ASBURY AUTOMOTIVE GROUP INC
Form 10-K
March 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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 (State or other jurisdiction of incorporation or organization)	**01-0609375** (I.R.S. Employer Identification No.)
622 Third Avenue, 37th Floor **New York, New York** (Current address of principal executive offices)	**10017** (Zip Code)

(212) 885-2500

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large Accelerated Filer o Accelerated filer x Non-Accelerated Filer o

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

Based on the closing price of the registrant s common stock as of June 30, 2006, the aggregate market value of the common stock held by non-affiliates of the registrant was $266,580,450.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of March 5, 2007, was 33,559,606 (net of 1,536,706 treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated:

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be filed within 120 days after the end of the registrant s fiscal year are incorporated by reference into Part III, Items 10 through 14 of this Form 10-K.

ASBURY AUTOMOTIVE GROUP, INC.

2006 FORM 10-K ANNUAL REPORT

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	19
Item 1B.	Unresolved Staff Comments	29
Item 2.	Properties	29
Item 3.	Legal Proceedings	29
Item 4.	Submission of Matters to a Vote of Security Holders	30
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
Item 6.	Selected Financial Data	33
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	68
Item 8.	Financial Statements and Supplementary Data	69
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	112
Item 9A.	Controls and Procedures	112
Item 9B.	Other Information	113
	PART III	
Item 10.	Directors and Executive Officers of the Registrant	113
Item 11.	Executive Compensation	113
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	113
Item 13.	Certain Relationships and Related Transactions, and Director Independence	113
Item 14.	Principal Accountant Fees and Services	113
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	114

PART I

Forward-Looking Information

Certain statements in this report constitute forward-looking statements as such term is defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this report include statements relating to goals, plans and pending acquisitions, projections regarding our financial position, results of operations, market position, business strategy and expectations of our management with respect to, among other things:

- our relationships with vehicle manufacturers;
- our ability to improve our margins;
- operating cash flows and availability of capital;
- capital expenditures;
- the ability of mid-line imports and luxury brands to continue to take market share;
- improvements in our SG&A as a percentage of gross profit;
- our ability to pay future dividends;
- the completion of future acquisitions and the revenues to be generated by those acquisitions;
- general economic trends, including consumer confidence levels and interest rates; and
- automotive retail industry trends.

To the extent that statements in this report are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, are based on our current expectations and assumptions and involve significant risks and uncertainties. As a result, there can be no guarantees that our plans for future operations will be successfully implemented or that they will prove to be commercially successful. The following are some but not all of the factors that could cause actual results or events to differ materially from those anticipated, including:

- our ability to generate sufficient cash flows;
- market factors and the future economic environment, including consumer confidence, interest rates, the price of oil and gasoline, the level of manufacturer incentives and the availability of consumer credit;
- the reputation and financial condition of vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;
- the ability of our principal vehicle manufacturers to continue to produce vehicles that are in high demand by our customers;
- our ability to enter into and/or renew our framework and dealership agreements on favorable terms;
- the inability of our dealership operations to perform at expected levels or achieve expected targets;
- our ability to successfully integrate recent and future acquisitions;

- our relationships with the automotive manufacturers which may affect our ability to complete additional acquisitions;

1

- changes in, or failure or inability to comply with, laws and regulations governing the operation of automobile franchises, accounting standards, the environment and taxation requirements;
- high levels of competition in the automotive retailing industry which may create pricing pressures on the products and services we offer;
- our inability to minimize operating expenses or adjust our cost structure;
- the loss of key personnel; and
- the outcome of any pending or threatened litigation.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this report. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, whether as a result of new information, future events or otherwise. Please see the section under Item 1A. Risk Factors for a further discussion of the factors that may cause actual results to differ from our projections.

Moreover, the factors set forth under Item 1A. Risk Factors, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations below and other cautionary statements made in this report should be read and understood as being applicable to all related forward-looking statements wherever they appear in this report. We urge you to carefully consider those factors.

Additional Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act are made available free of charge on our Internet site at *http://www.asburyauto.com* on the same day that the information is filed with the Securities and Exchange Commission (the Commission). We also make available on our web site copies of our charter, bylaws and materials that outline our corporate governance policies and practices, including:

- the charters of our audit committee, governance and nominating committee, and compensation committee;
- our criteria for independence of the members of our board of directors; audit committee and compensation committee;
- our Corporate Governance Guidelines; and
- our Code of Conduct and Ethics for Directors, Officers and Employees.

You may also obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations Department, Asbury Automotive Group, Inc., 622 Third Avenue, 37th Floor, New York, New York 10017. In addition, the Commission makes available on its web site, free of charge, reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the Commission. The Commission s web site is *http://www.sec.gov*. Unless otherwise specified, information contained on our web site, available by hyperlink from our web site or on the Commission s web site, is not incorporated into this report or other documents we file with, or furnish to, the Commission.

As required by Section 303A.12 of the Listed Company Manual of the New York Stock Exchange (the NYSE), our Chief Executive Officer submitted to the NYSE his annual certification on May 19, 2006, stating that he was not aware of any violation by our company of the corporate governance listing standards of the NYSE. In addition, we have filed, as exhibits to our annual report on Form 10-K for the year ended December 31, 2005, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the Commission.

Item 1. Business

We are one of the largest automotive retailers in the United States, operating 114 franchises at 87 dealership locations as of December 31, 2006. We offer our customers an extensive range of automotive products and services, including:

- new and used vehicles and related financing;
- vehicle maintenance and repair services;
- replacement parts; and
- warranty, insurance and extended service contracts.

For the year ended December 31, 2006, our revenues were $5.7 billion and our net income was $60.7 million.

Asbury Automotive Group, Inc. was incorporated in Delaware on February 15, 2002. On March 13, 2002, we effected an initial public offering of our common stock, and on March 14, 2002, our stock was listed on the NYSE under the ticker symbol ABG .

General Description of Our Operations

As of December 31, 2006, we operated dealerships in 21 metropolitan markets throughout the United States. We developed our dealership portfolio through the acquisition of large, locally branded dealership groups operating throughout the United States. We complemented these large dealership groups with the purchase of numerous single point dealerships and small dealership groups in our existing market areas (referred to as tuck in acquisitions.) Our retail network is currently organized into principally four regions and includes ten locally branded dealership groups. The following is a detailed breakdown of our markets and dealerships as of December 31, 2006:

3

Brand Names by Region	Date of Initial Acquisition	Markets	Franchises
South			
Nalley Automotive Group	September 1996	Atlanta, GA	Acura, Audi, BMW, Chrysler, Hino, Honda, Infiniti, Isuzu Truck, Jaguar, Jeep, Lexus(a), Navistar, Peterbilt, Volvo
North Point Auto Group	February 1999	Little Rock, AR	BMW, Ford, Hyundai(a)(b), Lincoln, Mazda, Mercury, Nissan(a), Toyota, Volkswagen, Volvo
Florida			
Courtesy Autogroup	September 1998	Tampa, FL	Chrysler, Hyundai, Infiniti, Jeep, Kia, Mercedes-Benz, Nissan, Toyota
Coggin Automotive Group	October 1998	Jacksonville, FL	Buick, Chevrolet, GMC(a), Honda(a), Kia (a), Nissan(a), Pontiac(a), Toyota,
		Orlando, FL	Buick, Chevrolet, Ford, GMC, Honda(a), Lincoln, Mercury, Pontiac
		Fort Pierce, FL	BMW, Honda, Mercedes-Benz
West			
Spirit Automotive Group	April 2004	Los Angeles, CA	Honda
David McDavid Auto Group	April 1998	Dallas/Fort Worth, TX	Acura, Honda(a), Lincoln, Mercury
		Houston, TX	Honda, Nissan
		Austin, TX	Acura
Mid-Atlantic			
Crown Automotive Company	December 1998	Greensboro, NC	Acura, BMW, Cadillac, Chevrolet, Chrysler, Dodge, Honda, Nissan, Volvo
		Chapel Hill, NC	Honda, Volvo
		Fayetteville, NC	Dodge, Ford
		Charlotte, NC	Honda
		Richmond, VA	Acura, BMW(a), MINI
		Charlottesville, VA	BMW
		Greenville, SC	Chrysler, Jeep, Nissan
Gray-Daniels Auto Family	April 2000	Jackson, MS	Buick, Cadillac, Chevrolet(a), Ford, GMC, Lincoln, Mercury, Nissan(a), Pontiac, Toyota
Plaza Motor Company	December 1997	St. Louis, MO	Audi, BMW, Cadillac, Infiniti, Land Rover, Lexus, Mercedes-Benz, Porsche
Northern California Dealerships	April 2003	Fresno, CA Sacramento, CA	Mercedes-Benz, Nissan Mercedes-Benz

(a) This market has two of these franchises.

(b) Both locations were pending divestitures as of December 31, 2006 and were sold in the first quarter of 2007.

New vehicle sales

Our franchises include a diverse portfolio of 33 American, European and Asian brands. Our new vehicle sales include 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). In 2006, we retailed approximately 104,000 new vehicles through our dealerships. New vehicle retail sales were approximately 57% of our total revenues and 27% of our total gross profit for the year ended December 31, 2006. Fleet sales, which provide significantly less margin than retail sales, were approximately 3% of total revenues for the year ended December 31, 2006. We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle retailed (PVR). We believe we are well-positioned to capitalize on changes in consumer preferences as a result of our strong brand mix, which is heavily weighted towards mid-line import and luxury brands Please see Business Strategy Focus on Premier Brand Mix, Strategic Markets and Diversification below for a discussion on our diverse offering of brands and products.

Our new vehicle retail sales include new vehicle sales, new vehicle retail lease transactions and other similar agreements, which are arranged by our individual dealerships. Due to their terms, new vehicle leases, which are provided by third parties, generally cause customers to return to the market more frequently than in the case of purchased vehicles. In addition, because third party lessors frequently give our dealerships the first option to purchase vehicles returned by customers at lease-end, leases provide us with an additional source of late-model vehicles for our used vehicle inventory. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing dealerships to provide repair service to the lessee throughout the lease term.

Used vehicle sales

We sell used vehicles at virtually all of our franchised dealerships. Used vehicle sales include 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). In 2006, we retailed approximately 63,000 used vehicles through our dealerships. Retail sales of used vehicles, which generally have higher gross margins than new vehicles, made up approximately 19% of our total revenues and 15% of our total gross profit for the year ended December 31, 2006. Used vehicle revenue from wholesale sales was 6% of total revenue for the year ended December 31, 2006. Profits from the sales of used vehicles are dependent primarily on the ability of our dealerships to obtain a high quality supply of used vehicles and the use of the best available technology to manage our inventory. Our new vehicle operations provide our used vehicle operations with a large supply of high quality trade-ins and off-lease vehicles, which we believe are a good source of attractive used vehicle inventory. A significant portion of our used vehicle inventory is purchased at auctions restricted to new vehicle dealers (offering off-lease, rental and fleet vehicles) and open auctions which offer vehicles sold by other dealers and repossessed vehicles. Used vehicle inventory is typically wholesaled after approximately 60 days, except for low value trade-ins, which are wholesaled almost immediately. The reconditioning of used vehicles also creates profitable service work for our fixed operations departments.

In addition to our high quality supply of used vehicles, we manage our used car sales on a local basis and employ the best available technology to manage our inventory and used car sales. We transfer used vehicles among our dealerships to provide a balanced mix of used vehicle inventory at each of our dealerships. We believe that acquisitions of additional dealerships will expand the internal market for the transfer of used vehicles among our dealerships and, therefore, increase the ability of each dealership to offer a balanced mix of used vehicles.

We have taken several steps towards building customer confidence in our used vehicle inventory, including participation in manufacturer certification programs as well as the development of our own used vehicle certification program. The manufacturer programs make certain used vehicles eligible for vehicle

benefits such as special finance rates and extended manufacturer warranties. In addition, each dealership offers customers the opportunity to purchase extended warranties, which are provided by third parties, on its used car sales.

We intend to grow our used vehicle sales by maintaining high quality inventory across all price ranges, providing competitive prices, executing our marketing initiatives and increasing our focus on training. In addition, we also intend to increase our used vehicle sales though our focus on sub-prime financing. Most of our customers seek to purchase rather than lease used vehicles and most of these purchases require some level of financing. There are a number of consumers who do not have access to traditional financing and must avail themselves of the sub-prime lending market. We have seen an increase in used vehicle gross profit at certain of our stores attributable to our focus at those stores on sales to customers in need of sub-prime financing. We plan to implement a dedicated sub-prime program at more of our stores in order to better service those customers who need sub-prime financing.

Parts, service and collision repair

We refer to the parts, service and collision repair area of our business as fixed operations . We sell parts and provide maintenance and repair service at all of our franchised dealerships, primarily for the vehicle brands sold at those dealerships. In addition, as of December 31, 2006, we maintained 23 free-standing collision repair centers in close proximity to our dealerships. Our dealerships and collision repair centers collectively operate approximately 2,150 service bays. Parts, service and collision repair centers accounted for approximately 12% of our total revenues and 39% of our total gross profit as of December 31, 2006.

Historically, fixed operations revenues have been more stable than vehicle sales. Industry-wide, parts and service revenues have consistently increased over the last 20 years primarily due to the increased cost of maintaining vehicles, the added technical complexity of vehicles and the increased number of vehicles on the road. We believe the variety and quality of extended service plans available for both new and used vehicles in recent years has seen progressive expansion and improvement. Our fixed operations benefit from the service work generated through the sale of extended service contracts to customers who purchase new and used vehicles from us as customers tend to service their vehicles at the same location where they purchase extended warranty contracts. As of December 31, 2006, warranty work accounted for approximately 21% of our parts and service revenue.

Historically, the automotive repair industry has been highly fragmented. However, we believe that the increased use of advanced technology in vehicles has made it difficult for independent repair shops to have the expertise required to perform major or technical repairs, especially as such repairs relate to luxury and mid-line imports which comprise a majority of our new vehicle retail sales. Additionally, most manufacturers require warranty work to be performed only at franchised dealerships. As a result, unlike independent service stations or independent and superstore used car dealerships with service operations, our franchised dealerships are qualified to perform work covered by manufacturer warranties on increasingly technologically complex motor vehicles. We use variable rate compensation structures designed to reflect the difficulty and sophistication of different types of repairs to compensate employees working in parts and service. In addition, the profit percentages for parts vary according to market conditions and type.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our parts and service departments. Currently, we estimate that approximately 30% of customers return to our dealerships for other services after the vehicle warranty expires. Therefore, we believe that significant opportunity for growth exists in the maintenance service business. Each dealership has systems in place to track customer maintenance records and to notify owners of vehicles purchased at the dealership when their vehicles are due for periodic services. In 2006, we implemented additional customer retention iniatives and expanded our service offerings to essentially make the fixed operations business at our stores

a one stop shop. Service and repair activities are an integral part of our overall approach to customer service. From selling tires to utilizing state-of-the-art diagnostic equipment, our fixed operations businesses offer a variety of repairs and services, many of which other independent repair shops would not handle. In 2005, we added approximately 140 fixed operations employees, including approximately 100 technicians, to our operations to ensure that our customers continue to receive excellent service. We experienced continued growth in this line of our business in 2006 due to the additions made in 2005.

We expect our fixed operations sales to continue to grow as we (i) continue to invest in additional service capacity, (ii) upgrade equipment, (iii) expand our product offerings, (iv) capitalize on our regional training programs and (v) add service advisors and skilled technicians to meet anticipated future demand, especially from the increased market share of the mid-line import and luxury import brands.

Finance and insurance

We refer to the finance and insurance area of our business as F&I. We generally arrange for the financing of the sale or lease of new and used vehicles to customers through third party vendors. We arranged customer financing with no recourse to us on approximately 65% of the vehicles we sold during the year ended December 31, 2006. These transactions result in commissions being paid to us by the third party lenders, including manufacturer captive finance subsidiaries. Our finance and insurance business generated approximately 3% of our total revenues and 18% of our total gross profit for the year ended December 31, 2006.

To date, we have entered into preferred lender agreements with 19 lenders. Under the terms of the preferred lender agreements, each lender has agreed to provide a marketing fee to us above the standard commission for each loan that our dealerships place with that lender. Furthermore, many of the insurance products we sell result in additional underwriting profits and investment income yields based on portfolio performance.

We receive highly favorable pricing on these products from our vendors as a result of our size and sales volume. We earn sales-based commissions on substantially all of these products while taking virtually no risk related to loan payments, insurance payments or investment performance, which are generally borne by third parties. These commissions are subject to cancellation, in certain circumstances, if the customer were to cancel the contract. In May 2006, we implemented a new F&I program which increased our upfront warranty commission, which we believe will increase F&I PVR by $40 to $50. In addition, we expect to complete the rollout of a training program in 2007 that certifies all of our F&I managers, sales managers and sales associates in legal and ethical compliance matters.

Recent Developments

On February 26, 2007, we commenced a tender offer and consent solicitation for our $250.0 million aggregate principal amount 9% Senior Subordinated Notes due 2012 (the 9% Notes), which is contingent on obtaining financing and is scheduled to expire on March 23, 2007. We are currently evaluating our financing alternatives in the capital markets.

On February 15, 2007, Kenneth B. Gilman announced his retirement from his position as our President and Chief Executive Officer, and his retirement from our board of directors, both effective immediately following our 2007 Annual Meeting of Shareholders on May 4, 2007. Charles R. Oglesby will succeed Mr. Gilman as our President and Chief Executive Officer commencing May 4, 2007.

On February 15, 2007, we announced that our board of directors approved a 1.3 million share repurchase program with the objective of offsetting earnings per share dilution resulting from employee stock-based compensation programs.

In February 2007, we sold two dealerships in Little Rock, Arkansas. We sold these dealerships for $8.3 million and recognized a loss on these sales of approximately $1.8 million. These franchises were classified as discontinued operations as of December 31, 2006.

On January 17, 2007, our board of directors declared a $0.20 per share cash dividend. This was the third consecutive quarter that a $0.20 per share dividend was paid.

On December 29, 2006, Asbury Automotive Holdings L.L.C. (AAH), our largest shareholder, dissolved and distributed its shares of our common stock among certain funds affiliated with Freeman Spogli & Co. (the FS Funds), which held a 49% interest in AAH. This distribution occurred following the sale of all of our common stock owned by Ripplewood Partners, L.P. (Ripplewood), which held a 51% interest in AAH prior to the sale, through two secondary offerings in the fourth quarter of 2006. The FS Funds also sold some of their holdings of our common stock in one of these secondary offerings. Following AAH s dissolution, the voting provisions of the shareholders agreement, dated as of March 1, 2002 (as amended, the Shareholders Agreement), among Asbury, AAH and certain of our other stockholders, terminated. Consequently, we are no longer controlled by Ripplewood and the FS Funds will directly own and have sole voting power over the shares of our common stock held by each of them. The FS Funds collectively held approximately 17.7% of our outstanding shares as of December 31, 2006. Prior to its dissolution, AAH had voting control of approximately 24.9% of Asbury common stock pursuant to the terms of the Shareholders Agreement.

Business Strategy

Focus on Premier Brand Mix, Strategic Markets and Diversification

We classify our franchise sales into luxury, mid-line import, mid-line domestic, value, and heavy trucks. Luxury and mid-line imports together accounted for approximately 73% of our new retail vehicle revenues as of December 31, 2006, and comprised over 60% of our total franchises. Over the last 15 years, luxury and mid-line imports have gained market share at the expense of mid-line domestic brands. Luxury and mid-line import vehicles have delivered more desirable vehicle models and have demonstrated greater resilience to downturns in the economy, garnered higher customer loyalty and presented more attractive service and used car opportunities. The mid-line import brands are generally viewed as more fuel efficient, and thus perform well during times when gas prices are high.

The following table reflects the franchises and the share of new retail vehicle revenue represented by each class of franchise as of December 31, 2006:

Class/Franchise	Number of Franchises as of December 31, 2006	% of New Retail Vehicle Revenue for the Year Ended December 31, 2006	
Luxury			
BMW	8	6	%
Acura	5	5	
Mercedes-Benz	5	9	
Lincoln	4	1	
Volvo	4	1	
Cadillac	3	1	
Infiniti	3	3	
Lexus	3	6	
Audi	2	*	
Porsche	1	*	
Jaguar	1	*	
Land Rover	1	*	
Total Luxury	40	32	%
Mid-Line Import			
Honda	13	21	%
Nissan	11	12	
Toyota	4	8	
Mazda	1	*	
MINI	1	*	
Volkswagen	1	*	
Total Mid-Line Import	31	41	%
Mid-Line Domestic			
Chevrolet	5	4	%
GMC	4	1	
Pontiac	4	1	
Chrysler	4	2	
Ford	4	5	
Mercury	4	1	
Buick	3	*	
Jeep	3	1	
Dodge	2	1	
Total Mid-Line Domestic	33	16	%
Value			
Hyundai(a)	3	*	%
Kia	3	1	
Total Value	6	1	%
Heavy Trucks			
Hino	1	*	%
Isuzu	1	2	
Navistar	1	6	
Peterbilt	1	2	
Total Heavy Trucks	4	10	%
TOTAL	114	100	%

* Franchise accounted for less than 1% of new retail vehicle revenue for the year ended December 31, 2006.

(a) Includes two pending divestitures as of December 31, 2006, which were sold in the first quarter of 2007.

Asbury s geographic coverage encompassed 21 different metropolitan markets at 87 locations in 10 states as of December 31, 2006: Arkansas, California, Florida, Georgia, Mississippi, Missouri, North Carolina, South Carolina, Texas and Virginia. New vehicle sales revenue is diversified among manufacturers and for the year ended December 31, 2006 of which Honda (21%), Nissan (12%), Mercedes-Benz (9%), Toyota (8%), BMW (6%), Lexus (6%), Acura (5%) and Ford (5%) represented 72% of the portfolio. We believe that our broad geographic coverage as well as diversification among manufacturers decreases our exposure to regional economic downturns and manufacturer-specific risks such as warranty issues or production disruption. See Risk Factors Risk Factors Related to our Dependence on Vehicle Manufacturers Adverse conditions affecting the manufacturers may negatively impact our profitability for a list of such manufacturer-specific risks.

Each of our dealerships maintains a strong local brand that has been enhanced through local advertising over many years. We believe our cultivation of strong local brands is beneficial because consumers prefer to interact with a locally recognized brand. By placing franchises in one geographic location under a single, local brand, we expect to generate advertising synergies and retain customers even as they purchase and service different automobile brands.

Maintain Variable Cost Structure and Emphasize Expense Control

We continually focus on controlling expenses and expanding margins at our existing dealerships and those that are integrated into our operations upon acquisition. Our variable cost structure generally helps us manage expenses in a variety of economic environments, as the majority of our operating expenses consist of incentive-based compensation, vehicle carrying costs, advertising and other variable and controllable costs. The majority of our general manager compensation and virtually all salesperson compensation is tied to profits of the dealership. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and the majority of other non-clerical dealership personnel are paid a commission or a modest salary plus commission. We believe we can further manage these types of costs through best practices, standardization of compensation plans, controlled oversight and accountability, and centralized processing systems.

Focus on Higher Margin Products and Services

While new vehicle sales are critical to drawing customers to our dealerships, fixed operations, used vehicle retail sales, and finance and insurance generally provide significantly higher profit margins and account for the majority of our profitability. In addition, we have discipline-specific executives at both the corporate and regional levels who focus on increasing the penetration of current services and expanding the breadth of our offerings to customers. While each of our dealership general managers has the independence and flexibility to respond effectively to local market conditions, each pursues an integrated strategy, as directed from our centralized management team, to grow these higher margin businesses to enhance profitability and stimulate organic growth.

- **Fixed Operations.** We offer parts, perform vehicle service work and operate collision repair centers, all of which provide important sources of recurring revenue with high gross profit margins. For the year ended December 31, 2006, gross profits from these businesses absorbed approximately 60% of our total operating expenses, including corporate office expenses, but excluding salespersons compensation. We intend to continue to grow this higher-margin business and increase this cost absorption rate by adding new service bays and increasing capacity utilization of existing service bays. To help ensure high levels of customer satisfaction within our parts, service and collision repair operations, we continue to add skilled technicians and service advisors to our operations. In addition, given the increased sophistication of vehicles, our repair operations provide detailed expertise and state-of-the-art diagnostic equipment that we believe independent repair shops cannot adequately provide. Our repair operations also provide manufacturer warranty work that must be done at certified franchise dealerships, rather than through independent dealers.

- **Used Vehicles.** We sell used vehicles at virtually all of our franchised dealerships. Used vehicle sales include the sale of used vehicles to individual retail customers and the sale of used vehicles to other dealers at auction. We intend to grow our used vehicle business by maintaining high quality inventory across all price ranges, providing competitive prices, continuing to enhance our marketing initiatives and focusing our efforts on servicing our customers who need sub-prime financing.

- **Finance and Insurance.** In the past two years we have increased our finance and insurance revenues by offering a broad range of conventional finance and lease alternatives to fund the purchase of new and used vehicles. Moreover, continued in-depth sales training and certification efforts and innovative computer technologies has and will serve as important tools in growing our finance and insurance profitability. We have increased dealership generated finance and insurance revenue per vehicle retailed to $906 for the year ended December 31, 2006, from $886 for the year ended December 31, 2005. We have successfully increased our dealership generated finance and insurance revenue per vehicle retailed each year since our inception. See Management s Discussion and Analysis of Financial Condition and Results of Operations Reconciliation of Non-GAAP Financial Information.

Local Management of Dealership Operations and Centralized Administrative and Strategic Functions

We believe that local management of dealership operations enables our retail network to provide market-specific responses to sales, customer service and inventory requirements. Our dealerships are operated as distinct profit centers in which the general managers are responsible for the operations, personnel and financial performance of their dealerships as well as other day-to-day operations. Our local management teams familiarity with their markets enables them to effectively run day-to-day operations, market to customers, recruit new employees and gauge acquisition opportunities in these markets. The general manager of each dealership is supported by a management team consisting, in most cases, of a new vehicle sales manager, a used vehicle sales manager, a finance and insurance manager, and a fixed operations manager. We have a management structure that is intended to promote and reward entrepreneurial spirit and the achievement of team goals. This management structure is complemented by regionally centralized technology and financial controls, as well as sharing market intelligence throughout the organization. See Experienced and Incentivized Corporate and Dealership Management below for a discussion of the incentive-based pay system for management at our corporate office and at our dealerships.

We employ professional management practices in all aspects of our operations, including information technology and employee training. Our dealership operations are complemented by regionally centralized technology and strategic and financial controls, as well as shared market intelligence throughout the organization. Corporate and dealership management utilize computer-based management information systems to monitor each dealership s sales, profitability and inventory on a regular basis. We believe the application of professional management practices provides us with a competitive advantage over many independent dealerships. We regularly examine our operations in order to identify areas for improvement and disseminate best practices company-wide.

Our corporate headquarters are located in New York, New York. The corporate office is responsible for the capital structure of the business and its expansion and operating strategy. The implementation of our operational strategy rests with each dealership management team based on the policies and procedures established by the corporate office.

Investment in Human Capital

We recognize that our ability to control the growth of our new vehicle sales is limited by external factors, including the manufacturers ability to develop new vehicle models, manufacturer rebates and incentives, consumer confidence, oil and gas prices, interest rates and the availability of credit for

consumers. Growth in our fixed operations business is dependent on our ability to generate long-term customer relationships and having our customers return to our stores for service and repairs. Our finance and insurance business is dependent on our ability to arrange financing for our customers through third party vendors. In each line of our business, our ability to capture the customer and close the deal will enable us to generate revenue. In our effort to seek continued growth in all of our business lines and set us apart from our competitors, we invest in the education and growth of our employees.

Over the past two years, we have implemented programs to certify our finance and insurance managers, our new and used sales managers and our sales force in the areas of compliance and ethics. These employees either attend classes or seminars on compliance and ethics as such topics relate to the automotive retailing industry, and more specifically, finance and insurance for the finance and insurance managers, and are then required to pass a written examination on these subjects in order to receive certification. The employees are required to maintain their certification annually which keeps their knowledge of compliance and ethics current. Furthermore, we believe that by certifying these employees, we build the knowledge base of our employees, which, in turn, improves morale and performance. We expect that by May 2007, our entire sales force will be certified.

In addition, in three of our four regions, we have a regional training program for our fixed operations employees that addresses various aspects of our fixed operations business, including tire sales and oil sales. Our fixed operation employees are trained so that they can in turn hold new car clinics and service clinics for our customers. We believe that by increasing the knowledge base of our fixed operations employees, we not only build their confidence and increase their performance; such training provides better experience for our customers as they interact with those employees. We believe that a customer who has a positive experience with one of our employees will be a repeat customer, which, in return, will lead to the continued growth of our business.

Experienced and Incentivized Corporate and Dealership Management

We have a corporate management team that has served in prominent leadership positions, including positions at other Fortune 500 companies. Kenneth B. Gilman, our President and Chief Executive Officer, has extensive experience in the retail sector. He served for 25 years at Limited Brands (formerly, The Limited, Inc.) where his last assignment was as Chief Executive Officer of Lane Bryant, a retailer of women s clothing and a subsidiary of Limited Brands. From 1993 to 2001, Mr. Gilman served as Vice Chairman and Chief Administrative Officer of Limited Brands with responsibility for, among other things, finance, information technology, supply chain management and production. Mr. Gilman has served as our President and Chief Executive Officer since December 2001. On February 15, 2007, Mr. Gilman, announced his retirement from his position as our President and Chief Executive Officer, and his retirement from our board of directors, both effective immediately following our 2007 Annual Meeting of Shareholders on May 4, 2007.

Charles R. Oglesby, has served as our Senior Vice President and Chief Operating Officer since September 2006. He has also served as the Chief Executive Officer of our South Region since August 2004. Mr. Oglesby originally joined us as President and Chief Executive Officer of Asbury Automotive Arkansas in February 2002. From July 1998 to February 2000, Mr. Oglesby served as President and Chief Operating Officer of the First America Automotive Group in San Francisco. Mr. Oglesby will succeed Mr. Gilman as our President and Chief Executive Officer effective May 4, 2007.

J. Gordon Smith has served as our Senior Vice President and Chief Financial Officer since September 2003. He joined us following over 26 years with General Electric Company (GE). During his last twelve years at GE he served as Chief Financial Officer for three of GE s commercial finance businesses: Corporate Financial Services, Commercial Equipment Finance and Capital Markets.

We believe that our leadership at the store level represents some of the best talent in the industry. Our regional executives and store general managers are proven leaders in their local markets and have

many years of experience in the automotive retail industry. In addition, our continued focus on college recruiting, training, development, and retention is designed to maintain our talented management pool. See Business Strategy Investment in Human Capital for further description of certain of our training programs.

We tie compensation of our senior dealership management to performance by relying upon an incentive-based pay system. We compensate our general managers based on dealership profitability, and our department managers and salespeople are similarly compensated based upon departmental profitability and individual performance.

Continued Growth Through Targeted Acquisitions

Acquisitions continue to be part of our growth strategy. In the past, we have focused our acquisition strategy on establishing a presence in new markets through the purchase of multiple individual franchises or through the acquisition of large, profitable and well-managed dealership groups with leading market positions. Our present strategy is to become the leader in every market in which we currently operate, although we will examine opportunities to acquire large dealership groups or enter new markets as they become available. As such, we intend to evaluate tuck-in acquisitions, or acquisitions in existing regions, that complement our current dealerships.

Tuck-in acquisitions are typically re-branded immediately after acquisition and operate thereafter under our respective local brand name. By focusing on geographic and brand diversity, we seek to manage economic risk and drive growth and profitability. Because we own dealerships of all major brands and avoid concentration with one manufacturer, we are well-positioned to respond to changing customer preferences and should not be adversely affected by specific product supply shortages.

We believe that these tuck-in acquisitions have facilitated, and will continue to facilitate, our regional operating efficiencies and cost savings. In addition, we have generally been able to improve the gross profit of tuck-in acquisitions within twelve months following the acquisition. We believe this is due to a number of factors depending on the acquisition, including

- improvements in the number of finance and insurance products sold per vehicle retailed;
- greater utilization of service bays acquired in the acquisition;
- improved management practices; and
- enhanced unit sales volumes related to the strength of our local brand names.

Commitment to Customer Service

We are focused on providing a high level of customer service to meet the needs of an increasingly sophisticated and demanding automotive consumer. We attempt to design our dealership service business to meet the needs of our customers and establish relationships that will result in both repeat business and additional business through customer referrals. Furthermore, we provide our dealership managers with incentives to employ more efficient selling approaches, engage in extensive follow-up to develop long-term relationships with customers and extensively train our sales staff to be able to meet customer needs. We continually evaluate innovative ways to improve the buying experience for our customers and believe that our ability to share best practices across our dealerships gives us an advantage over independent dealerships. In addition, our dealerships regard service and repair operations as an integral part of the overall approach to customer service, providing an opportunity to foster ongoing relationships and improve customer loyalty. We continue to add skilled technicians and service advisors to our operations to ensure that our customers continue to receive excellent service. We intend to invest in the human capital necessary to ensure that this aspect of our business continues to expand.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building our business with a broad base of repeat, referral and new customers. Our primary advertising medium is local newspapers, followed by radio, television, direct mail, the Internet and the yellow pages. In addition, in 2006 we implemented new strategies that use electronic mail to assist our marketing efforts and that allow us to stay in contact with our customers.

The automotive retail industry has traditionally used locally produced, largely non-professional materials for advertising, often developed under the direction of each dealership s general manager. We have created common marketing materials for our brand names using professional advertising agencies. Our corporate sales and marketing department helps oversee and share creative materials and general marketing best practices across our dealerships. Our total company marketing expense was $49.0 million for the year ended December 31, 2006, which translates into an average of $293 per retail vehicle sold. In addition, manufacturers direct advertising spending in support of their brands has been historically a significant component of the total amount spent on new car advertising in the United States.

Management Information Systems

We consolidate financial, accounting and operational data received from our dealers nationwide through a private communication network. The data from the dealers is gathered and processed through their individual dealer management system. Our dealerships use software from ADP, Inc. or Reynolds & Reynolds, Co. as their dealer management system. We aggregate the information from the dealer systems at our corporate headquarters to create one single view of the business using Hyperion financial products.

Our information technology approach enables us to quickly integrate and aggregate the information from a new acquisition. By creating a connection over our private network between the dealer management system and corporate Hyperion financial products, corporate management can quickly view the financial, accounting and operational data of the newly acquired dealer. Therefore, we are able to efficiently integrate the acquired dealer into our operations. Hyperion s products allow us to easily and quickly review operating and financial data at a variety of levels. For example, from our headquarters, management can review the performance of any specific department (*e.g.*, parts and services) at any particular dealership. This system also allows us to quickly compile and monitor our consolidated financial results.

Competition

In new vehicle sales, our dealerships compete primarily with other franchised dealerships in their regions. We do not have any cost advantage in purchasing new vehicles from the manufacturers. Instead, we rely on advertising and merchandising, sales expertise, service reputation, strong local brand names and location of our dealerships to sell new vehicles. Our used vehicle operations compete with other franchised dealers, independent used car dealers, automobile rental agencies and private parties for supply and resale of used vehicles. See Risk Factors Risks Related to Competition-Substantial competition in automobile sales may adversely affect our profitability.

We compete with other franchised dealers to perform warranty repairs and with other automobile dealers and franchised and independent service centers for non-warranty repair and routine maintenance business. We compete with other automobile dealers, service stores and auto parts retailers in our parts operations. We believe that the principal competitive factors in parts and service sales are the use of factory-approved replacement parts, price, the familiarity with a manufacturer s brands and models, and the quality of customer service. A number of regional and national chains as well as some competing franchised dealers may offer certain parts and services at prices that may be lower than our prices.

In arranging financing for our customers vehicle purchases, we compete with a broad range of financial institutions. In addition, financial institutions are now offering finance and insurance products through the Internet, which may reduce our profits on these items. We believe that the principal competitive factors in providing financing are convenience, interest rates and flexibility in contract length.

We compete with other national dealer groups and individual investors for acquisitions. Some of our competitors may have greater financial resources and competition may increase acquisition pricing of target dealerships.

Dealer and Framework Agreements

Each of our dealerships operates pursuant to a dealer agreement between the dealership and the manufacturer (or in some cases the distributor) of each brand of new vehicles sold at the dealership. In addition, in connection with our heavy trucks business in Atlanta, Georgia, we have entered into dealer agreements pursuant to which we provide factory authorized service and warranty repairs on heavy trucks that we are not authorized to sell. Our typical dealer agreement specifies the locations at which the dealer has the right and obligation to sell the manufacturer s vehicles and related parts and products and/or to perform certain approved services. Each dealer agreement also governs the use of the manufacturer s trademarks and service marks.

The allocation of new vehicles among dealerships is subject to the discretion of the manufacturer, and generally does not guarantee the dealership exclusivity within a given territory. Most dealer agreements impose requirements on virtually every aspect of the dealer s operations. For example, most of our dealer agreements contain provisions and standards related to inventories of new vehicles and manufacturer replacement parts, the maintenance of minimum net working capital and in some cases minimum net worth, the achievement of certain sales and customer satisfaction targets, advertising and marketing practices, facilities, signs, products offered to customers, dealership management, personnel training, information systems and dealership monthly and annual financial reporting.

In addition to requirements under dealer agreements, we are subject to additional provisions contained in supplemental agreements, framework agreements, dealer addenda and manufacturers policies, collectively referred to as framework agreements . Framework agreements impose additional requirements similar to those discussed above. Such agreements also define other standards and limitations including company-wide performance criteria, capitalization requirements, limitations on changes in our ownership or management, limitations on the number of a particular manufacturer s franchises owned by us, restrictions or prohibitions on our ability to pledge the stock of certain of our subsidiaries or have these subsidiaries guarantee payment of certain obligations, and conditions for consent to proposed acquisitions, including limitations on the total local, regional and national market share percentage that would be represented by a particular manufacturer s franchises owned by us after giving effect to a proposed acquisition.

Some dealer agreements and framework agreements grant the manufacturer the right to purchase its dealerships from us under certain additional circumstances, including our failure to meet the manufacturer s capitalization or working capital requirements or operating guidelines, our failure to meet certain financial requirements, the occurrence of an extraordinary corporate transaction (at our parent entity level or dealership operating entity level) without the manufacturer s prior consent, a material breach of the framework agreement or acceleration of obligations under our credit facility (the Committed Credit Facility), our 8% Senior Subordinated Notes due 2014 (the 8% Notes) or our 9% Notes. Some of our dealer agreements and framework agreements also give the manufacturer a right of first refusal if we propose to sell any dealership representing the manufacturer s brands to a third party. These agreements may also attempt to limit the protections available under state dealer laws and require us to resolve disputes through binding arbitration.

Provisions for Termination or Non-renewal of Dealer and Framework Agreements. Certain of our dealer agreements expire after a specified period of time, ranging from one year to six years, while other of our agreements have a perpetual term. We expect to renew expiring agreements in the ordinary course of business. However, typical dealer agreements give the manufacturer the right to terminate or the option of non-renewal of the dealer agreements under certain circumstances, including:

- insolvency or bankruptcy of the dealership;
- failure to adequately operate the dealership or to maintain required capitalization levels;
- impairment of the reputation or financial condition of the dealership;
- change of control of the dealership without manufacturer approval;
- failure to complete facility upgrades required by the manufacturer or agreed to by the dealer; or
- material breach of other provisions of a dealer agreement.

See Risk Factors Risk Factors Related to Our Dependence on Vehicle Manufacturers If we fail to obtain renewals of one or more of our dealer agreements on favorable terms, if certain of our franchises are terminated, or if certain manufacturers rights under their agreements with us are triggered, our operations may be adversely affected, for a further discussion of the risks related to the termination or non-renewal of our dealer and framework agreements. While our dealer agreements may be terminated or not renewed for the reasons listed above, it is possible to negotiate a waiver of termination or non-renewal with the manufacturer.

Manufacturers Limitations on Acquisitions. Our dealer agreements and framework agreements typically require us to maintain certain performance standards and obtain the consent of the applicable manufacturer before we can acquire any additional dealership franchises. A majority of these agreements impose limits on the number of dealerships we are permitted to own at the metropolitan, regional and national levels. These limits vary according to the agreements we have with each of the manufacturers but are generally based on fixed numerical limits or on a fixed percentage of the aggregate sales of the manufacturer. Under our current framework and dealer agreements, we are close to our franchise ceiling with Toyota and Lexus and at such ceiling with Jaguar. We are currently not able to acquire additional Ford, Lincoln or Mercury dealerships; however, we may negotiate with Ford for a waiver.

From time to time certain other manufacturers also assert sales and customer satisfaction and other deficiencies at certain of our dealerships causing us to be ineligible to acquire certain additional dealerships until such deficiencies have been remedied or relief from such requirements can be negotiated. It is our practice to cooperate with these manufacturers to correct the alleged performance and other issues, including at times entering into supplemental action plan agreements detailing the steps we will take and in some cases specifying the timeframes in which we plan to achieve improved performance at these dealerships. Unless we negotiate favorable terms with, or receive the consent of, the manufacturers, we may be prevented from making further acquisitions upon reaching the limits or if we fail to maintain performance standards provided for in the framework agreements. See also Risk Factors Risk Factors Related to Our Dependence on Vehicle Manufacturers Manufacturers restrictions on acquisitions may limit our future growth.

State Dealer Laws. We operate in states that have state dealer laws limiting manufacturers ability to terminate dealer agreements. However, some framework agreements attempt to limit the protection of state dealer laws. We are basing the following discussion of state dealer laws on our understanding of these laws. Furthermore, we cannot predict to what degree we will be entitled to state dealer law protections as a result of provisions in our framework agreements that purport to limit our state law rights.

State dealer laws generally provide that it is a violation for manufacturers to terminate or refuse to renew dealer agreements unless they provide written notice to the dealers setting forth good cause and

stating the grounds for termination or nonrenewal. State dealer laws typically require reasonable advance notice to dealers prior to termination or nonrenewal of a dealer agreement. Some state dealer laws allow dealers to file protests or petitions within the notice period and allow dealers an opportunity to cure non-compliance with the manufacturers criteria. These statutes also provide that manufacturers are prohibited from unreasonably withholding approval for a proposed change in ownership of the dealership. In several states, acceptable grounds for disapproval are limited to material reasons relating to the character, financial ability or business experience of the proposed transferee and may also include current performance of the proposed transferee in operating other dealerships of the same manufacturer. See Risk Factors Risks Related to Our Dependence On Vehicle Manufacturers If state dealer laws are repealed or weakened or superseded by our framework agreements with manufacturers, our dealerships will be more susceptible to termination, non-renewal or renegotiation of their dealer agreements.

Governmental Regulations

We are subject to extensive federal, state and local regulations governing our marketing, advertising, selling, leasing, financing and servicing of motor vehicles and related products. Our dealerships also are subject to state laws and regulations generally relating to corporate entities.

Under various state laws, each of our dealerships must obtain a license in order to establish, operate or relocate a dealership or provide certain automotive repair services. These laws also regulate conduct of our businesses, including advertising and sales practices. Other states into which we may expand our operations in the future are likely to have similar requirements.

The sales of financing products to our customers are subject to federal, state and local laws and regulations regarding truth-in-lending, deceptive and unfair trade practices, leasing, equal credit opportunity, motor vehicle finance, installment sales, insurance and usury. Some states regulate finance fees, administrative fees and other charges that may be charged in connection with vehicle sales. Penalties for violation of any of these laws or regulations may include revocation of necessary licenses, injunctive relief, assessment of criminal and civil fines and penalties. In certain instances, these laws create a private cause of action for individuals. We believe that we comply substantially with all laws and regulations affecting our business and do not have any material liabilities under such laws and regulations. We believe that compliance with all such laws and regulations will not, individually or in the aggregate, have a material adverse effect on our liquidity, earnings or competitive position. See Risk Factors Other Risks Related to Our Business Governmental regulations and environmental regulation compliance costs may adversely affect our profitability.

Environmental Matters

We are subject to a wide range of environmental laws and regulations, including those governing discharges into the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination. As with automobile dealerships generally, and service and parts and collision repair center operations in particular, our business involves the generation, use, handling and disposal of hazardous or toxic substances and wastes. Operations involving the management of wastes are subject to requirements of the Federal Resource Conservation and Recovery Act and comparable state statutes. Pursuant to these laws, federal and state environmental agencies have established approved methods for handling, storage, treatment, transportation and disposal of regulated substances and wastes with which we must comply.

Our business also involves the use of above ground and underground storage tanks. Under applicable laws and regulations, we are responsible for the proper use, maintenance and abandonment of our regulated storage tanks and for remediation of subsurface soils and groundwater impacted by releases from existing or abandoned storage tanks. In addition to these regulated tanks, we own, operate, or have otherwise closed in place other underground and above ground devices or containers (such as automotive

lifts and service pits) that may not be classified as regulated tanks, but which could or may have released stored materials into the environment, thereby potentially obligating us to clean up any soils or groundwater resulting from such releases.

We are also subject to laws and regulations governing remediation of contamination at or from our facilities or at facilities where we send hazardous or toxic substances or wastes for treatment, recycling or disposal. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the Superfund law, and similar state statutes, imposes liability for the entire cost of a cleanup, without regard to fault or the legality of the original conduct, on those that are considered to have contributed to the release of a hazardous substance. Responsible parties include the owner or operator of the site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances released at such sites. These responsible parties also may be liable for damages to natural resources. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances. Currently, we are not aware of any material Superfund or other remedial liabilities to which we are subject.

Further, the Federal Clean Water Act and comparable state statutes prohibit discharges of pollutants into regulated waters without the necessary permits, require containment of potential discharges of oil or hazardous substances and require preparation of spill contingency plans. We believe that we are in material compliance with those wastewater discharge requirements as well as requirements for the containment of potential discharges and spill contingency planning and other environmental laws applicable to our operations.

Environmental laws and regulations are very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. From time to time we experience incidents and encounter conditions that will not be in compliance with environmental laws and regulations. However, none of our dealerships has been subject to any material environmental liabilities in the past, nor do we know of any fact or condition that would result in any material environmental liabilities being incurred in the future. Nevertheless, environmental laws and regulations and their interpretation and enforcement are changed frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by us, or that such expenditures would not be material. See Risk Factors Other Risks Related to Our Business Governmental regulations and environmental regulation compliance costs may adversely affect our profitability.

Employees

As of December 31, 2006, we employed approximately 8,300 persons. We believe our relationship with our employees is favorable. We do not have employees that are represented by a labor union. In the future, we may acquire additional businesses that have unionized employees. Certain of our facilities are located in areas of high union concentration, and such facilities are susceptible to union-organizing activity. In addition, because of our dependence on vehicle manufacturers, we may be affected adversely by labor strikes, work slowdowns and walkouts at vehicle manufacturers production facilities and transportation modes.

Insurance

Because of their vehicle inventory and the nature of the automotive retail business, automobile retail dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes multiple umbrella policies with a total per occurrence and aggregate limit of

$100.0 million. We also have directors and officers insurance, real property insurance, comprehensive coverage for our vehicle inventory, garage liability and employee dishonesty insurance.

Item 1A. Risk Factors

In addition to the other information in this report, you should consider carefully the following risk factors when evaluating our business.

RISK FACTORS RELATED TO OUR DEPENDENCE ON VEHICLE MANUFACTURERS

If we fail to obtain renewals of one or more of our dealer agreements on favorable terms, if certain of our franchises are terminated, or if certain manufacturers rights under their agreements with us are triggered, our operations may be adversely affected.

Each of our dealerships operates under the terms of a dealer agreement with the manufacturer (or manufacturer-authorized distributor) of each new vehicle brand it carries. Our dealerships may obtain new vehicles from manufacturers, sell new vehicles and display vehicle manufacturers trademarks only to the extent permitted under dealer agreements. As a result of the terms of our dealer agreements and our dependence on these franchise rights, manufacturers exercise a great deal of control over our day-to-day operations and the terms of our dealer agreements govern key aspects of our operations, acquisition strategy and capital spending.

Most of our dealer agreements provide the manufacturer with the right to terminate the agreement or refuse to renew it after the expiration of the term of the agreement under specified circumstances. We cannot assure you we will be able to renew any of our existing dealer agreements or that we will be able to obtain renewals on favorable terms. Specifically, many of our dealer agreements provide that the manufacturer may terminate the agreement or direct us to divest the subject dealership if there is a change of control of the dealership. Some of our dealer agreements also provide the manufacturer with the right of first refusal to purchase from us any franchise we seek to sell. Provisions such as these may provide manufacturers with superior bargaining positions in the event that they seek to terminate our dealer agreements or renegotiate the agreements on terms that are disadvantageous to us. Our results of operations may be materially and adversely affected to the extent that our franchise rights become compromised or our operations restricted due to the terms of our dealer agreements or if we lose franchises representing a significant source of our revenues.

In addition, we have agreements with Toyota which provide that in the event that our payment obligations under our Committed Credit Facility or our 9% Notes are accelerated or demand for payment is made under our subsidiaries guarantees of the Committed Credit Facility or our 9% Notes as a result of an event of default, Toyota will have the right to purchase our Toyota and Lexus dealerships for cash at their fair market value, unless the acceleration or demand is waived within a cure period of no less than 30 days after Toyota s notification of its intent to exercise its right to purchase. If fair market value cannot be agreed by the parties, it will be determined by an independent nationally recognized and experienced appraiser. We also have an agreement with Ford that provides if any of the lenders of our Committed Credit Facility or floor plan facilities accelerate those payment obligations, or if we are notified of any default under our Committed Credit Facility, then Ford may exercise its right to acquire our Ford, Lincoln and Mercury dealerships for their fair market value.

Our failure to meet manufacturer consumer satisfaction, financial or sales performance requirements may adversely affect our ability to acquire new dealerships and our profitability.

Many manufacturers attempt to measure customers satisfaction with their experience in our sales and service departments through rating systems that are generally known in the automotive retailing industry as consumer satisfaction indexes (CSI). CSI ratings augment the ability of manufacturers to monitor the

financial and sales performance of dealerships. At the time we acquire a dealership or enter into a new dealership or framework agreement, several manufacturers establish certain sales or performance criteria for that dealership, in some cases in the form of a business plan. The criteria of these performance indicators have been modified by various manufacturers from time to time in the past, and we cannot assure you that these criteria will not be further modified or replaced by different systems in the future. Some of our dealerships have had difficulty from time to time meeting these standards. We cannot assure you that we will be able to comply with these standards in the future.

In addition, manufacturers may use these performance indicators, as well as sales performance numbers, as factors in evaluating applications for acquisitions. A manufacturer may refuse to consent to our acquisition of one of its franchises if it determines our dealerships do not comply with its performance standards. This may impede our ability to execute our acquisition strategy and hinder our ability to grow. See also, Risk Factors Related to our Dependence on Vehicle Manufacturers Manufacturers restrictions on acquisitions or divestitures may limit our future growth and impact our profitability. In addition, we receive payments from certain manufacturers based, in part, on CSI scores, and future payments may be materially reduced or eliminated if our CSI scores decline.

The reorganization by, or the bankruptcy of, one or more of the manufacturers could have a material adverse affect on our operations.

Certain manufacturers have incurred substantial operating losses in recent periods. Sustained periods of poor financial performance by a manufacturer may force it to seek to reorganize or to seek protection from creditors in bankruptcy. A reorganization by a manufacturer may, among other things, result in a delay in the introduction of new or competitive makes or models, an elimination of certain makes or models or dealership locations, or a disruption in vehicle deliveries to our dealerships. If an attempted reorganization proves unsuccessful for the manufacturer, the continued financial distress could result in the cessation of its operations.

In the event of a bankruptcy by a vehicle manufacturer, among other things: (i) the manufacturer could seek to terminate all or certain of our franchises, and we may not receive adequate compensation for them, (ii) we may not be able to collect some or all of our receivables that are due from such manufacturer and we may be subject to preference claims relating to payments to us made by such manufacturer prior to bankruptcy, (iii) it may increase our cost to obtain financing for our new vehicle inventory with such manufacturer s captive finance subsidiary, which may cause us to finance our new vehicle inventory with alternate finance sources on less favorable terms, and (iv) consumer demand for such manufacturer s products could be materially adversely affected, especially if certain of costs related to improving such manufacturer s poor financial condition are imputed to the price of its products.

The occurrence of any one or more of the above-mentioned events could have a material adverse affect on our day-to-day operations. Furthermore, such events could result in a partial write-down of our manufacturer franchise rights (to the extent that we have recorded them) or our receivables, and a partial write-down of our goodwill. See also Risk Factors Risk Factors Related to our Dependence on Vehicle Manufacturers Adverse conditions affecting the manufacturers may negatively impact our profitability.

Manufacturers restrictions on acquisitions or divestitures may limit our future growth and impact our profitability.

We are generally required to obtain manufacturer consent before we can acquire any additional dealerships. In addition, many of our dealer and framework agreements require that we meet certain customer service and sales performance standards as a condition to additional dealership acquisitions. We cannot assure you that we will meet these performance standards and that manufacturers will consent to future acquisitions, which may deter us from being able to take advantage of market opportunities and restrict our ability to expand our business. The process of applying for and obtaining manufacturer

consents can take a significant amount of time, generally 60 to 90 days or more. Delays in consummating acquisitions caused by this process may negatively affect our ability to acquire dealerships that we believe will produce acquisition synergies and integrate well to our overall growth strategy. In addition, manufacturers typically establish minimum capital requirements for each of their dealerships on a case-by-case basis. As a condition to granting consent to a proposed acquisition, a manufacturer may require us to remodel and upgrade our facilities and capitalize the subject dealership at levels we would not otherwise choose, causing us to divert our financial resources from uses that management believes may be of higher long-term value to us. Furthermore, the exercise by manufacturers of their right of first refusal to acquire a dealership may prevent us from acquiring dealerships that we have identified as important to our growth, thereby having an adverse affect on our ability to grow through acquisitions.

Likewise, from time to time, we may determine that it is in our best interest to divest of an unprofitable dealership. Parties that are interested in acquiring our dealership must also seek the consent of the manufacturers. The refusal by the manufacturer to approve a potential buyer would delay the divestiture of the dealership as we would either have to find another potential buyer, which could take some time, or wait until the buyer is able to meet the expectations of the manufacturer. A delay in the sale of an unprofitable dealership may have a negative impact on our profitability and an adverse affect on our business.

Many vehicle manufacturers place limits on the total number of franchises that any group of affiliated dealerships may obtain. Certain manufacturers place limits on the number of franchises or share of total brand vehicle sales maintained by an affiliated dealership group on a national, regional or local basis. Manufacturers may also tailor these types of restrictions to particular dealership groups. We are close to our franchise ceilings with Toyota and Lexus and at such ceiling with Jaguar. We are currently not able to acquire additional Ford, Lincoln or Mercury dealerships; however, we may negotiate with Ford for a waiver. If we reach these franchise ceilings discussed above, we may be prevented from making further acquisitions, which could affect our growth.

If state dealer laws that protect automotive retailers are repealed, weakened or superseded by our framework agreements with manufacturers, our dealerships will be more susceptible to termination, non-renewal or renegotiation of their dealer agreements.

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a dealer agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer s criteria within the notice period to avoid the termination or non-renewal. Though unsuccessful to date, manufacturers lobbying efforts may lead to the repeal or revision of state dealer laws. We have framework agreements with certain of our manufacturers. Among other provisions, these agreements attempt to limit the protections available to dealers under state dealer laws. If dealer laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealers to renew their dealer agreements upon expiration. In addition, in some states these laws restrict the ability of automobile manufacturers to compete directly in the retail market. If manufacturers obtain the ability to directly retail vehicles and do so in our markets, such competition could have a material adverse effect on us. See Business Dealer and Framework Agreements State Dealer Laws.

Manufacturers restrictions regarding a change in our stock ownership may result in the termination or forced sale of our franchises, which may adversely impact the value of our common stock.

Some of our dealer agreements and framework agreements with manufacturers prohibit transfers of any ownership interests of a dealership or, in some cases, its parent, without manufacturer consent. Our agreements with some manufacturers provide that, under certain circumstances, we may lose (either through termination or forced sale) the franchise if a person or entity acquires an ownership interest in us above a specified level or if a person or entity acquires the right to vote a specified level of our common stock without the approval of the applicable manufacturer. This trigger level can fall to as low as 5% if another vehicle manufacturer or a person with a criminal record is affiliated with the entity acquiring the ownership interest or voting rights. Violations by our stockholders of these ownership restrictions are generally outside of our control and may result in the termination or non-renewal of our dealer and framework agreements or forced sale of one or more franchises, which may have a material adverse effect on us. These restrictions may also prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock.

Our dealerships depend upon vehicle sales and, therefore, their success depends in large part upon customer demand for the particular vehicle lines they carry.

The success of our dealerships depends in large part on the overall success of the vehicle lines they carry. Historically, we have generated most of our revenue through new vehicle sales. New vehicle sales also tend to lead to sales of higher-margin products and services such as finance and insurance products and parts and service operations. Although we have sought to limit our dependence on any one vehicle brand, we have focused our new vehicle sales operations on mid-line import and luxury brands.

For the year ended December 31, 2006, brands representing 5% or more of our revenues from new vehicle retail sales were as follows:

Brand	% of Total New Vehicle Retail Sales	
Honda	21	%
Nissan	12	%
Mercedes-Benz	9	%
Toyota	8	%
BMW	6	%
Lexus	6	%
Acura	5	%
Ford	5	%

No other brand accounted for more than 5% of our total new vehicle retail sales revenue for the year ended December 31, 2006, except for Navistar (6%), which was a result of significant demand for new heavy trucks during 2006 due to changes in emission laws effective in January 2007.

If we fail to obtain a desirable mix of popular new vehicles from manufacturers, our profitability will be negatively impacted.

We depend on manufacturers to provide us with a desirable mix of popular new vehicles. Typically, popular vehicles produce the highest profit margins but tend to be the most difficult to obtain from manufacturers. Manufacturers generally allocate their vehicles among their franchised dealerships based on the sales history of each dealership. If our dealerships experience prolonged sales slumps, those manufacturers will cut back their allotments of popular vehicles to our dealerships and new vehicle sales and profits may decline.

If automobile manufacturers discontinue incentive programs, our sales volumes may be adversely affected.

Our dealerships depend on manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support new vehicle sales. Manufacturers often make many changes to their incentive programs during each year. Some key incentive programs include:

- customer rebates on new vehicles;
- dealer incentives on new vehicles;
- extensions of employee discounts;
- special financing or leasing terms; and
- warranties on new and used vehicles.

A reduction or discontinuation of key manufacturers   incentive programs may reduce our new vehicle unit sales and related revenue.

Adverse conditions affecting the manufacturers may negatively impact our profitability.

The success of each of our dealerships depends to a great extent on vehicle manufacturers   :

- financial condition;
- marketing efforts;
- vehicle design;
- production capabilities;
- reputation;
- management; and
- labor relations.

Adverse conditions affecting these and other important aspects of manufacturers   operations and public relations may adversely affect our ability to market their automobiles to the public and, as a result, significantly and detrimentally affect our profitability.

RISKS RELATED TO OUR ACQUISITION STRATEGY

If we are unable to acquire and successfully integrate additional dealerships, we will be unable to realize desired results from our growth through acquisition strategy and acquired operations will drain resources from comparatively profitable operations.

We believe that the automobile retailing industry is a mature industry in which we expect relatively slow growth in industry unit sales. Accordingly, we believe that our future growth depends in part on our ability to manage expansion, control costs in our operations and acquire and integrate acquired dealerships into our organization. In pursuing our strategy of acquiring other dealerships, we face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

- failing to obtain manufacturers consents to acquisitions of additional franchises;
- incurring significant transaction related costs for both completed and failed acquisitions;
- incurring significantly higher capital expenditures and operating expenses;
- failing to integrate the operations and personnel of the acquired dealerships;
- incurring undisclosed liabilities at acquired dealerships;
- disrupting our ongoing business and diverting our management resources; and
- impairing relationships with employees, manufacturers and customers as a result of changes in management.

We may not adequately anticipate all the demands that our growth will impose on our personnel, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. Moreover, our failure to retain qualified management personnel at any acquired dealership may increase the risk associated with integrating the acquired dealership. If we cannot adequately anticipate and respond to these demands, we may fail to realize acquisition synergies and our resources will be focused on incorporating new operations into our structure rather than on areas that may be more profitable. See also Risk Factors Related to our Dependence on Vehicle Manufacturers Manufacturers restrictions on acquisitions may limit our future growth.

The competition with other dealer groups to acquire automotive dealerships is intense, and we may not be able to fully implement our growth through acquisition strategy if attractive targets are acquired by competing groups or if competition drives prices to the point where an acceptable rate of return is not achievable.

We believe that the United States automotive retailing market is fragmented and offers many potential acquisition candidates that meet our targeting criteria. However, we compete with several other national, regional and local dealer groups, some of which may have greater financial and other resources. Competition for attractive acquisition targets with existing dealer groups and dealer groups formed in the future may result in fewer acquisition opportunities and increased acquisition costs. We will have to forego acquisition opportunities to the extent that we cannot negotiate acquisitions on acceptable terms.

RISKS RELATED TO COMPETITION

Substantial competition in automobile sales and services may adversely affect our profitability.

The automotive retailing and servicing industry is highly competitive with respect to price, service, location and selection. Our competition includes:

- franchised automobile dealerships in our markets that sell the same or similar new and used vehicles that we offer;
- other national or regional affiliated groups of franchised dealerships;
- privately negotiated sales of used vehicles;
- internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- sales of used vehicles by rental car companies;
- service center chain stores; and
- independent service and repair shops.

We do not have any cost advantage in purchasing new vehicles from manufacturers. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new and used vehicles. Our dealer agreements do not grant us the exclusive right to sell a manufacturer s product within a given geographic area. Our revenues or profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply our dealerships.

RISKS RELATED TO THE AUTOMOTIVE RETAIL INDUSTRY

Our business will be harmed if overall consumer demand suffers from a severe or sustained downturn.

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income, credit availability and interest rates. Future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury/SUV models (which typically provide higher profit margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

Our business may be adversely affected by unfavorable conditions in our local markets, even if those conditions are not prominent nationally.

Our performance is also subject to local economic, competitive and other conditions prevailing in our various geographic areas. Our dealerships currently are located in the Atlanta, Austin, Chapel Hill, Charlotte, Charlottesville, Dallas-Fort Worth, Fayetteville, Fort Pierce, Fresno, Greensboro, Greenville, Houston, Jackson, Jacksonville, Little Rock, Los Angeles, Orlando, Richmond, Sacramento, St. Louis and Tampa markets and the results of our operations therefore depend substantially on general economic conditions and consumer spending levels in those areas.

The seasonality of the automobile retail business magnifies the importance of our second and third quarter results.

The automobile industry is subject to seasonal variations in revenues. Demand for automobiles is generally lower during the first and fourth quarters of each year. Accordingly, we expect our revenues and operating results generally to be lower in our first and fourth quarters than in our second and third quarters. If conditions surface during the second or third quarters that weaken automotive sales, such as severe weather in the geographic areas in which our dealerships operate, war, high fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year will be disproportionately adversely affected.

Our business may be adversely affected by import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles or parts profitably.

A portion of our new vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. 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 other countries. The United States 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.

A decline of available financing in the sub-prime lending market may adversely affect our sales of used vehicles.

The majority of vehicle buyers, particularly those seeking to purchase used vehicles, finance the purchase of such vehicles. Sub-prime lenders have historically provided financing to those buyers who, for a number of reasons, do not have access to traditional financing, including those buyers who have a poor credit history or lack the down payment necessary to purchase a vehicle. It appears that sub-prime lenders are becoming more stringent with their credit standards and may continue to apply higher standards in the future. If there is a decline in the availability of credit in the sub-prime lending market, the ability of these consumers to purchase vehicles could be limited, resulting in a decline in our used vehicle sales. Retail sales of used vehicles generally have higher gross margins than new vehicles. A decline in our used vehicle sales could have a material adverse effect on our revenues and profitability.

OTHER RISKS RELATED TO OUR BUSINESS

Failure to comply with certain covenants in our debt and lease agreements could adversely affect our ability to operate our business and adversely impact our compliance with our Committed Credit Facility.

We have certain debt service obligations. As of December 31, 2006, we had total debt of $485.0 million, excluding floor plan notes payable and the effects of our fair value hedge on our 8% Notes. In addition, we and our subsidiaries may incur additional debt from time to time to finance acquisitions or capital expenditures or for other purposes, subject to the restrictions contained in our Committed Credit Facility and the indentures governing our 9% Notes and our 8% Notes. We will have substantial debt service obligations, consisting of required cash payments of principal and interest, for the foreseeable future.

In addition, we have operating and financial restrictions and covenants in our debt instruments, including our Committed Credit Facility and the indentures under our 9% Notes and our 8% Notes. In particular, our Committed Credit Facility requires us to maintain certain financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. A breach of any of the covenants in our debt instruments or our inability to comply with the required financial ratios could result in an event of default, which, if not cured or waived, could have a material adverse effect on us. In addition, as a result of entering into a number of sale-leaseback agreements, a number of our dealerships are located on properties that we lease rather than own. Each of the leases governing such properties has certain covenants with which we must comply. In the event of any default under our Committed Credit Facility, the payment of all outstanding borrowings could be accelerated, together with accrued and unpaid interest and other fees, and we would be required to apply all of our available cash to repay these borrowings or could be prevented from making debt service payments on our 9% Notes and our 8% Notes, any of which would be an event of default under the respective indentures for such Notes.

Our capital costs and our results of operations may be materially and adversely affected by a rising interest rate environment.

We generally finance our purchases of new vehicle inventory and have the ability to finance the purchase of used vehicle inventory using floor plan credit facilities under which we are charged interest at floating rates. In addition, we obtain capital for general corporate purposes, dealership acquisitions and real estate purchases and improvements under predominantly floating interest rate credit facilities. Therefore, our interest expense from variable rate debt will rise with increases in interest rates. However, a significant rise in interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because many of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues. Given our debt composition as of December 31, 2006, each one percent increase in market interest rates would increase our total annual interest expense, including floor plan interest, by $5.9 million.

We receive interest credit assistance from certain automobile manufacturers, which is reflected as a reduction in the cost of inventory on the balance sheet. Although we can provide no assurance as to the amount of future floor plan credits, it is our expectation, based on historical experience, that an increase in prevailing interest rates would result in increased interest credit assistance from certain automobile manufacturers.

Governmental regulations and environmental regulation compliance costs may adversely affect our profitability.

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, consumer protection and privacy laws, wage and hour, anti-discrimination and other employment practices laws, and environmental requirements governing, among other things, discharges into the air and water, above ground and underground storage of petroleum substances and chemicals,

handling and disposal of wastes and remediation of contamination arising from spills and releases. If we or our employees at the individual dealerships violate these laws and regulations, we may be subject to civil and criminal penalties, or a cease and desist order may be issued against our operations that are not in compliance. Our future acquisitions may also be subject to governmental regulation, including antitrust reviews. Future laws and regulations relating to our business may be more stringent than current laws and regulations and require us to incur significant additional costs.

Our business and financial results may be adversely affected by claims alleging violations of laws and regulations related to our advertising, sales, and finance and insurance activities.

Our business is highly regulated. Private plaintiffs and state attorneys general scrutinize dealers advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. The conduct of our business is subject to numerous federal, state and local laws and regulations regarding unfair, deceptive and/or fraudulent trade practices (including advertising, marketing, sales, insurance, repair and promotion practices), truth-in-lending, consumer leasing, fair credit practices, equal credit opportunity, privacy, insurance, motor vehicle finance, installment finance, closed-end credit, usury and other installment sales. We could be susceptible to claims or related actions alleging violation of such laws and regulations if we fail to operate our business in accordance with practices designed to avert such liability. Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Vehicle lessors could be subject to claims of negligent leasing in connection with their lessees vehicle operation. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchises to conduct dealership operations.

The loss of key personnel may adversely affect our business.

Our success depends to a significant degree upon the continued contributions of our management team, particularly our senior management and service and sales personnel. Manufacturer dealer agreements may require the prior approval of the applicable manufacturer before any change is made in dealership general managers. The loss of the services of one or more of these key employees may materially impair the efficiency and productivity of our operations.

In addition, we may need to hire additional managers as we expand. Potential acquisitions are viable to us only if we are able to retain experienced managers or obtain replacement managers should the owner or manger of the acquired dealership retire. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers may adversely affect the ability of our dealerships to conduct their operations in accordance with the standards set by our headquarters management.

We depend on our executive officers as well as other key personnel. Not all our key personnel are bound by employment agreements, and those with employment agreements are bound only for a limited period of time. Further, we do not maintain key man life insurance policies on any of our executive officers or key personnel. If we are unable to retain our key personnel, we may be unable to successfully develop and implement our business plans.

Future changes in financial accounting standards or practices or existing taxation rules or practices may affect our reported results of operations.

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying

interpretations of accounting pronouncements and taxation practices have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, the Financial Accounting Standards Board revised the generally accepted accounting principles in the United States to require us to record charges to earnings for employee stock-based awards beginning in 2006. This requirement will negatively impact our earnings in the future. Our selling, general and administrative expenses increased by approximately $5.0 million in 2006 from 2005 as a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 123R Share-Based Payment along with our decision to issue restricted stock units instead of stock options. Certain of our equity awards have conditions based on the performance of the company that may affect the number of awards ultimately issued.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We lease our corporate headquarters, which is located at 622 Third Avenue, 37th Floor, New York, New York. In addition, as of December 31, 2006, we had 114 franchises situated in 87 dealership locations throughout ten states. As of December 31, 2006, we leased 77 of these locations and owned the remainder. We have two locations in North Carolina, one location in Mississippi and one location in St. Louis where we lease the land but own the building facilities. These locations are included in the leased column of the table below. In addition, we operate 23 collision repair centers. We lease 19 of these collision repair centers and own the remainder.

	Dealerships		Collision Repair Centers	
	Owned	**Leased**	**Owned**	**Leased**
Coggin Automotive Group	2	17 (a)	1	4
Courtesy Autogroup		7		2
Crown Automotive Company	3	15		3
David McDavid Auto Group		7		5
Gray-Daniels Auto Family	1	6		1
Nalley Automotive Group		12 (a)	3	1
Northern California Dealerships		3		
Northpoint Auto Group		8 (b)		2
Plaza Motor Company	4	1		1
Spirit Automotive Group		1		
Total	10	77	4	19

(a) Includes one dealership that leases a new vehicle facility and operates a separate used vehicle facility that is owned.

(b) Includes two pending divestitures as of December 31, 2006, which were sold in the first quarter of 2007.

Item 3. Legal Proceedings

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 manufacturers of motor vehicles or sellers of dealerships we have acquired have indemnified us. We do not expect that any potential liability from these claims will materially affect our financial condition, liquidity, results of operations or financial statement disclosures.

We are currently involved in a breach of contract action in Arkansas state court that commenced on or about February 24, 2004 relating to amounts allegedly due the parties from whom Asbury purchased assets in the pilot Price 1 program. Asbury discontinued this program in the third quarter of 2003. Patric Brosh, Mark Lunsford, Mel Anderson and their companies, NCAS, L.L.C. and New Century Auto Sales Corporation, seek damages in excess of $23.0 million for purported breach of their Purchase Agreement and Employment Agreements due to discontinuation of the pilot Price 1 program. We believe that any claim for amounts in excess of those already paid under those agreements is meritless pursuant to the specific terms of the agreements and we are vigorously defending our position in this action.

Item 4. Submission of Matters to a Vote of Security Holders

None.

30

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange (the NYSE) under the symbol ABG . The following table shows the high and low closing sales price per share of our common stock as reported by the NYSE.

	High	Low
Fiscal Year Ended December 31, 2005		
First Quarter	$ 17.39	$ 13.86
Second Quarter	15.89	13.71
Third Quarter	18.00	15.33
Fourth Quarter	17.93	15.84
Fiscal Year Ended December 31, 2006		
First Quarter	$ 20.55	$ 16.11
Second Quarter	22.15	19.27
Third Quarter	21.37	20.00
Fourth Quarter	26.08	20.65

On March 5, 2007, the last reported sale price of our common stock on the New York Stock Exchange was $26.17 per share, and there were approximately 26 record holders of our common stock.

On February 15, 2007, we announced that our board of directors approved a 1.3 million share repurchase program with the objective of offsetting earnings per share dilution resulting from employee stock-based compensation programs.

On January 17, 2007, our board of directors declared a $0.20 per share cash dividend. This was the third consecutive quarter that a $0.20 per share dividend was paid.

The repurchase of stock and payment of dividends are subject to certain limitations under the terms of our 9% Notes, 8% Notes and Committed Credit Facility. Such limits become less restrictive each quarter to the extent that we have positive net income. As of December 31, 2006, our ability to repurchase shares of our outstanding common stock or pay cash dividends was limited to $77.4 million under the most restrictive provision. Any future change in our dividend policy will be made at the discretion of our board of directors and will depend on then applicable contractual restrictions contained in our financing credit facilities and other agreements, our results of operations, earnings, capital requirements and other factors considered relevant by our board of directors.

PERFORMANCE GRAPH

The following graph furnished by the Company shows the value as of December 31, 2006, of a $100 investment in the Company s common stock made on March 14, 2002, as compared with similar investments based on (i) the value of the S & P 500 Index (with dividends reinvested) and (ii) the value of a market-weighted Peer Group Index composed of the common stock of AutoNation, Sonic Automotive, Group 1 Automotive, United Auto Group and Lithia Motors, in each case on a total return basis assuming reinvestment of dividends. The market-weighted Peer Group Index values were calculated from the beginning of the performance period. The stock performance shown below is not necessarily indicative of future performance.

Comparison of Cumulative Returns
Assumes Initial Investment of $100 and Reinvestment of Dividends

32

Item 6. Selected Financial Data

The accompanying income statement data for the years ended December 31, 2005, 2004, 2003, and 2002 have been reclassified to reflect the status of our discontinued operations as of December 31, 2006.

Income Statement Data:	For the Years Ended December 31, 2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Revenues:					
New vehicle	$ 3,458,355	$ 3,305,671	$ 2,981,067	$ 2,529,735	$ 2,190,568
Used vehicle	1,458,498	1,328,545	1,161,823	1,034,625	973,560
Parts, service and collision repair	675,018	630,817	560,502	478,123	421,690
Finance and insurance, net	156,460	148,160	130,045	108,833	91,319
Total revenues	5,748,331	5,413,193	4,833,437	4,151,316	3,677,137
Cost of sales	4,870,470	4,598,447	4,104,349	3,517,243	3,102,473
Gross profit	877,861	814,746	729,088	634,073	574,664
Selling, general and administrative expenses	672,897	634,461	576,406	492,525	442,273
Depreciation and amortization	20,209	19,582	18,128	17,523	16,332
Income from operations	184,755	160,703	134,554	124,025	116,059
Other income (expense):					
Floor plan interest expense	(41,054)	(27,966)	(18,600)	(14,336)	(13,355)
Other interest expense	(44,185)	(40,841)	(39,053)	(39,932)	(38,003)
Interest income	5,112	966	744	444	1,063
Loss on extinguishment of debt	(1,144)				
Other income (expense), net	4,216	223	690	1,462	(211)
Total other expense, net	(77,055)	(67,618)	(56,219)	(52,362)	(50,506)
Income before income taxes	107,700	93,085	78,335	71,663	65,553
Income tax expense	40,546	34,852	29,199	27,232	32,786
Income from continuing operations	67,154	58,233	49,136	44,431	32,767
Discontinued operations, net of tax	(6,405)	2,848	937	(29,244)	5,318
Net income	$ 60,749	$ 61,081	$ 50,073	$ 15,187	$ 38,085
Income from continuing operations per common share:					
Basic	$ 2.02	$ 1.78	$ 1.51	$ 1.36	$ 0.99
Diluted	$ 1.97	$ 1.77	$ 1.50	$ 1.36	$ 0.99
Cash dividends declared per common share	$ 0.40	$	$	$	$

Balance Sheet Data:	As of December 31, 2006	2005	2004	2003	2002
	(in thousands)				
Working Capital	$ 412,009	$ 346,954	$ 295,496	$ 259,784	$ 167,141
Inventories	775,313	709,791	761,557	650,397	591,839
Total assets	2,030,837	1,930,800	1,897,959	1,814,279	1,605,644
Floor plan notes payable	700,777	614,382	650,948	602,167	528,591
Total debt (including current portion)	477,154	496,949	526,416	590,658	475,152
Total shareholders /members equity	611,833	547,766	481,732	434,825	426,951

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are one of the largest automotive retailers in the United States, operating 114 franchises (87 dealership locations) in 21 metropolitan markets within 10 states as of December 31, 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 23 collision repair centers that serve our markets.

We developed our dealership portfolio through the acquisition of large, locally branded dealership groups operating throughout the United States. We complemented these large dealership groups with the purchase of numerous single point dealerships and small dealership groups in our existing market areas (referred to as tuck-in acquisitions.) We continue to 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 organized into four regions and includes ten dealership groups: (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 Honda 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 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 dealership generated F&I 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.

The organic growth of our business is dependent upon the execution of our balanced automotive retailing and service business strategy as well as our strong brand mix, which is heavily weighted towards luxury and mid-line import brands. Sales of vehicles (particularly new vehicles) have historically fluctuated with general macroeconomic conditions, including consumer confidence, availability of consumer credit and fuel prices. We believe that any future negative trends in new vehicle sales will be mitigated by (i) the stability of our fixed operations, (ii) increased used vehicle sales, (iii) our variable cost structure and (iv) our advantageous brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. We expect the recent industry-wide gain in market share of the luxury and mid-line import brands to continue in the near future.

Our gross profit margin varies with our revenue mix. The sale of new vehicles generally results in lower gross profit margin than used vehicle sales and fixed operations. As a result, when used vehicles and fixed operations revenue increases as a percentage of total revenue, we expect our overall gross profit margin to increase. We continue to implement new initiatives specifically designed to accelerate the growth of our high margin businesses and to leverage our selling, general and administrative (SG&A) expense structure.

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.

Our operations are generally subject to seasonal variations as we tend to generate more revenue and operating income in the second and third quarters than in the first and fourth quarters of the calendar year. Generally, the seasonal variations in our operations are caused by factors relating to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things. Over the past several years, certain automobile manufacturers have used a combination of vehicle pricing and financing incentive programs to generate increased customer demand for new vehicles. We anticipate that the manufacturers will continue to use these incentive programs in the near future to drive demand for their product offerings.

RESULTS OF OPERATIONS

Year Ended December 31, 2006, Compared to Year Ended December 31, 2005

	For the Years Ended December 31,					
	2006 (In thousands)	% of Gross Profit	2005	% of Gross Profit	Increase (Decrease)	% Change
REVENUES:						
New vehicle	$ 3,458,355		$ 3,305,671		$ 152,684	5 %
Used vehicle	1,458,498		1,328,545		129,953	10 %
Parts, service and collision repair	675,018		630,817		44,201	7 %
Finance and insurance, net	156,460		148,160		8,300	6 %
Total revenues	5,748,331		5,413,193		335,138	6 %
COST OF SALES	4,870,470		4,598,447		272,023	6 %
GROSS PROFIT	877,861	100 %	814,746	100 %	63,115	8 %
OPERATING EXPENSES:						
Selling, general and administrative	672,897	77 %	634,461	78 %	38,436	6 %
Depreciation and amortization	20,209	2 %	19,582	2 %	627	3 %
Income from operations	184,755	21 %	160,703	20 %	24,052	15 %
OTHER INCOME (EXPENSE):						
Floor plan interest expense	(41,054)	(5)%	(27,966)	(4)%	13,088	47 %
Other interest expense	(44,185)	(5)%	(40,841)	(5)%	3,344	8 %
Interest income	5,112	1 %	966	%	4,146	NM
Loss on extinguishment of long-term debt	(1,144)	%		%	1,144	NM
Other income, net	4,216	%	223	%	3,993	NM
Total other expense, net	(77,055)	(9)%	(67,618)	(9)%	9,437	14 %
Income before income taxes	107,700	12 %	93,085	11 %	14,615	16 %
INCOME TAX EXPENSE	40,546	4 %	34,852	4 %	5,694	16 %
INCOME FROM CONTINUING OPERATIONS	67,154	8 %	58,233	7 %	8,921	15 %
DISCONTINUED OPERATIONS, net of tax	(6,405)	(1)%	2,848	%	(9,253)	NM
NET INCOME	$ 60,749	7 %	$ 61,081	7 %	$ (332)	(1)%
Income from continuing operations per common share Diluted	$ 1.97		$ 1.77		$ 0.20	11 %
Net income per common share Diluted	$ 1.78		$ 1.86		$ (0.08)	(4)%

Net income for the year ended December 31, 2006, was $60.7 million, or $1.78 per diluted share, compared to $61.1 million, or $1.86 per diluted share, for the year ended December 31, 2005. Net income for 2006 includes a net loss from discontinued operations of $0.19 per diluted share, compared with net income from discontinued operations of $0.09 per diluted share, for the year ended December 31, 2005.

Income from continuing operations increased 15%, or $0.20 per diluted share, to $67.2 million, or $1.97 per diluted share, for the year ended December 31, 2006, from $58.2 million, or $1.77 per diluted share, for the year ended December 31, 2005.

Adjusted income from continuing operations increased $10.7 million (18%) to $69.4 million for the year ended December 31, 2006, from $58.7 million for the year ended December 31, 2005. Below is a reconciliation of income from continuing operations to adjusted income from continuing operations. We believe that excluding these items provides a more accurate representation of our year over year financial performance.

	For the Years Ended December 31, 2006 (In thousands)	2005	Increase (Decrease)	% Change
Income from continuing operations, as reported	$ 67,154	$ 58,233	$ 8,921	15 %
Share-based compensation, net of tax	3,105			
Corporate generated F&I gain, net of tax	(2,130)			
Gain on sale of a franchise, net of tax	(1,565)			
Secondary stock offering expenses*	1,073			
Abandoned strategic project expenses, net of tax	1,039			
Loss on extinguishment of long-term debt, net of tax	717			
Net reorganization expenses, net of tax		484		
Adjusted income from continuing operations	$ 69,393	$ 58,717	$ 10,676	18 %

* *Secondary offering expenses are not deductible for tax purposes; therefore, no tax benefit has been reflected.*

The 18% increase in adjusted income from continuing operations resulted from several factors, including: (i) a $22.6 million (7%) increase in fixed operations gross profit and a $16.2 million (14%) increase in used vehicle gross profit as a result of our continued focus on our high margin businesses; (ii) the performance of our new retail business, which delivered a $14.7 million (6%) increase in gross profit; and (iii) expense control initiatives that reduced personnel and advertising costs, which together contributed to a 110 basis point of the overall 170 basis point improvement in adjusted SG&A expenses as a percentage of adjusted gross profit. These factors were partially offset by a 47% increase in floor plan interest expense as a result of a 170 basis point increase in short-term interest rates.

Total revenues increased $0.3 billion (6%) to $5.7 billion for the year ended December 31, 2006, from $5.4 billion for the year ended December 31, 2005. The increase in total revenues was a result of a $152.7 million (5%) increase in new vehicle revenue and a $130.0 million (10%), increase in used vehicle revenue.

Total gross profit increased $63.2 million (8%), to $877.9 million for the year ended December 31, 2006, from $814.7 million for the year ended December 31, 2005. Total gross profit, excluding the corporate generated F&I gain of $3.4 million, increased $59.8 million (7%) to $874.5 million for the year ended December 31, 2006 from $814.7 million for the year ended December 31, 2005. The increase in total gross profit was driven by strong performances across all of our businesses, lead by a $22.6 million (7%) increase in fixed operations gross profit. Used vehicle and new vehicle gross profit each increased over $16.0 million for the year ended December 31, 2006, compared with the year ended December 31, 2005.

New Vehicle

	For the Years Ended December 31, 2006		2005		Increase (Decrease)	% Change
	(In thousands, except for unit and PVR data)					
Revenue:						
New retail revenue same store(1)						
Luxury	$ 1,064,709	33 %	$ 1,055,347	33 %	$ 9,362	1 %
Mid-line import	1,345,201	41 %	1,287,435	41 %	57,766	4 %
Mid-line domestic	485,028	15 %	546,140	17 %	(61,112)	(11)%
Value	39,398	1 %	42,354	1 %	(2,956)	(7)%
Total passenger vehicle retail revenue same store	2,934,336		2,931,276		3,060	%
Heavy trucks	333,222	10 %	233,446	8 %	99,776	43 %
Total new retail revenue same store(1)	3,267,558	100 %	3,164,722	100 %	102,836	3 %
New retail revenue acquisitions	36,058					
Total new retail revenues	3,303,616		3,164,722		138,894	4 %
Fleet revenue same store(1)	153,802		140,949		12,853	9 %
Fleet revenue acquisitions	937					
Total fleet revenue	154,739		140,949		13,790	10 %
New vehicle revenue, as reported	$ 3,458,355		$ 3,305,671		$ 152,684	5 %
New retail units:						
New retail units same store(1)						
Luxury	23,418	23 %	23,799	23 %	(381)	(2)%
Mid-line import	55,043	54 %	53,221	52 %	1,822	3 %
Mid-line domestic	16,886	16 %	19,168	19 %	(2,282)	(12)%
Value	1,871	2 %	2,104	2 %	(233)	(11)%
Total passenger vehicle retail units same store	97,218		98,292		(1,074)	(1)%
Heavy trucks	5,566	5 %	4,171	4 %	1,395	33 %
Total new retail units same store(1)	102,784	100 %	102,463	100 %	321	%
New retail units acquisitions	1,282					
Retail units actual	104,066		102,463		1,603	2 %
New revenue PVR same store(1)	$ 31,791		$ 30,886		$ 905	3 %
New revenue PVR actual	$ 31,745		$ 30,886		$ 859	3 %

(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.

38

	For the Years Ended December 31, 2006		2005		Increase (Decrease)	% Change
	(In thousands, except for PVR data)					
Gross profit:						
New retail gross profit same store(1)						
Luxury	$ 87,223	37 %	$ 85,671	38 %	$ 1,552	2 %
Mid-line import	97,658	41 %	88,796	39 %	8,862	10 %
Mid-line domestic	37,178	16 %	39,448	17 %	(2,270)	(6)%
Value	2,776	1 %	3,643	2 %	(867)	(24)%
Total passenger vehicle retail gross profit same store	224,835		217,558		7,277	3 %
Heavy trucks	13,366	5 %	8,331	4 %	5,035	60 %
Total new retail gross profit same store(1)	238,201	100 %	225,889	100 %	12,312	5 %
New retail gross profit acquisitions	2,342					
Total new retail gross profit	240,543		225,889		14,654	6 %
Fleet gross profit same store(1)	4,027		2,687		1,340	50 %
Fleet gross profit acquisitions	21					
Total fleet gross profit	4,048		2,687		1,361	51 %
New vehicle gross profit, as reported	$ 244,591		$ 228,576		$ 16,015	7 %
New gross profit PVR same store(1)	$ 2,317		$ 2,205		$ 112	5 %
New gross profit PVR actual	$ 2,311		$ 2,205		$ 106	5 %
New retail gross margin same store(1)	7.3 %		7.1 %		0.2 %	3 %
New retail gross margin actual	7.3 %		7.1 %		0.2 %	3 %

(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 $0.2 billion (5%) to $3.5 billion for the year ended December 31, 2006, from $3.3 billion for the year ended December 31, 2005. The increase in new vehicle revenues was a result of a $99.8 million (43%) increase in new vehicle revenue from our heavy trucks business and a $57.8 million (4%) increase in our same store new retail revenue from mid-line import brands offset most notably by a decrease in mid-line domestic, which decreased $61.1 million (11%) as a result of their continued loss of market share. We saw a significant demand for new heavy trucks during 2006 due to changes in emission laws effective in January 2007 which we anticipate will increase the average cost of a new heavy truck by approximately $10,000 per unit. New vehicle revenues excluding heavy trucks (passenger vehicle) were flat at $2.9 billion for the year ended December 31, 2006, compared with the year ended December 31, 2005. Our passenger vehicle unit sales, which decreased 1%, were not as adversely impacted by the challenging new retail market as was the overall U.S. passenger vehicle industry, which decreased approximately 3%. We continue to benefit from our strong brand mix, heavily weighted toward luxury and mid-line import brands that continue to increase their market share.

New vehicle gross profit increased $16.0 million (7%) to $244.6 million for the year ended December 31, 2006, from $228.6 million for the year ended December 31, 2005. New retail gross profit increased $14.7 million (6%) driven by (i) a 10% increase in mid-line import same store retail gross profit as these brands continued to increase their market share, (ii) a 60% increase from our heavy trucks business and (iii) our ability to capitalize on manufacturer incentive programs. These increases in same store retail gross profit were partially offset by the performance of our mid-line domestic and value brands, which were down 6% and 24%, respectively, with the majority of the decrease resulting from the continued loss of market share for the domestic brands.

We expect our passenger vehicle unit sales, revenue and gross profit to increase in the future despite a flat overall U.S. passenger retail unit sales environment as the luxury and mid-line import brands will continue to increase market share. However, we expect heavy trucks unit sales, revenue and gross profit to decrease significantly in 2007 as the new emission laws will significantly increase the price of heavy trucks resulting in a temporary reduction in demand for heavy trucks produced in the near future. However, we believe we will mitigate some of this decrease as we strategically increased our inventory of 2006 model year heavy trucks because 2006 model year heavy trucks will not be required to adhere to the new emission laws.

Used Vehicle

	For the Years Ended December 31, 2006	2005	Increase (Decrease)	% Change
	(In thousands, except for unit and PVR data)			
Revenue:				
Retail revenues same store(1)	$ 1,116,160	$ 1,004,858	$ 111,302	11 %
Retail revenues acquisitions	3,981			
Total used retail revenues	1,120,141	1,004,858	115,283	11 %
Wholesale revenues same store(1)	337,299	323,687	13,612	4 %
Wholesale revenues acquisitions	1,058			
Total wholesale revenues	338,357	323,687	14,670	5 %
Used vehicle revenue, as reported	$ 1,458,498	$ 1,328,545	$ 129,953	10 %
Gross profit:				
Retail gross profit same store(1)	$ 134,803	$ 117,422	$ 17,381	15 %
Retail gross profit acquisitions	561			
Total used retail gross profit	135,364	117,422	17,942	15 %
Wholesale gross profit same store(1)	(1,242)	468	(1,710)	(365)%
Wholesale gross profit acquisitions	(17)			
Total wholesale gross profit	(1,259)	468	(1,727)	(369)%
Used vehicle gross profit, as reported	$ 134,105	$ 117,890	$ 16,215	14 %
Used retail units same store(1)	62,722	59,272	3,450	6 %
Used retail units acquisitions	265			
Used retail units actual	62,987	59,272	3,715	6 %
Used revenue PVR same store(1)	$ 17,795	$ 16,953	$ 842	5 %
Used revenue PVR actual	$ 17,784	$ 16,953	$ 831	5 %
Used gross profit PVR same store(1)	$ 2,149	$ 1,981	$ 168	8 %
Used gross profit PVR actual	$ 2,149	$ 1,981	$ 168	8 %
Used retail gross margin same store(1)	12.1 %	11.7 %	0.4 %	3 %
Used retail gross margin actual	12.1 %	11.7 %	0.4 %	3 %

(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 $0.1 billion (10%) to $1.5 billion for the year ended December 31, 2006, from $1.3 billion for the year ended December 31, 2005. The increase in used vehicle revenues was a result of a 6% and 5% increase in used retail unit sales and used revenue PVR, respectively.

Used vehicle gross profit increased $16.2 million (14%) to $134.1 million for the year ended December 31, 2006, from $117.9 million for the year ended December 31, 2005. Used retail gross profit

increased $17.9 million to $135.4 million as a result of a 6% increase in used retail unit sales and an 8% increase in used retail gross profit PVR. The increases in our used retail units sales and used gross profit PVR is a result of (i) our investment in software to better value trade-ins and improve inventory management, (ii) the execution by our regional management teams dedicated to the used vehicle business and (iii) the implementation of a used vehicle certification program.

We expect used vehicle revenues and gross profit to continue to increase in the future as we execute our current initiatives, maximize our used vehicle certification program, roll out a dedicated sub-prime program and increase our focus on our training programs.

Fixed Operations

	For the Years Ended December 31, 2006 (In thousands)	**2005**	**Increase (Decrease)**	**% Change**
Revenue:				
Revenues same store(1)				
Parts and service	$ 611,290	$ 572,978	$ 38,312	7 %
Collision repair	59,439	57,839	1,600	3 %
Total revenue same store(1)	670,729	630,817	39,912	6 %
Revenues acquisitions	4,289			
Parts, service and collision repair revenue, as reported	$ 675,018	$ 630,817	$ 44,201	7 %
Gross profit:				
Gross profit same store(1)				
Parts and service	$ 307,870	$ 288,704	$ 19,166	7 %
Collision repair	32,599	31,416	1,183	4 %
Total gross profit same store(1)	340,469	320,120	20,349	6 %
Gross profit acquisitions	2,236			
Parts, service and collision repair gross profit, as reported	$ 342,705	$ 320,120	$ 22,585	7 %
Parts and service gross margin same store(1)	50.4 %	50.4 %	%	%
Collision repair gross margin same store(1)	54.8 %	54.3 %	0.5 %	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 $44.2 million (7%) to $675.0 million for the year ended December 31, 2006, from $630.8 million for the year ended December 31, 2005. Fixed operations revenues increased primarily due to a 10% increase in our customer pay parts and service businesses. The growth in our customer pay business is a result of our investments in facility expansion and equipment upgrades, increased capacity utilization, and continued focus on customer retention initiatives.

Fixed operations gross profit increased $22.6 million (7%) to $342.7 million for the year ended December 31, 2006, from $320.1 million for the year ended December 31, 2005. The increase in fixed operations gross profit is primarily a result of an 11% increase in gross profit from our customer pay parts and service businesses.

We expect our fixed operations sales to continue to grow as we (i) continue to invest in additional service capacity, (ii) upgrade equipment, (iii) expand our product offerings, (iv) capitalize on our regional training programs and (v) add service advisors and skilled technicians to meet anticipated future demand, especially from the increased market share of the mid-line import and luxury import brands.

Finance and Insurance, net

	For the Years Ended December 31, 2006	2005	Increase (Decrease)	% Change
	(In thousands, except for PVR data)			
Dealership generated F&I same store(1)	$ 150,016	$ 143,338	$ 6,678	5 %
Dealership generated F&I acquisitions	1,359			
Dealership generated F&I, net	151,375	143,338	8,037	6 %
Corporate generated F&I	1,685	4,822	(3,137)	(65)%
Corporate generated F&I gain	3,400			
Finance and insurance, net as reported	$ 156,460	$ 148,160	$ 8,300	6 %
Dealership generated F&I PVR(2)	$ 906	$ 886	$ 20	2 %
F&I PVR-actual	$ 937	$ 916	$ 21	2 %

(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 profit PVR.

F&I increased $8.3 million (6%) to $156.5 million for the year ended December 31, 2006, from $148.2 million for the year ended December 31, 2005. Included in F&I for the year ended December 31, 2006, was a $3.4 million gain related to sale of our remaining interest in a pool of extended service contracts. Excluding this item, F&I increased $4.9 million (3%) to $153.1 million for the year ended December 31, 2006, from $148.2 million for the year ended December 31, 2005. The increase in F&I was primarily a result of the 3% increase in retail units sales and the implementation of a new F&I program in the second quarter of 2006, which increased our upfront warranty commissions. The increase in F&I was partially offset by a $3.7 million decrease in captive finance company revenue as a result of a strategic initiative to reduce our loan portfolio. Corporate generated F&I, excluding the corporate generated F&I gain, was $1.7 million for the year ended December 31, 2006, and $4.8 million for the year ended December 31, 2005. As a result of the aforementioned sale of our remaining interest in a pool of extended service contracts, we do not anticipate recognizing any significant corporate generated F&I in the future. In addition, the implementation of the new F&I program discussed above has increased dealership generated F&I PVR by approximately $33 since it was implemented in the second quarter of 2006.

Dealership generated F&I, which excludes corporate generated F&I, increased $8.1 million (6%) to $151.4 million for the year ended December 31, 2006, from $143.3 million for the year ended December 31, 2005. The increase in dealership generated F&I was a result of a 3% increase in retail unit sales and a 2% increase in dealership generated F&I PVR. 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 retail unit sales, (ii) the implementation of new F&I programs and (iii) improvement of the F&I operations at our under-performing franchises.

Selling, General and Administrative

	For the Year Ended December 31,					
	2006	% of Gross Profit	2005	% of Gross Profit	% of Gross Profit Increase (Decrease)	% of Gross Profit % Change
	(Dollars in thousands)					
Personnel costs	$ 313,160	35.7 %	$ 297,124	36.5 %	(0.8)%	(2)%
Sales compensation	100,322	11.4 %	92,978	11.4 %	%	%
Share-based compensation	4,955	0.6 %		%	0.6 %	100 %
Outside services	56,805	6.5 %	53,700	6.6 %	(0.1)%	(2)%
Advertising	48,969	5.6 %	49,356	6.1 %	(0.5)%	(8)%
Rent	53,492	6.1 %	47,116	5.8 %	0.3 %	5 %
Utilities	18,045	2.0 %	17,277	2.1 %	(0.1)%	(5)%
Insurance	13,978	1.6 %	13,341	1.6 %	%	%
Other	63,171	7.2 %	63,569	7.8 %	(0.6)%	(8)%
Selling, general and administrative	$ 672,897	76.7 %	$ 634,461	77.9 %	(1.2)%	(2)%
Adjustments to SG&A:						
Share-based compensation	(4,955)					
Abandoned strategic project expenses	(1,658)					
Secondary stock offering expenses	(1,073)					
Reorganization expenses, net			(775)			
Adjusted selling, general and administrative	$ 665,211	76.1 %	$ 633,686	77.8 %	(1.7)%	(2)%
Gross profit	$ 877,861		$ 814,746			
Corporate generated F&I gain	(3,400)					
Adjusted gross profit	$ 874,461		$ 814,746			

SG&A expenses as a percentage of gross profit decreased 120 basis points to 76.7% for the year ended December 31, 2006, from 77.9% for the year ended December 31, 2005. SG&A expenses during the year ended December 31, 2006 include (i) $5.0 million of share-based compensation expense, (ii) $1.7 million of abandoned strategic project expenses and (iii) $1.1 million of costs associated with two secondary offerings of common stock, and $0.8 million of net reorganization expenses during the year ended December 31, 2005. Excluding these items, adjusted SG&A expense as a percentage of adjusted gross profit (excluding the $3.4 million corporate generated F&I gain) decreased 170 basis points to 76.1% for the year ended December 31, 2006, from 77.8% for the year ended December 31, 2005. The improvement in adjusted SG&A as a percentage of adjusted 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 anticipate that we will continue to lower our SG&A expense as a percentage of gross profit in the future as we continue to consolidate certain back office functions and leverage our fixed cost structure, partially offset by increased rent expense as we continue to add service capacity.

We adopted Statement of Financial Accounting Standards (SFAS) No. 123R Share-based Payment in the first quarter of 2006. As a result of the adoption of SFAS 123R and our decision to issue restricted share units we recorded $5.0 million of share-based compensation expense during the year ended December 31, 2006. We did not record any share-based compensation expense during the year ended December 31, 2005 as we accounted for share-based awards under the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Certain of our equity awards have conditions based on the performance of the company that may affect the number of awards ultimately issued. We expect our share-based compensation expense to increase in 2007 as a result of new equity awards, partially offset by equity awards that completely vest during 2007.

Depreciation and Amortization

Depreciation and amortization expense increased $0.6 million, or 3% to $20.2 million for the year ended December 31, 2006 from $19.6 million for the year ended December 31, 2005. This increase is primarily related to property and equipment acquired during 2006 and 2005. We expect depreciation and amortization to increase in the future as a result of previous and future capital expenditure projects to remodel and upgrade our facilities and expand our service capacity.

Other Income (Expense)

Floor plan interest expense increased $13.1 million, or 47%, to $41.1 million for the year ended December 31, 2006, from $28.0 million for the year ended December 31, 2005. Approximately 80% of this increase was the result of a 170 basis point increase in short-term interest rates over last year, approximately 15% of the increase was the result of higher average inventory levels during the year ended December 31, 2006 as compared to the year ended December 31, 2005 and the remaining 5% was the result of terminating two cash flow swaps on our floor plan notes payable during the first quarter of 2006. We expect floor plan expense to fluctuate with changes in our inventory levels in the near future as we anticipate that short-term interest rates will remain at their current level.

Other interest expense increased $3.4 million, or 9%, to $44.2 million for the year ended December 31, 2006, from $40.8 million for the year ended December 31, 2005. Approximately $2.0 million of the increase in other interest expense is a result of a higher effective interest rate on our 8% Notes due to the termination of a fair value swap on our 8% Notes. As a result, our 8% Notes, which had a variable rate while the fair value swap was in place in 2005, became fixed at 8% in March 2006 and will remain fixed until maturity in 2014. The amortization of the swap termination costs increased other interest expense by $0.9 million for the year ended December 31, 2006, and will increase other interest expense annually by $1.1 million as compared to the year ended December 31, 2005, until maturity of our 8% Notes in 2014**.**

During the year ended December 31, 2006, we recognized a $1.1 million loss on the extinguishment of $17.6 million of our 8% Notes. Other interest expense will decrease by $1.4 million on an annual basis as a result of this debt extinguishment. Our board of directors authorized us to repurchase up to an additional $22.4 million of our senior subordinated notes. We will continue to monitor the capital markets to ensure that we are optimizing our capital structure.

During the year ended December 31, 2006 we sold two franchises (one dealership location) for proceeds of $7.1 million, resulting in a gain of $2.6 million. We included this gain in Other Income on the accompanying Consolidated Statements of Income as we expect the cash flows from these franchises will be replaced by our existing operations.

Income Tax Provision

Income tax expense increased $5.6 million, or 16%, to $40.5 million for the year ended December 31, 2006, compared to $34.9 million for the year ended December 31, 2005. Our effective tax rate for the year ended December 31, 2006, was 37.6% compared to 37.4% for the year ended December 31, 2005. As we

operate nationally, our effective tax rate is dependent upon our geographic revenue mix. We evaluate our effective tax rate periodically based on our revenue sources. We will continue to evaluate our effective tax rate in the future, and expect that our future annual effective tax rate will be between 37.5% and 38.5%, principally as a result of tax law changes in the state of Texas.

Discontinued Operations

	For the Year Ended December 31, 2006			For the Year Ended December 31, 2005		
	Sold	Pending Disposition	Total	Sold(b)	Pending Disposition(a)	Total
	(Dollars in thousands)					
Franchises	10	2	12	20	2	22
Net loss from sold or closed franchises, net of tax	$ (4,401)	$	$ (4,401)	$ (5,182)	$	$ (5,182)
Net income (loss) from franchises held for sale, net of tax		(265)	(265)		169	169
Net divestiture income (expense), including net gain on sale of franchises, net of tax	(1,739)		(1,739)	7,861 (c)		7,861
Discontinued operations, net of tax	$ (6,140)	$ (265)	$ (6,405)	$ 2,679	$ 169	$ 2,848

(a) Businesses were pending disposition as of December 31, 2006 and were sold in the first quarter of 2007

(b) Businesses were sold between January 1, 2005 and December 31, 2006

(c) Includes an $8.8 million tax benefit related to the sale of stock of an Oregon business

During the year ended December 31, 2006, we sold or closed twelve franchises (seven dealership locations), and as of December 31, 2006, we were actively pursuing the sale of two franchises (two dealership locations). The $6.4 million net loss from discontinued operations for the year ended December 31, 2006 is a result of (i) net losses of ten sold or closed franchises during 2006 totaling $4.4 million, (ii) $0.3 million of net losses of franchises held for sale, and (iii) $1.7 million of net divestiture expenses associated with franchises sold or closed during 2006. The $2.8 million of income from discontinued operations for the year ended December 31, 2005, includes (i) net losses of franchises sold or closed in 2006 and 2005 totaling $5.2 million, offset by (ii) $0.1 million of net income of franchises held for sale as of December 31, 2006 and (iii) $7.9 million of net divestiture income during 2005, principally related to the sale of our Thomason franchises in Portland, Oregon. Included in the $7.9 million of net divestiture income is an $8.8 million tax benefit associated with the sale of an Oregon business.

We continuously evaluate the financial and operating results of our dealerships, specifically the 10% contributing the least amount of operating income, and we will look to divest dealerships that do not meet our expectations.

RESULTS OF OPERATIONS

Year Ended December 31, 2005, Compared to Year Ended December 31, 2004

	For the Years Ended December 31,					
	2005 (In thousands)	% of Gross Profit	2004	% of Gross Profit	Increase (Decrease)	% Change
REVENUES:						
New vehicle	$ 3,305,671		$ 2,981,067		$ 324,604	11 %
Used vehicle	1,328,545		1,161,823		166,722	14 %
Parts, service and collision repair	630,817		560,502		70,315	13 %
Finance and insurance, net	148,160		130,045		18,115	14 %
Total revenues	5,413,193		4,833,437		579,756	12 %
COST OF SALES	4,598,447		4,104,349		494,098	12 %
GROSS PROFIT	814,746	100 %	729,088	100 %	85,658	12 %
OPERATING EXPENSES:						
Selling, general and administrative	634,461	78 %	576,406	79 %	58,055	10 %
Depreciation and amortization	19,582	2 %	18,128	3 %	1,454	8 %
Income from operations	160,703	20 %	134,554	18 %	26,149	19 %
OTHER INCOME (EXPENSE):						
Floor plan interest expense	(27,966)	(4)%	(18,600)	(2)%	9,366	50 %
Other interest expense	(40,841)	(5)%	(39,053)	(5)%	1,788	5 %
Interest Income	966	%	744	%	222	30 %
Other income, net	223	%	690	%	(467)	(68)%
Total other expense, net	(67,618)	(9)%	(56,219)	(7)%	11,399	20 %
Income before income taxes	93,085	11 %	78,335	11 %	14,750	19 %
INCOME TAX EXPENSE	34,852	4 %	29,199	4 %	5,653	19 %
INCOME FROM CONTINUING OPERATIONS	58,233	7 %	49,136	7 %	9,097	19 %
DISCONTINUED OPERATIONS, net of tax	2,848	%	937	%	1,911	NM
NET INCOME	$ 61,081	7 %	$ 50,073	7 %	$ 11,088	22 %
Income from continuing operations per commons share Diluted	$ 1.77		$ 1.50		$ 0.27	18 %
Net income per common share Diluted	$ 1.86		$ 1.53		$ 0.33	22 %

Net income was $61.1 million, or $1.86 per diluted share, for the year ended December 31, 2005, compared to $50.1 million, or $1.53 per diluted share, for the year ended December 31, 2004.

Income from continuing operations increased 19%, or $0.27 per diluted share, to $58.2 million, or $1.77 per diluted share, for the year ended December 31, 2005, from $49.1 million, or $1.50 per diluted share, for the year ended December 31, 2004.

The increase in net income for the year ended December 31, 2005, compared to the year ended December 31, 2004, resulted from several factors, including: (i) an 15% and 9% increase in used retail and fixed operations same store gross profit, respectively, as a result of a strategic focus on our high margin businesses; (ii) continued strong performance of our finance and insurance business, which delivered a 5% increase in same store dealership generated F&I PVR; (iii) several expense control initiatives, including our regional reorganization, insurance, and new vehicle advertising, all of which contributed to a 120 basis point improvement in our SG&A expense as a percentage of gross profit; (iv) an $8.8 million tax benefit associated with the sale of one of our Thomason dealerships in Portland, Oregon, which is included in discontinued operations and (v) the incremental results of dealerships acquired during 2005 and 2004. These factors were partially offset by (a) a 50% increase in floor plan interest expense as a result of continued increases in interest rates and (b) a 26% increase in rent expense, which is as a result of our strategy to reduce our ownership of real estate through the use of sale-leaseback transactions.

Total revenues increased $0.6 billion (12%) to $5.4 billion for the year ended December 31, 2005, from $4.8 billion for the year ended December 31, 2004. Total same store revenues increased $0.4 billion (8%) to $5.2 billion for the year ended December 31, 2005, from $4.8 billion for the year ended December 31, 2004. The $0.6 billion (12%) increase in total revenues was a result of double digit revenue increases in all of our businesses lead by a $0.1 billion (14%) increase in used vehicle revenues.

Total gross profit increased $85.6 million (12%) to $814.7 million for the year ended December 31, 2005, from $729.1 million for the year ended December 31, 2004. Total same store gross profit increased $63.6 million (9%) to $792.7 million for the year ended December 31, 2005, from $729.1 million for the year ended December 31, 2004. The increase in total gross profit was driven by a $15.1 million (15%) increase of same store used vehicle retail gross profit and an $24.8 million (9%) increase in same store fixed operations gross profit.

New Vehicle

	For the Years Ended December 31, 2005	2004	Increase (Decrease)	Change
	(In thousands, except for unit and PVR data)			
Revenue:				
New retail revenue same store(1)				