ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
August 09, 2007

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 June 30, 2007

OR

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

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**01-0609375**
(State or other jurisdiction of 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 ¨

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 ¨ Accelerated Filer x Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of August 6, 2007, was 35,418,501 (net of 3,657,261 treasury shares).

ASBURY AUTOMOTIVE GROUP, INC.

INDEX

PART I Financial Information

PART II Other Information

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)

	June 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 48,680	$ 129,170
Contracts-in-transit	117,136	126,012
Accounts receivable (net of allowance of $649 and $648, respectively)	146,083	167,562
Inventories	808,235	775,313
Deferred income taxes	13,961	13,961
Prepaid and other current assets	70,691	55,099
Assets held for sale	18,976	25,947
Total current assets	1,223,762	1,293,064
PROPERTY AND EQUIPMENT, net	209,471	202,584
GOODWILL	456,416	447,996
OTHER LONG-TERM ASSETS	97,907	87,193
Total assets	$ 1,987,556	$ 2,030,837
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable manufacturer affiliated	$ 198,333	$ 319,896
Floor plan notes payable non-manufacturer affiliated	468,976	380,881
Current maturities of long-term debt	27,225	23,144
Accounts payable	63,176	63,951
Accrued liabilities	90,553	89,296
Liabilities associated with assets held for sale		3,887
Total current liabilities	848,263	881,055
LONG-TERM DEBT	465,782	454,010
DEFERRED INCOME TAXES	49,780	53,991
OTHER LONG-TERM LIABILITIES	35,803	29,948
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS EQUITY:		
Preferred stock, $.01 par value per share, 10,000,000 shares authorized		
Common stock, $.01 par value per share, 90,000,000 shares authorized, 36,224,960 and 35,071,401 shares issued, including shares held in treasury, respectively	362	351
Additional paid-in capital	437,385	431,725
Retained earnings	203,979	196,393
Treasury stock, at cost; 3,657,261 and 1,536,706 shares held, respectively	(52,338)	(14,559)
Accumulated other comprehensive loss	(1,460)	(2,077)
Total shareholders equity	587,928	611,833

Total liabilities and shareholders equity	$ 1,987,556	$ 2,030,837

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 June 30		For the Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
REVENUES:				
New vehicle	$ 891,281	$ 906,669	$ 1,715,732	$ 1,716,326
Used vehicle	395,503	378,739	773,650	731,154
Parts, service and collision repair	176,173	170,701	350,461	339,230
Finance and insurance, net	43,576	42,706	82,260	77,856
Total revenues	1,506,533	1,498,815	2,922,103	2,864,566
COST OF SALES:				
New vehicle	829,059	843,724	1,593,973	1,596,331
Used vehicle	361,006	344,458	702,984	664,440
Parts, service and collision repair	84,056	84,200	168,671	168,443
Total cost of sales	1,274,121	1,272,382	2,465,628	2,429,214
GROSS PROFIT	232,412	226,433	456,475	435,352
OPERATING EXPENSES:				
Selling, general and administrative	173,625	169,458	350,011	332,749
Depreciation and amortization	5,348	5,093	10,676	10,048
Income from operations	53,439	51,882	95,788	92,555
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(11,190)	(11,007)	(22,406)	(19,944)
Other interest expense	(9,168)	(11,140)	(20,954)	(22,043)
Interest income	1,041	1,021	3,006	1,748
Loss on extinguishment of long-term debt	(786)		(18,523)	
Other income, net	397	480	689	824
Total other expense, net	(19,706)	(20,646)	(58,188)	(39,415)
Income before income taxes	33,733	31,236	37,600	53,140
INCOME TAX EXPENSE	12,567	11,713	14,025	19,927
INCOME FROM CONTINUING OPERATIONS	21,166	19,523	23,575	33,213
DISCONTINUED OPERATIONS, net of tax	(607)	(519)	(2,583)	(1,656)
NET INCOME	$ 20,559	$ 19,004	$ 20,992	$ 31,557
EARNINGS PER COMMON SHARE:				
Basic				
Continuing operations	$ 0.65	$ 0.59	$ 0.72	$ 1.01
Discontinued operations	(0.02)	(0.02)	(0.08)	(0.05)
Net income	$ 0.63	$ 0.57	$ 0.64	$ 0.96

Diluted				
Continuing operations	$ 0.64	$ 0.58	$ 0.70	$ 0.99
Discontinued operations	(0.02)	(0.02)	(0.08)	(0.05)
Net income	$ 0.62	$ 0.56	$ 0.62	$ 0.94
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	32,490	33,077	32,909	33,000
Diluted	33,329	33,709	33,806	33,680

See Notes to Condensed Consolidated Financial Statements.

ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Six Months Ended June 30	
	2007	**2006**
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 20,992	$ 31,557
Adjustments to reconcile net income to net cash (used in) provided by operating activities-		
Depreciation and amortization	10,676	10,048
Depreciation and amortization from discontinued operations	35	215
Share-based compensation	3,514	2,296
Amortization of deferred financing fees	1,284	1,158
Change in allowance for doubtful accounts	1	(405)
Loss (gain) on sale of discontinued operations, net	2,001	(2,617)
Loss on extinguishment of long-term debt	18,523	
Deferred income taxes	2,738	(860)
Other adjustments	7,229	4,222
Changes in operating assets and liabilities, net of acquisitions and divestitures-		
Contracts-in-transit	8,876	19,554
Accounts receivable	10,884	(5,221)
Proceeds from the sale of accounts receivable	10,594	9,318
Inventories	(6,997)	(65,565)
Prepaid and other current assets	(16,095)	(9,156)
Floor plan notes payable manufacturer affiliated	(121,563)	126,981
Accounts payable and accrued liabilities	1,120	(19,371)
Excess tax benefits from share-based payment arrangements	(1,505)	(519)
Other long-term assets and liabilities	(396)	4,050
Net cash (used in) provided by operating activities	(48,089)	105,685
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures internally financed	(18,577)	(16,184)
Capital expenditures externally financed	(10,285)	(7,115)
Construction reimbursements associated with sale-leaseback agreements	3,551	3,118
Acquisitions	(34,081)	
Proceeds from the sale of assets	8,341	42,122
Other investing activities	(2,910)	(746)
Net cash (used in) provided by investing activities	(53,961)	21,195
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-manufacturer affiliated	1,388,483	1,273,177
Floor plan borrowings acquisitions	10,674	
Floor plan repayments non-manufacturer affiliated	(1,314,948)	(1,371,358)
Payment of dividends	(13,227)	
Proceeds from borrowings	265,000	987
Repayments of borrowings	(266,803)	(2,226)
Debt issuance costs	(7,949)	
Sale of warrants	8,924	
Purchase of treasury stock	(36,075)	
Purchase of convertible note hedge	(19,309)	
Proceeds from the exercise of stock options	2,924	3,924
Proceeds from the sale of assets associated with sale-leaseback agreements	3,181	

Excess tax benefits from share-based payment arrangements		1,505		519
Purchase of treasury stock associated with share-based awards		(820)		
Net cash provided by (used in) financing activities		21,560		(94,977)
Net (decrease) increase in cash and cash equivalents		(80,490)		31,903
CASH AND CASH EQUIVALENTS, beginning of period		129,170		57,194
CASH AND CASH EQUIVALENTS, end of period	$	48,680	$	89,097

See Note 11 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 119 franchises (89 dealership locations) in 21 metropolitan markets within 10 states as of June 30, 2007. 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 35 domestic and foreign brands of new vehicles, including six heavy truck brands. We also operate 23 collision repair centers that serve our markets.

Our retail network is currently organized into four regions and includes nine dealership groups, each marketed under different local brands: (i) Florida (comprising our Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando, and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas and our California dealerships operating in Los Angeles, Sacramento and Fresno), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and 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 and our Gray Daniels dealerships operating in Jackson, Mississippi remain standalone operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. 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 June 30, 2007, and for the three and six months ended June 30, 2007 and 2006 have been included. The results of operations for the three and six months ended June 30, 2007 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/A for the year ended December 31, 2006.

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 June 30, 2007 and December 31, 2006, have been classified as Assets Held for Sale and Liabilities Associated with Assets Held for Sale. In addition, the accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2006, have been reclassified to reflect the status of our discontinued operations as of June 30, 2007.

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 component of new vehicle cost of sales when earned, generally at the time the related vehicles are sold.

We receive commissions from third party lending and insurance institutions for arranging customer financing and for the sale of vehicle service contracts, credit life insurance and disability insurance to customers (collectively F&I). We may be charged back (chargebacks) for F&I commissions in the event a contract is terminated prior to maturity. 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

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. 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.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we do not amortize goodwill and franchise rights, which are deemed to have indefinite lives. We review goodwill and indefinite lived manufacturer franchise rights for impairment annually on October 1st of each year, or more often if events or circumstances indicate that impairment may have occurred. We are subject to financial statement risk to the extent that intangible assets become impaired due to decreases in the related fair market value of our underlying businesses.

Derivative Instruments and Hedging Activities

We utilize derivative financial instruments to manage our capital structure and interest rate risk. 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 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 six months ended June 30, 2007, and no ineffectiveness during the six months ended June 30, 2006.

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. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions are classified as a financing activity.

In November 2006, General Motors sold 51% of its financing subsidiary, General Motors Acceptance Corporation (GMAC), to an investment consortium led by Cerberus FIM Investors, LLC. Prior to this transaction, borrowings from and repayments to GMAC were classified net as an operating activity on our statement of cash flows as this activity was with a manufacturer affiliated lender. Subsequent to this transaction, General Motors no longer has a majority ownership of or controls

GMAC, and therefore, beginning in December 2006, borrowings from and repayments to GMAC are classified separately as a financing activity on the statement of cash flows. Floor plan notes payable related to vehicles financed after this change in control are classified as Floor plan notes payable non-manufacturer affiliated on the accompanying Condensed Consolidated Balance Sheets. Floor plan notes payable related to vehicles financed prior to this change in control continued to be classified as Floor plan notes payable manufacturer affiliated on the accompanying Condensed Consolidated Balance Sheets, with subsequent repayments classified as an operating activity, since these borrowings occurred while General Motors had control of GMAC.

Loaner vehicle activity accounts for a significant portion of Prepaid and Other Current Assets on the accompanying Condensed Consolidated Statements of Cash Flows. We acquire loaner vehicles through borrowings with manufacturer affiliated lenders, therefore we classify the acquisition of loaner vehicles and the related borrowings as an operating activity in Prepaid and Other Current Assets in the accompanying Condensed Consolidated Statements of Cash Flows. When loaner vehicles are taken out of loaner status they are transferred to used vehicle inventory, which is reflected as a non-cash transfer in the accompanying Condensed Consolidated Statements of Cash Flows. The cash outflow to repay loaner vehicle loans are reflected in Prepaid and Other Current Assets and the cash inflow upon the sale of a loaner vehicle is reflected in Inventory on the accompanying Condensed Consolidated Statements of Cash Flows. Therefore, the net impact of loaner vehicle activity on the accompanying Condensed Consolidated Statements of Cash Flows is a cash outflow in Prepaid and Other Current Assets and a cash inflow in Inventory.

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

Proceeds from the sale of dealership facilities and the related real estate previously owned and subsequently leased back in connection with sale-leaseback agreements are reflected as financing 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 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 included as cash inflows from financing activities on the accompanying Condensed Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 . FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized as well as providing guidance on derecognition, measurement classification, interest and penalties and disclosure.

We adopted the provisions of FIN 48 effective January 1, 2007 and did not make any adjustments to our liability for unrecognized tax benefits as a result of this adoption. As of January 1, 2007, we had $3.6 million of total unrecognized tax benefits. Of that amount $2.4 million, net of the federal effect, if recognized would favorably impact our effective rate in future periods. We do not expect these amounts to change materially in the next twelve months.

In connection with the adoption of FIN 48, we analyzed our filing positions in all of the federal and state jurisdictions where we are required to file tax returns, as well as all open years in these jurisdictions. We have uncertain tax positions in certain of the states in which we do business; however, none of the states individually constitute a major tax jurisdiction, as defined in FIN 48. Years subject to audit range as far back as 2003. The Internal Revenue Service commenced examinations of our consolidated federal returns for the years 2004 and 2005 in the first quarter of 2007, and certain of our subsidiary returns for 2003, 2004 and 2005 in the fourth quarter 2006. In addition, we have various state audits for years 2003, 2004 and 2005, being performed as of June 30, 2007. To date, no material adjustments have been proposed and we do not anticipate that these examinations will result in a material change to our financial position or results of operations.

We recognize interest and penalties related to income tax matters in income tax expense. As of June 30, 2007, we had approximately $0.7 million of accrued interest related to uncertain tax positions and no accrual for penalties. We do not expect the amount of accrued interest to change materially in the next twelve months.

3. INVENTORIES

Inventories consist of the following:

(In thousands)	As of June 30, 2007	As of December 31, 2006
New vehicles	$ 634,428	$ 616,275
Used vehicles	128,676	115,927
Parts and accessories	45,131	43,111
Total inventories	$ 808,235	$ 775,313

The lower of cost or market reserves reduced total inventory cost by $4.8 million as of June 30, 2007 and December 31, 2006. In addition to the inventories shown above, we had $4.8 million of inventory as of December 31, 2006, classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets as it is associated with franchises held for sale. There was no inventory classified as Assets Held for Sale as of June 30, 2007.

4. ACQUISITIONS

During the six months ended June 30, 2007, we acquired five franchises (three dealership locations), including two heavy truck franchises, for an aggregate purchase price of $34.1 million. We financed these acquisitions through the use of $23.4 million of cash and floor plan borrowings of $10.7 million from our Committed Credit Facility for the purchase of new vehicle inventory.

The allocation of purchase price for acquisitions is as follows:

(In thousands)	For the Six Months Ended June 30, 2007	2006
Inventory	$ 11,536	
Fixed assets	4,900	
Goodwill	9,395	
Franchise rights	8,250	
Total purchase price	$ 34,081	

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

5. GOODWILL AND MANUFACTURER FRANCHISE RIGHTS

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 are as follows:

(In thousands)	For the Six Months Ended June 30, 2007
Balance, December 31, 2006	$ 447,996
Current year acquisitions	9,395

Current year divestitures		(975)
Balance, June 30, 2007	$	456,416

The changes in the carrying amount of manufacturer franchise rights, which are included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheets, are as follows:

(In thousands)	**For the Six Months Ended June 30, 2007**
Balance, December 31, 2006	$ 39,518
Acquisitions	8,250
Divestitures	(2,300)
Balance, June 30, 2007	$ 45,468

During the six months ended June 30, 2007, we sold two franchises (two dealership locations) resulting in the removal of $1.0 million of goodwill and $2.3 million of manufacturer franchise rights from our Condensed Consolidated Balance Sheets.

During the six months ended June 30, 2007, we acquired five franchises (three dealership locations), including two heavy truck franchises, resulting in the allocation of approximately $9.4 million to goodwill and approximately $8.3 million to manufacturer franchise rights.

6. 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 and related reimbursements during the construction period associated with pending sale-leaseback transactions.

As of December 31, 2006, assets and liabilities associated with discontinued operations included two franchises (two dealership locations) in Arkansas. Assets associated with discontinued operations totaled $5.1 million and liabilities associated with discontinued operations totaled $3.9 million as of December 31, 2006. During the six months ended June 30, 2007, we sold the two franchises (two dealership locations) that had been held for sale as of December 31, 2006. There were no assets or liabilities associated with discontinued operations as of June 30, 2007.

Assets associated with pending sale-leaseback transactions as of June 30, 2007, and December 31, 2006, include two completed construction projects in each period totaling $7.9 million and $9.7 million, respectively. During the six months ended June 30, 2007 we received $3.6 million as the final reimbursement on one project that was completed and included in Assets Held for Sale as of December 31, 2006. As of June 30, 2007, we had not received any reimbursements associated with the remaining completed construction projects, however we expect to receive the final reimbursements during 2007.

Assets held for sale include real estate of former dealership locations not currently used in our operations totaling $11.1 million as of June 30, 2007 and December 31, 2006.

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

	As of	
(In thousands)	**June 30, 2007**	**December 31, 2006**
Assets:		
Inventories	$	$ 4,808
Property and equipment, net	18,976	21,139
Total assets	$ 18,976	$ 25,947
Liabilities:		
Floor plan notes payable		3,887
Total liabilities		3,887

Net assets held for sale	$ 18,976	$ 22,060

Included in Prepaid and Other Current Assets on the accompanying Condensed Consolidated Balance Sheets are costs associated with construction projects, which we have definitive agreements 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 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 construction reimbursements. Upon completion of the construction and receipt of the final reimbursement, we remove the cost of construction and the related liability from our Condensed Consolidated Balance Sheets and commence long-term operating leases for the assets sold. The book value of assets associated with construction projects that have not been completed as of June 30, 2007 and December 31, 2006, totaled $15.1 million and $4.4 million, respectively. As of June 30, 2007 and December 31, 2006, there were no liabilities associated with these construction projects.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
(In thousands)	**June 30, 2007**	**December 31, 2006**
9% Senior Subordinated Notes due 2012	$	$ 250,000
8% Senior Subordinated Notes due 2014 ($179.4 million and $182.4 million face value, respectively, net of hedging activity of $7,192 and $7,848, respectively)	172,238	174,582
7.625% Senior Subordinated Notes due 2017	150,000	
3% Senior Subordinated Convertible Notes Due 2012	115,000	
Mortgage notes payable	26,337	26,837
Notes payable collateralized by loaner vehicles	25,357	21,279
Capital lease obligations	3,333	3,552
Other notes payable	742	904
	493,007	477,154
Less-current portion	(27,225)	(23,144)
Long-term debt	$ 465,782	$ 454,010

Long-term Debt Refinancing

During the six months ended June 30, 2007, we completed a refinancing of our long-term debt which included (i) a repurchase of all of our $250.0 million 9% Senior Subordinated Notes due 2012 (the 9% Notes), (ii) the issuance of $115.0 million of 3% Senior Subordinated Convertible Notes due 2012 (the 3% Notes), which have an initial conversion price of $33.99, (iii) the issuance of $150.0 million of 7.625% Senior Subordinated Notes due 2017 (the 7.625% Notes) and (iv) the repurchase of $3.0 million of our 8% Senior Subordinated Notes due 2014 (the 8% Notes).

We recognized an $18.5 million loss in connection with our long-term debt refinancing. The $18.5 million loss includes (i) a $12.9 million premium on the repurchase of the 9% Notes and 8% Notes, (ii) $5.5 million of costs associated with a pro-rata write-off of unamortized debt issuance costs associated with the 9% Notes and 8% Notes, and (iii) $0.1 million of costs associated with a pro-rata write-off of the unamortized value of our terminated fair value swap associated with the 8% Notes.

In connection with the sale of our 3% Notes, we entered into convertible note hedge transactions with respect to our common stock, with Goldman, Sachs & Co. and Deutsche Bank AG, London Branch (collectively, the Counterparties). The convertible note hedge transactions requires the Counterparties to deliver to us, subject to customary anti-dilution adjustments, all shares issuable upon conversion of the 3% Notes.

We also entered into separate warrant transactions whereby we sold to the Counterparties warrants to acquire, subject to customary anti-dilution adjustments, shares of our common stock at a strike price of $45.09 per share. On exercise of the warrants, we are obligated to deliver a number of shares of our common stock based on the excess of the market price over the strike price.

The convertible note hedge and warrant transactions are separate contracts and are not part of the terms of the 3% Notes and will not affect the holders rights under the 3% Notes. Holders of the 3% Notes will not have any rights with respect to the convertible note hedge and warrant transactions. The convertible hedge and warrant transactions will generally have the effect of increasing the conversion price of the 3% Notes to $45.09, which is a 62.50% premium over the market price of our common stock at the time of pricing. The convertible note hedge and warrant transactions are expected to offset the potential dilution upon conversion of the 3% Notes in the event that the market value per share of our common stock at the time of exercise is between $33.99 and $45.09.

The warrant transactions and the underlying shares of common stock issuable upon exercise of the warrants have not been registered under the Securities Act, as amended (the Securities Act) or the securities laws of any other jurisdiction and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

3% Senior Subordinated Convertible Notes due 2012

In March 2007, we issued $115.0 million in aggregate principal amount of our 3% Notes, receiving net proceeds of $111.1 million. The sale of the notes was exempt from registration pursuant to Rule 144A under the Securities Act. During the second quarter of 2007, we filed a shelf registration statement with the Securities and Exchange Commission (the SEC) covering the resale of the notes and the underlying common stock. The costs related to the issuance of these notes were capitalized and are being amortized to other interest expense over the term of the notes. We pay interest on these notes on March 15 and September 15 of each year until their maturity on September 15, 2012. If and when these notes are converted, we will pay cash for the principal amount of each note and, if applicable, shares of our common stock based on a daily conversion value calculated on a proportionate basis for each volume weighted average price (VWAP) trading day (as defined in the notes) of the relevant 30 VWAP trading day observation period. The initial conversion rate for the notes is 29.4172 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of $33.99 per share. The conversion rate will be subject to adjustment in some events but will not be adjusted for accrued interest.

Our 3% Notes are guaranteed by all our wholly-owned current subsidiaries and all of our future domestic subsidiaries that have outstanding, incur or guarantee any other indebtedness. The terms of our 3% Notes, in certain circumstances, restrict our ability to, among other things, sell all or substantially all of our assets.

7.625% Senior Subordinated Notes due 2017

In March 2007, we issued $150.0 million of our 7.625% Notes, receiving net proceeds of $146.0 million. The sale of the notes was exempt from registration pursuant to Rule 144A and Regulation S under the Securities Act. During the second quarter of 2007, we filed a registration statement with the SEC in connection with an exchange offer to exchange the notes for new notes with substantially identical terms that are registered under the Securities Act and, therefore, will generally be freely transferable. The costs related to the issuance of these notes were capitalized and are being amortized to other interest expense over the term of the notes. We pay interest on these notes on March 15 and September 15 of each year until their maturity on March 15, 2017. At any time during the term of the 7.625% Notes we may, at our option, choose to redeem all or a portion of these notes at a price equal to 100% of their principal amount plus the applicable premium set forth in the 7.625% Notes indenture. On or before March 15, 2010, we may, at our option, use the net proceeds of one or more equity offerings to redeem up to 35% of the aggregate principal amount of these notes at a redemption price equal to 107.625% of their principal amount plus accrued and unpaid interest thereon.

Our 7.625% Notes are guaranteed by all of our wholly-owned current subsidiaries and all of our future domestic subsidiaries that have outstanding, incur or guarantee any other indebtedness. The terms of our 7.625% Notes, in certain circumstances, restrict our ability to, among other things, incur additional indebtedness, pay dividends, repurchase our common stock and merge or sell all or substantially all our assets.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

In November 2006, we entered into an interest rate swap agreement with a notional principal amount of $150.0 million as a hedge against the changes in interest rates of our variable rate floor plan notes payable for a period of two years beginning in November 2006. The swap agreement was designated and qualifies as a cash flow hedge of future changes in interest rates of our variable rate floor plan notes payable and is not expected to contain any ineffectiveness. As of June 30, 2007, the swap agreement had a fair value of $0.2 million, which was included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheet.

We have an interest rate swap with a current notional principal amount of $13.8 million. The swap was designed to provide a hedge against changes in interest rates of our variable rate mortgage notes payable through maturity in June 2011. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness. Under the terms of the swap agreement, we make payments based on a fixed rate of 6.08% and receive a variable rate cash flows based on one-month LIBOR. As of June 30, 2007 and December 31, 2006, the swap agreement had a fair value of $0.4 million and $0.3 million, respectively, which was included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheets.

Three 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 June 30, 2007, was $2.9 million ($1.8 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. Amortization of these terminated cash flow swaps will total $0.9 million for the year ended December 31, 2007. In addition, included as a reduction to our 8% Notes as of June 30, 2007, was $7.2 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. Amortization of this terminated fair value swap will total $1.1 million for the year ended December 31, 2007.

9. COMPREHENSIVE INCOME

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands)	**2007**	**2006**	**2007**	**2006**
Net income	$ 20,559	$ 19,004	$ 20,992	$ 31,557
Other comprehensive income:				
Change in fair value of cash flow swaps	833	164	528	2,185
Amortization of expired cash flow swaps	224	239	448	318
Income tax expense associated with cash flow swaps	(391)	(151)	(359)	(939)
Comprehensive income	$ 21,225	$ 19,256	$ 21,609	$ 33,121

10. DISCONTINUED OPERATIONS

During 2007, we sold two franchises (two dealership locations). There were no franchises pending disposition as of June 30, 2007. The accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2006, have been reclassified to reflect the status of our discontinued operations as of June 30, 2007.

The following table provides further information regarding our discontinued operations as of June 30, 2007, and includes the results of businesses sold prior to June 30, 2007:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(Dollars in thousands)	**2007**	**2006**	**2007**	**2006**
Franchises:				
Mid-line Domestic		4		6
Mid-line Import		1		2
Value		3	2	3
Luxury		1		1
Total		9	2	12
Ancillary Businesses		1		1
Revenues	$	$ 28,853	$ 1,562	$