	3 %
Used vehicle revenues, as reported	$ 394,402	$ 360,029	$ 34,373	10 %
Gross Profit:				
Retail gross profit same store(1)	$ 36,719	$ 33,204	$ 3,515	11 %
Retail gross profit acquisitions	9			
Total used retail gross profit	36,728	33,204	3,524	11 %
Wholesale gross profit same store(1)	(196)	(845)	649	77 %
Wholesale gross profit acquisitions	6			
Total wholesale gross profit	(190)	(845)	655	78 %
Used vehicle gross profit, as reported	$ 36,538	$ 32,359	$ 4,179	13 %
Used retail units same store(1)	17,200	16,428	772	5 %
Used retail units acquisitions	5			
Used retail units actual	17,205	16,428	777	5 %
Used revenue PVR same store(1)	$ 17,682	$ 16,588	$ 1,094	7 %
Used revenue PVR actual	$ 17,680	$ 16,588	$ 1,092	7 %
Used gross profit PVR same store(1)	$ 2,135	$ 2,021	$ 114	6 %
Used gross profit PVR actual	$ 2,135	$ 2,021	$ 114	6 %
Used retail gross margin same store(1)	12.1 %	12.2 %	(0.1)%	(1)%
Used retail gross margin actual	12.1 %	12.2 %	(0.1)%	(1)%

(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.

Used vehicle revenues increased 10% to $394.4 million for the three months ended September 30, 2006, from $360.0 million for the three months ended September 30, 2005. The increase in used vehicle revenues was a result of a 7% and 5% increase in used revenue PVR and used retail unit sales, respectively. The strength of the used vehicle market during the third quarter, our sharing of internal best practices, including centralized used car teams, and our used vehicle merchandising initiatives have continued to result in increased used vehicle unit sales and improved used revenue PVR.

Used vehicle gross profit increased 13% to $36.5 million for the three months ended September 30, 2006, from $32.4 million for the three months ended September 30, 2005. Used retail gross profit increased $3.5 million to $36.7 million as a result of a 5% increase in used retail units sales and a 6% increase in used retail gross profit PVR. The increases in our used retail units sales and used retail gross profit PVR is a result of our investment in new software to better value trade-ins and improve inventory management, and the execution by our regional management teams dedicated to the used vehicle business.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

	For the Three Months Ended September 30, 2006	2005 (Dollars in thousands)	Increase (Decrease)	% Change
Fixed Operations				
Revenues:				
Revenues same store(1)				
Parts and service	$ 156,654	$ 150,380	$ 6,274	4 %
Collision repair	14,119	14,746	(627)	(4)%
Total revenues same store(1)	170,773	165,126	5,647	3 %
Revenues acquisitions	879			
Parts, service and collision repair revenues, as reported	$ 171,652	$ 165,126	$ 6,526	4 %
Gross Profit:				
Gross profit same store(1)				
Parts and service	$ 79,555	$ 75,451	$ 4,104	5 %
Collision repair	7,789	7,895	(106)	(1)%
Total gross profit same store(1)	87,344	83,346	3,998	5 %
Gross profit acquisitions	465			
Parts, service and collision repair gross profit, as reported	$ 87,809	$ 83,346	$ 4,463	5 %
Parts and service gross margin same store(1)	50.8 %	50.2 %	0.6 %	1 %
Collision repair gross margin same store(1)	55.2 %	53.5 %	1.7 %	3 %
Fixed operations gross margin same store(1)	51.1 %	50.5 %	0.6 %	1 %

(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.

Fixed operations revenues increased 4% to $171.7 million for the three months ended September 30, 2006, from $165.1 million for the three months ended September 30, 2005. Fixed operations revenues increased primarily due to a 9% increase in our customer pay parts and service businesses. The growth in our customer pay business is a result of facility expansion, increased capacity utilization, equipment upgrades and continued focus on customer retention initiatives. We will continue to add service stalls and service technicians during 2006 in order to meet anticipated future demand, as we expect the recent increases in market share of the mid-line import and luxury import brands to continue to provide increased service work.

Fixed operations gross profit increased 5% to $87.8 million for the three months ended September 30, 2006, from $83.3 million for the three months ended September 30, 2005. The increase in fixed operations gross profit is primarily a result of a 10% increase in gross profit from our customer pay parts and service businesses and a 60 basis point increase in same store fixed operations gross margin offset by one less weekday during the three months ended September 30, 2006 as compared to the three months ended September 30, 2005. Parts and service same store gross profit per weekday was $1.2 million for the three months ended September 30, 2006 as compared to $1.1 million for the three months ended September 30, 2005.

Finance and Insurance, net

	For the Three Months Ended September 30, 2006	2005	Increase (Decrease)	% Change
	(Dollars in thousands, except PVR data)			
Dealership generated F&I, net same store(1)	$ 40,921	$ 38,949	$ 1,972	5 %
Dealership generated F&I, net acquisitions	277			
Dealership generated F&I, net	41,198	38,949	2,249	6 %
Corporate generated F&I		1,184	(1,184)	(100)%
Finance and insurance, net as reported	$ 41,198	$ 40,133	$ 1,065	3 %
Dealership generated F&I PVR same store (1) (2)	$ 905	$ 856	$ 49	6 %
Dealership generated F&I PVR actual (2)	$ 905	$ 856	$ 49	6 %
F&I PVR actual	$ 905	$ 882	$ 23	3 %

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(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 dealership generated F&I PVR.

F&I increased 3% to $41.2 million for the three months ended September 30, 2006, from $40.1 million for the three months ended September 30, 2005. Included in F&I during the three months ended September 30, 2005 was $1.2 million of corporate generated F&I from our interest in a pool of extended service contracts. During the second quarter of 2006, we sold our remaining interest in the pool of extended service contracts and therefore did not recognized any corporate generated F&I during the three months ended September 30, 2006. As a result of the aforementioned sale we do not anticipate recognizing any significant corporate generated F&I in the future. In addition, we implemented new F&I programs, the most significant of which increased our upfront warranty commissions in lieu of participating in the pool of extended service contracts, all of which we believe will increase dealership generated F&I PVR by approximately $40 to $50.

Dealership generated F&I, which excluded corporate generated F&I, increased 6% to $41.2 million for the three months ended September 30, 2006 from $38.9 million for the three months ended September 30, 2005. The increase in dealership generated F&I was primarily a result of the 6% increase in dealership generated F&I PVR as retail unit sales remained relatively flat. The increase in dealership generated F&I PVR was driven by the new warranty program mentioned above. We anticipate F&I will increase in the future as a result of (i) increased new and used retail vehicle sales (ii) the implementation of new F&I programs, including the new warranty program mentioned above and (iii) improvement of the F&I operations at our under-performing franchises.

Selling, General and Administrative

	For the Three Months Ended September 30, 2006	% of Gross Profit	2005	% of Gross Profit	% of Gross Profit Increase (Decrease)	% of Gross Profit % Change
			(Dollars in thousands)			
Personnel costs	$ 79,695	34.7 %	$ 76,958	35.4 %	(0.7)%	(2)%
Sales compensation	26,875	11.7 %	25,567	11.8 %	(0.1)%	(1)%
Share-based compensation	962	0.4 %		%	0.4 %	100 %
Outside services	14,769	6.4 %	13,867	6.4 %		%
Advertising	13,288	5.8 %	13,827	6.4 %	(0.6)%	(9)%
Rent	13,876	6.0 %	12,064	5.5 %	0.5 %	9 %
Utilities	4,700	2.1 %	4,437	2.0 %	0.1 %	5 %
Insurance	3,780	1.7 %	3,703	1.7 %	%	%
Other	17,051	7.4 %	17,972	8.3 %	(0.9)%	(11)%
Selling, general and administrative	$ 174,996	76.2 %	$ 168,395	77.5 %	(1.3)%	(2)%
Adjustments to SG&A:						
Reorganization expenses			(591)			
Secondary stock offering expenses	(846)					
Share-based compensation	(962)					
Adjusted selling, general and administrative	$ 173,188	75.4 %	$ 167,804	77.2 %	(1.8)%	(2)%
Gross Profit	$ 229,760		$ 217,324			

SG&A expenses as a percentage of gross profit decreased 130 basis points to 76.2% for the three months ended September 30, 2006, from 77.5% for the three months ended September 30, 2005. SG&A expenses include (i) $1.0 million of share-based compensation expense during the three months ended September 30, 2006, (ii) $0.8 million of costs associated with a secondary offering of common stock during the three months ended September 30, 2006 and (iii) $0.6 million of costs associated with our regional reorganization during the three months ended September 30, 2005. Excluding these items, adjusted SG&A expense as a percentage of gross profit decreased 180 basis points to 75.4% for the three months ended September 30, 2006, from 77.2% for the three months ended September 30, 2005. The improvement in adjusted SG&A as a percentage of gross profit is a result of several expense control initiatives resulting in reduced personnel and advertising costs. These improvements were offset by increased rent resulting from our strategy to reduce our ownership of real estate and certain leasehold improvements through the use of sale-leaseback transactions. During 2005, we sold approximately $33.1 million of real estate in connection with seven sale-leaseback transactions. We estimate the incremental annualized rent expense from these seven sale-leaseback transactions will be approximately $3.0 million.

In January 2006, we adopted SFAS No. 123R under the modified prospective transition method and decided to issue performance share units and restricted share units to our employees and directors in lieu of stock options. As a result, we have recorded share-based compensation expense of $1.0 million under the fair value method for the three months ended September 30, 2006. Prior to January 2006, including the three month period ended September 30, 2005, we accounted for share-based compensation awards under the intrinsic value method and therefore did not recognize any share-based compensation expense. We expect share-based compensation expense to total approximately $5.0 million, or $0.10 per diluted share, for the year ending December 31, 2006. Certain of our share-based awards have conditions based on our performance that may affect the number of awards ultimately issued. Therefore, the amount of share-based compensation expense recorded may differ from our current estimate.

Depreciation and Amortization

Depreciation and amortization expense increased 3% to $5.1 million for the three months ended September 30, 2006, from $4.9 million for the three months ended September 30, 2005. This increase is primarily related to property and equipment acquired between October 1, 2005 and September 30, 2006. We expect depreciation expense to increase in the future as we continue to remodel and upgrade our facilities and expand our service capacity.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme

Other Income (Expense)

Floor plan interest expense increased 58% to $10.3 million for the three months ended September 30, 2006 from $6.5 million for the three months

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairme