ASBURY AUTOMOTIVE GROUP INC
Form 10-K
March 16, 2009
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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, 2008

or

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

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**01-0609375**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2905 Premiere Parkway, NW, Suite 300 Duluth, Georgia	**30097**
(Current address of principal executive offices)	**(Zip Code)**

(770) 418-8200

(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 ¨ 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 ¨ 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 ¨

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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer ¨ Accelerated filer x Non-Accelerated Filer ¨ Smaller reporting company ¨

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

Based on the closing price of the registrant s common stock as of June 30, 2008, the aggregate market value of the common stock held by non-affiliates of the registrant was $409,086,663.

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 12, 2009 was 32,105,515 (net of 4,760,218 treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if 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.

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ASBURY AUTOMOTIVE GROUP, INC.

2008 FORM 10-K ANNUAL REPORT

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, availability of capital and liquidity;
- capital expenditures;
- the completion of future acquisitions and the revenues to be generated by those acquisitions;
- our ability to mitigate future negative trends in new vehicle sales with the stability of our parts and service business, the variable nature of significant components of our cost structure and our advantageous brand mix;
- manufacturers willingness to continue to use incentive programs in the near future to drive demand for their product offerings;
- general economic trends, including, the price of oil and gasoline, consumer confidence levels, the availability of customer financing and interest rates;
- automotive retail industry trends, including our expectation that (i) the recent industry-wide gain in market share of the luxury and mid-line import brands will continue in the near future, (ii) 2009 will continue to be a challenging retail environment and will impact our new vehicle, used vehicle and F&I after new vehicle revenue and gross profit levels as well as our current SG&A expense as a percentage of gross profit levels, (iii) our light vehicle unit sales will outperform industry-wide U.S. light vehicle unit sales and (iv) the luxury and mid-line import brands will continue to increase market share;
- our expectation that we will recognize improved parts and service gross profit in the future from heavy trucks as a result of the addition of service capacity and as the customers who purchased vehicles prior to the emission law changes begin to bring their vehicles in for maintenance and repairs;
- our expectation that we will recognize cost savings resulting from the relocation of our corporate offices from New York and Connecticut to Georgia, the reorganization of our retail network and our store-level productivity initiatives;

our belief that the jury verdict against us in Portland, Oregon is unsupported by both the evidence and the law, and that we will prevail on appeal;

our belief that we can manage our costs by centralizing our processing system and capitalizing on best practices among our dealerships, standardizing of compensation and benefit plans, and negotiating contracts with certain of our vendors on a national rather than a regional basis;

our expectation that we will achieve annualized cost savings of approximately $3.5 million in our data processing costs upon the completion of our conversion to the Arkona dealer management system;

our ability to sell certain of our dealerships to raise capital or to refine our dealership portfolio;

excluding the impact of impairment expense, we expect to experience lower net income in 2009 as compared to 2008, as a result of (i) our expectation of 2009 U.S. new vehicle unit sales between 10.0 million and 11.0 million, which had been above 16.0 million since 1999, and was 13.2 million in

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2008, (ii) retail margins continuing to decrease while manufacturers bring supply in line with demand, and (iii) continued difficulty for consumers to secure vehicle financing;

our expectation that our SG&A initiatives may not keep pace with declining margins and lower gross profit as a result of lower sales volumes;

our ability to successfully sell our dealerships, if necessary, to supplement our liquidity position in the current difficult economic environment and to manage our capital structure in order to remain in compliance with the financial covenants included in our debt agreements;

our expectation that it will be challenging to maintain 2008 parts and service revenue in 2009;

our belief that opportunities exist in the marketplace to improve profitability over the long-term, including (i) focusing on our higher margin parts and service and finance and insurance businesses, (ii) managing inventory to meet customer demands, (iii) managing our capital structure, (iv) executing on cost reduction initiatives and (v) improving customer service at our dealerships;

our expectation that a significant amount of U.S. dealerships may close during the year, and that most of these dealerships will be domestic dealerships, which we anticipate will result in market share gains for mid-line import and luxury dealerships;

our expectation that we will experience lower F&I per vehicle sold levels in 2009 compared to 2008 as a result of (i) tighter lending standards, including lower loan-to-value constraints, (ii) lower income as a result of our decision to discontinue our investments in consumer loans and (iii) lower F&I retro payments as a result of the sale of our remaining interest in a pool of extended maintenance contracts; and

our belief that our cash and cash equivalents on hand as of December 31, 2008, the funds that will be generated through future operations, and the funds available for borrowings, proceeds from sale-leaseback transactions and asset sales will be sufficient to fund our debt service and working capital requirements, commitments and contingencies, debt repurchases, acquisitions, capital expenditures and any seasonal operating requirements for at least the next twelve months.

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 and maintain our liquidity;

the effect of us taking a tangible or intangible impairment charge in 2009;

our inability to comply with our debt or lease covenants and obtain waivers of these covenants as necessary;

the effect of receiving a going concern qualification in our auditor s report on our 2008 consolidated financial statements;

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- market factors and the future economic environment, including consumer confidence, interest rates, the price of oil and gasoline, the level of manufacturer incentives, unprecedented low vehicle sales, which are expected to be between 10.0 million and 11.0 million in 2009, and the availability of consumer credit;

- the reputation and financial health and viability 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;

- our ability to minimize operating expenses or adjust our cost structure;

- the inability of our dealership operations to perform at expected levels or achieve expected targets;

- our ability to divest of our dealerships and other assets in a timely manner and at profit to sustain our operations and maintain our liquidity;

- our ability to successfully integrate future acquisitions into our existing operations;

- the financial health and viability of the institutions with which we have our credit facilities and our ability to borrow under such facilities if necessary to sustain our operations;

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

- 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, except as required under federal securities law. Please see the section under Item 1A. Risk Factors for a further discussion of the factors that may cause our actual results of operations to differ from our projections.

Moreover, the factors set forth under Item 1A. Risk Factors and 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.

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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 Securities Exchange Act of 1934, as amended, 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). In addition, the proxy statement that will be delivered to our stockholders in connection with our 2009 annual meeting, when filed, will also be available on our web site, and at the URL stated in such proxy statement. 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 respective charters of our audit committee, governance and nominating committee, compensation committee and risk committee;
- our criteria for independence of the members of our board of directors, audit committee, governance and nominating committee and compensation committee;
- our Corporate Governance Guidelines; and
- our Code of Business Conduct and Ethics for Directors, Officers and Employees.

We intend to provide any information required by Item 5.05 of Form 8-K (relating to amendments or waivers of our Code of Business Conduct and Ethics) by the alternative of disclosure on our web site.

You may also obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations Department, Asbury Automotive Group, Inc., 2905 Premiere Parkway, NW, Suite 300, Duluth, Georgia 30097. 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, 2008, 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 the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to our annual report on Form 10-K for the year ended December 31, 2007.

Except as the context otherwise requires, we, our, us, Asbury and the Company refer to Asbury Automotive Group, Inc. and its subsidiaries.

Item 1. Business

We are one of the largest automotive retailers in the United States, operating 115 franchises at 87 dealership locations as of December 31, 2008. We offer our customers an extensive range of automotive products and services, including:

- new and used vehicles;
- vehicle maintenance and repair services;

replacement parts;

new and used vehicle financing; and

the sale of warranty, insurance and extended service contracts.

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Asbury Automotive Group, Inc. was incorporated in the State of 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, 2008, we operated dealerships in 22 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 in this Annual Report as tuck-in acquisitions). Our retail network is currently organized into two regions, East and West, and includes nine locally branded dealership groups. The following is a detailed breakdown of our markets and dealerships as of December 31, 2008:

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

(a) This market has two of these franchises.
(b) Represents pending divestitures as of December 31, 2008.

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New Vehicle Sales

Our franchises include a diverse portfolio of 37 American, European and Asian brands. Our new vehicle unit sales include the sale of new vehicles to individual retail customers (new light vehicle retail), the sale of new vehicles to commercial customers (fleet), and the sale of new heavy trucks (heavy trucks) (the terms new light vehicle retail, fleet and heavy trucks, being collectively referred to as new). Our new light vehicle retail revenue and new light vehicle gross profit include revenue and gross profit from new light vehicle unit and fleet unit sales. In 2008, we sold 87,754 new vehicles through our dealerships. New light vehicle retail sales were 54% of our total revenues and 23% of our total gross profit for the year ended December 31, 2008. New heavy truck revenue totaled 4% of total revenue and 1% of gross profit for the year ended December 31, 2008. We evaluate the results of our new vehicle sales based on unit volumes and gross profit per vehicle sold. 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 provided by third parties and other similar agreements arranged by our individual dealerships. As a result of finite lease terms, customers who lease new vehicles generally return to the market more frequently than customers who purchase new 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 warranty repair service to the lessee throughout the lease term.

Used Vehicle Sales

We sell used vehicles at all of our dealership locations. 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 2008, we retailed 47,325 used vehicles through our dealerships. Retail sales of used vehicles, which generally have higher gross margins than new vehicles, made up approximately 18% of our total revenues and 13% of our total gross profit for the year ended December 31, 2008. We evaluate the results of our used vehicle sales based on unit volumes and gross profit per vehicle sold. Used vehicle revenue from wholesale sales was 5% of total revenue for the year ended December 31, 2008. Profits from the sales of used vehicles depend 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 good sources of attractive used vehicle inventory. We purchase a significant portion of our used vehicle inventory at auctions restricted to new vehicle dealers (offering off-lease, rental and fleet vehicles) and open auctions that offer vehicles sold by other dealers and repossessed vehicles. Used vehicle inventory is typically wholesaled if they are not retailed within 60 days, except for used vehicles that do not fit within our inventory mix, which are wholesaled almost immediately. The reconditioning of used vehicles also creates profitable service work for our parts and service departments.

In addition to our high quality supply of used vehicles, we employ state-of-the-art technology to manage our inventory on a local basis. 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 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. Manufacturer programs make certain used vehicles eligible for vehicle benefits such as special finance rates and extended manufacturer warranties. In addition, our internal used vehicle certification program includes a thorough inspection of used vehicle inventory within the program and allows our customers to return used vehicles for any reason within five days or five hundred miles, whichever occurs first. We guarantee the operation of the vehicle, subject to certain limitations and state laws, for sixty days from the date of purchase. In addition, we offer customers the opportunity to purchase extended warranties, which are provided by third parties.

Over time, we intend to grow our used vehicle sales by:

- maintaining high quality inventory across all price ranges and all classes of used vehicles, including factory certified as well as traditional non-certified used vehicles:
- providing competitive prices to our customers;
- executing our marketing initiatives; and
- increasing our focus on training our sales and service team.

Parts and Service

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, 2008, we maintained 25 free-standing collision repair centers either on the premises of, or in close proximity to, our dealerships. We operate approximately 2,700 service bays. Parts and service accounted for approximately 15% of our total revenues and 46% of our total gross profit for the year ended December 31, 2008.

Historically, parts and service revenues have been more stable than vehicle sales. Industry-wide, parts and service revenues have consistently increased over time 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 parts and service offerings available for both new and used vehicles in recent years have seen progressive expansion and improvement. Our parts and service business benefits from the service work generated through the sale of extended service contracts to customers who purchase new and used vehicles from us because customers tend to service their vehicles at the same location where they purchase extended warranty contracts. For the year ended December 31, 2008, warranty work accounted for 17% of our parts and service revenue.

Historically, the automotive repair industry has been highly fragmented. We believe, however, that the increased use of advanced technology in vehicles has made it difficult for independent repair shops to have the expertise to perform major or technical repairs, especially as such repairs relate to luxury and mid-line imports that comprise a significant majority of our new vehicle retail sales. Additionally, all manufacturers require manufacturer 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 vehicles.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our parts and service departments. Therefore, we believe that significant opportunity for growth exists in our 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. We have additional customer retention initiatives in place and have expanded our service offerings over the last few years to essentially make the parts and service 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 parts and service business offers our customers all the services needed to maintain their vehicles.

In order to improve the profitability of our parts and service business, we continue to recruit technicians and other employees to our service centers to ensure that our customers continue to receive excellent service. Over

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time, we maintained growth in this line of our business due to our attention to customer retention initiatives and our continued investment in human capital in past years. We continue to train our staff, including service advisors, on menu-selling and customer service skills. We have also added Business Development Centers in some of our stores to drive customer retention. At these Business Development Centers, we have staff dedicated to maintaining periodic contact with our customers. Furthermore, we have continued to add equipment to our service centers that help our technicians identify issues with our customers vehicles and promote incremental service sales.

We expect to improve our parts and service profitability by (i) maximizing the use of our service capacity, (ii) upgrading equipment, where appropriate, (iii) capitalizing on our regional training programs, and (iv) continuing to develop long-term customer relationships.

Finance and Insurance

We refer to the finance and insurance area of our business as F&I. Through our F&I business, we arrange for third-party financing of the sale or lease of new and used vehicles to customers, as well as offer a number of insurance and warranty products such as extended service contracts, guaranteed asset protection (GAP) insurance, prepaid maintenance, credit life and disability insurance, and similar products. 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, 2008.

We arranged customer financing on approximately 70% of the vehicles we sold during the year ended December 31, 2008. These transactions resulted in commissions being paid to us by the third-party lenders, including manufacturer captive finance subsidiaries. As a general matter, we do not retain liability for the credit risk associated with these purchase and lease transactions after the completion of the transactions. However, we may be required to repay the finance company certain commissions if a customer prepays or defaults on the retail installment sales contract, typically during a specified time period following the sale. Similarly, we may be required to refund a portion of our profit relating to the sale of warranty, maintenance and insurance products in the event of early cancellation. We do not, however, bear any risk related to insurance payments, which are borne by third parties. We receive favorable pricing on many of the warranty, maintenance and insurance products that we provide as a result of our size and sales volume. We earn sales-based commissions on substantially all of these products and may be charged back (chargebacks) for these commissions in the event a finance contract is cancelled, typically within the first 90 days or if a non-finance contract is canceled prior to its maturity.

We are currently party to a number of preferred lender agreements. 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 warranty and insurance products we sell result in underwriting profits and investment income based on portfolio performance.

Recent Developments

On March 16, 2009, we announced that, as part of our continuous restructuring and cost reduction efforts, we are eliminating our regional management structure. In connection with this further evolution of our company, Michael S. Kearney, former President and CEO of our East Region, has been named Senior Vice President and Chief Operating Officer, responsible for the oversight of our dealership operations.

Our independent public accounting firm included an explanatory paragraph in its audit report for our 2008 financial statements that indicated there is uncertainty that we will remain in compliance with certain covenants in our debt agreements, and that this uncertainty raises substantial doubt about our ability to continue as a going concern. The inclusion of this explanatory paragraph in the audit report constituted a default under our revolving credit facility with Bank of America, as administrative agent, and a syndicate of commercial banks and commercial financing entities (the BofA Revolving Credit Facility), our used vehicle floor plan facility with

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JPMorgan Chase Bank, N.A. and Bank of America (the JPMorgan Used Vehicle Floor Plan Facility) and our new vehicle floor plan facility with General Motors Acceptance Corporation. As of March 12, 2009, we had received waivers from all of our associated lending partners with respect to these defaults and, as a result, we were in compliance with the covenants contained in these borrowing facilities. In connection with these waivers, we agreed to reduce the total credit availability under our BofA Revolving Credit Facility by $25.0 million to $175.0 million and the total credit availability under our JPMorgan Used Vehicle Floor Plan Facility by $25.0 million to $50.0 million.

On August 27, 2008, a U.S. District Court jury in Portland, Oregon reached a verdict against one of our subsidiaries in an action by four former salesmen alleging claims related to a hostile work environment at our former Thomason Toyota dealership in Gladstone, Oregon. We sold the Thomason Toyota dealership in 2006, though the alleged conduct involved in this matter occurred in 2005. During trial, the court dismissed the plaintiffs claims for race discrimination and retaliation in employment as well as their claims for economic damages. The jury, however, awarded $19.0 million in total damages against our subsidiary consisting of $8.0 million in non-economic damages and $11.0 million in punitive damages.

In a post-trial opinion and order issued January 23, 2009, the U.S. District Court in Portland, Oregon reduced the total damages awarded against our subsidiary to $1.2 million consisting of $600,000 in non-economic damages and $600,000 in punitive damages. The court gave the plaintiffs the choice of either accepting the reduced award or proceeding with a new trial on damages.

We will seek to further reduce damages if the plaintiffs request a new trial and, if necessary, we will seek to overturn the verdict or seek to eliminate or further reduce damages on appeal to the U.S. Court of Appeals for the Ninth Circuit. We believe that the jury verdict is unsupported by both the evidence and the law, and that we will prevail on appeal.

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 85% of our new light vehicle retail revenues for the year ended December 31, 2008. Over the last two decades, 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 continue to be in higher demand during times when gas prices are high.

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The following table reflects the number of franchises and the share of new light retail vehicle revenue represented by each class of franchise as of December 31, 2008:

Class/Franchise	Number of Franchises as of December 31, 2008	% of New Light Vehicle Retail Revenue for the Year Ended December 31, 2008
Light Vehicles		
Luxury		
BMW	9	9%
Acura	6	5
Mercedes-Benz(a)	5	8
Infiniti	4	4
Lincoln	4	2
Lexus	3	6
Volvo	3	1
Audi	2	1
Cadillac	2	1
Jaguar	1	*
Land Rover	1	*
Porsche	1	*
Total Luxury	41	37%
Mid-Line Import		
Honda	14	25%
Nissan(b)	12	11
Toyota	5	10
MINI	2	1
Mazda	1	*
Volkswagen	1	1
Total Mid-Line Import	35	48%
Mid-Line Domestic		
Chevrolet	4	4%
Ford	4	6
Mercury	4	1
Chrysler	3	*
Dodge	3	2
Buick	2	*
GMC	2	*
Jeep	2	1
Pontiac	2	*
Total Mid-Line Domestic	26	14%
Value		
smart	2	*
Hyundai	1	1%
Kia	1	*
Total Value	4	1%
Total Light Vehicles	**106**	100%

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Class/Franchise	Number of Franchises as of December 31, 2008	% of New Light Vehicle Retail Revenue for the Year Ended December 31, 2008
Heavy Trucks		
Hino	2	
International	2	
Isuzu Truck	1	
IC Bus	1	
Peterbilt	1	
UD Truck	1	
Workhorse	1	
Total Heavy Trucks	**9**	
TOTAL	**115**	

* Franchise accounted for less than 1% of new light vehicle retail revenue for the year ended December 31, 2008.

(a) Includes two pending divestitures as of December 31, 2008.

(b) Includes a pending divestiture as of December 31, 2008.

Our geographic coverage encompassed 22 different metropolitan markets at 87 locations in 11 states as of December 31, 2008, including: Arkansas, California, Florida, Georgia, Mississippi, Missouri, New Jersey, North Carolina, South Carolina, Texas and Virginia. New vehicle sales revenue is diversified among certain manufacturers as shown in the table above. 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 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 Flexible Cost Structure and Emphasize Expense Control

We continually focus on controlling expenses at our existing dealerships and those that are integrated into our operations upon acquisition. We categorize our cost structure in three groups, which are variable, semi-variable and fixed. Variable costs include incentive-based compensation and vehicle carrying cost. Salespeople, sales managers, service managers, parts managers, service advisors, service technicians and the majority of other non-clerical dealership personnel are paid a commission. The majority of our general manager compensation and virtually all salesperson compensation is tied to profits of the dealership. In addition, the bonus portion of our salaried employee s compensation is tied to our operating results. Fixed costs include rent, utilities and depreciation expense. Semi-variable expenses include base salaries, outside services, travel and entertainment expenses, advertising and loaner vehicle amortization. We believe we can further manage these types of costs by centralizing our processing systems and capitalizing on best practices among our dealerships, standardizing of compensation and benefit plans, and negotiating contracts with certain of our vendors on a national rather than regional basis.

Furthermore, in order to further control our expenses, in the third quarter of 2008, we commenced a corporate and regional restructuring plan, which included the relocation of our corporate offices and the reorganization of our retail network. We have moved our corporate headquarters to Duluth, Georgia, and we expect to close our corporate offices in New York, New York and Stamford, Connecticut, by the end of March 2009. We expect this relocation will deliver cost savings of up to $5.0 million annually, resulting primarily from staffing reductions and lower rent expense. In addition, the reorganization of our retail network has reduced our operating structure to two regions from four regions and two stand-alone platforms. Finally, we are expanding our store-level productivity initiatives, focusing on advertising and personnel expenses, improved inventory management and selected technology investments to enhance our productivity. For a further discussion of the cost-savings resulting from our restructuring and productivity initiatives, please see the discussion in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report.

Focus on Higher Margin Products and Services

While new vehicle sales are critical to drawing customers to our dealerships, parts and service, 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 flexibility to respond effectively to local market conditions, including market-specific advertising and management of inventory mix, each pursues an integrated strategy, as directed from our centralized management team at our corporate office, to enhance profitability and stimulate organic growth.

Parts and Service. We offer parts, perform vehicle service work and operate collision repair centers at our dealerships, all of which provide important sources of recurring revenue with high gross profit margins. We expect to improve the profitability of our parts and service business by (i) maximizing the use of our service capacity, (ii) upgrading equipment, where appropriate, (iii) capitalizing on our regional training programs, and (iv) continuing to develop long-term customer relationships.

Over the long term, we intend to expand this higher-margin business by adding new service bays and increasing capacity utilization of existing service bays. To help ensure high levels of customer satisfaction within our parts and service operations, we continue to recruit and train 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 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 maximize the profitability of our used vehicle business by maintaining high quality inventory across all price ranges, providing competitive prices, continuing to enhance our marketing initiatives by focusing our efforts on marketing used vehicles through the Internet and building customer confidence in our vehicle inventory through manufacturer sponsored and internally developed used car certification programs.

Finance and Insurance. Historically, we have increased our finance and insurance revenues over the years 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 have and will serve as important tools in improving our finance and insurance profitability. We have increased same-store dealership generated finance and insurance revenue per vehicle sold to $984 for the year ended December 31, 2008, from $947 for the year ended December 31, 2007. We have successfully increased our dealership generated finance and insurance revenue per vehicle sold each year since our inception.

Local Management of Dealership Operations

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 and recruit new employees. 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 parts and service manager. This management structure is complemented by regionally centralized technology and financial controls, as well as sharing market intelligence throughout the organization. See Business Strategy Experienced Corporate and Regional Management below for a discussion of the incentive-based pay system for corporate and regional management.

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 below 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.

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.

Experienced Corporate Management

We have a corporate management team that has served in prominent leadership positions within the automotive industry.

Charles R. Oglesby has served as our President and Chief Executive Officer since May 2007. Prior to serving as President and Chief Executive Officer, Mr. Oglesby served as our Senior Vice President and Chief Operating Officer from September 2006 to May 2007. Mr. Oglesby served as the Chief Executive Officer of our Nalley Automotive Group and North Point Auto Group from August 2004 until March 2007. Mr. Oglesby originally joined us as President and Chief Executive Officer of our North Point Auto Group in February 2002. Prior to joining our company, Mr. Oglesby served as President of the First America Automotive Group in San Francisco, California.

Craig T. Monaghan has served as the Senior Vice President and Chief Financial Officer of the Company since May 2008. Prior to joining the Company, Mr. Monaghan served as the Chief Financial Officer at Sears Holdings Corp. between September 2006 and January 2007. From May 2000 to August 2006, he served as Executive Vice President and Chief Financial Officer of AutoNation, Inc., the nation s largest automotive retailer.

Centralized Administrative and Strategic Functions

Our corporate headquarters are located in Duluth, Georgia. 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 and promulgated by the corporate office. Furthermore, 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.

While in the past we have used various companies to provide our dealer management systems for the data processed at our dealerships, in October 2007, we executed an agreement with DealerTrack Holdings, Inc. (DealerTrack). DealerTrack s Arkona dealer management system will become our sole dealer management system. We began this conversion in late 2007, and anticipate that all of our dealerships will use the Arkona dealer management system by 2010. As of December 31, 2008, 35% of our dealerships were converted to the Arkona dealer management system. We expect to achieve an annualized cost savings of approximately $3.5 million annually in our data processing costs upon the completion of our conversion to the Arkona dealer management system. Furthermore, we expect that moving toward a single dealer management system through which all our dealerships will process information will create a more efficient retail operation that will result in a better experience for our customers.

We consolidate financial, accounting and operational data received from our dealerships nationwide through a private communication network. The information from the dealer systems is aggregated at our corporate headquarters to create a consolidated view of the business using Hyperion financial products. Our information technology approach enables us to 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 view the financial, accounting and operational data of the newly acquired dealership. Hyperion s products allow us to 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 compile and monitor our consolidated financial results in a shorter amount of time.

Investment in Human Capital

We recognize that our ability to grow our new vehicle sales is impacted by external factors, including the manufacturers (i) ability to develop vehicles that meet the consumers satisfaction and vehicles that consumers desire, (ii) rebates and incentives, as well as (iii) consumer confidence, (iv) gas prices, (v) interest rates, (vi) the availability of credit for consumers and (vii) other economic factors. Growth in our parts and service 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 lenders. In each revenue source of our business, our ability to capture the customer and close the deal will enable us to generate revenue. In our effort to improve the profitability of all of our revenue sources and set us apart from our competitors, we invest in the training and growth of our employees.

In an effort to provide superior customer service to our customers, our finance and insurance managers, our new and used sales managers and our sales force are certified in the areas of compliance and ethics through third-party programs or internally developed programs. These employees 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 renew their certification annually, which ensures their knowledge of compliance and ethics is current. Furthermore, we believe that by certifying these employees, we build the knowledge base of our employees, which improves morale and performance.

In addition, our parts and service employees undergo training provided by the vehicle manufacturers and certain of our vendors, as well as training arranged by dealership management, as needed, addressing various aspects of our parts and service business. Our parts and service employees are trained so that they can offer new car clinics and service clinics to our customers. We believe that as the knowledge base of our parts and service employees increases, we not only build their confidence and improve their performance, but also provide 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 will lead to the continued growth of our business. We also have a policy that requires all finance and insurance personnel to go through a standard certification process and undergo continuing eduction in the areas of legal, regulatory and ethical compliance matters.

Our corporate and regional executives have also benefited from attending a management training program to assist them in setting and reaching personal and professional goals, and the effective management of their staffs. Through exposure to such training programs, we empower our corporate and regional executive team to work together more efficiently in the management of the business and its employees. We believe that a motivated management team will have a direct, positive effect on the business. With a highly motivated and goal-oriented workforce, we believe that we can continue to generate improved results.

Dealership Portfolio Management

We intend to continue to evaluate acquisition opportunities. 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. As such, we intend to evaluate tuck-in acquisitions 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 significant concentration with one manufacturer, we are well-positioned to respond to changing customer preferences. 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 profits of tuck-in acquisitions within twelve months following the acquisition. We believe this is due to a number of factors, including:

- improvement in finance and insurance per vehicle sold;
- additional cost savings in finance, insurance and warranty products because of the size of our company;
- 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.

We will also evaluate opportunities to acquire large dealership groups or to enter new markets as such opportunities become available.

We continuously evaluate the financial and operating results of our dealerships, as well as each dealership s geographical location and from time to time, we may seek to sell certain of our dealerships to raise capital or to refine our dealership portfolio. However, there can be no assurance that we will be able to sell our dealerships on terms reasonable to us.

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 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, and implement new technology, 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. For example, our customer relations management tool facilitates communications with our customers before, during and after the sale. Our Auto Exchange system continues to be our used car inventory management tool. All of our stores have access to these tools to drive the performance of our employees and enhance customer service. See also the discussion above under Business Strategy Centralized Administrative and Strategic Functions for a discussion of our expectation of how the use of the Arkona dealer management system will improve the customer experience.

In addition, our service and repair operations are an integral part of our overall approach to customer service, providing an opportunity to foster ongoing relationships and improve customer loyalty. We continue to train our skilled technicians and service advisors 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. We spend the majority of our advertising dollars on television advertising, followed by Internet-based advertising, including lead generation, radio, print, direct mail and the yellow pages. In addition, we also use electronic mail to assist our marketing efforts and 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. However, we have chosen to create common marketing materials for our brand names using professional advertising agencies. Our total company advertising expense from continuing operations was $43.5 million for the year ended December 31, 2008, which translates into an average of $322 per retail vehicle sold. In addition, manufacturers direct advertising spending in support of their brands has historically been a significant component of the total amount spent on new car advertising in the United States.

Competition

In new vehicle sales, our dealerships compete 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, Internet-based vehicle brokers and private parties for supply and resale of used vehicles. See Risk Factors Other Risks Substantial competition in automobile sales and services 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 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 the market may increase acquisition pricing of target dealerships. See Risk Factors Risks Related to our Dealership Portfolio Management There is competition to acquire automotive dealerships, and we may not be able to fully implement our growth through acquisition strategy if attractive targets are acquired by competing buyers or if the market drives prices to the point where an acceptable rate of return is not achievable.

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 and/or serviced at the dealership. 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 and 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; and

conditions for consent to proposed acquisitions, including sales and customer satisfaction criteria as well as 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 circumstances, including the occurrence of an extraordinary corporate transaction without the manufacturer s prior consent or a material breach of the framework agreement. 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 eight 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 and framework 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.

Regulations

We operate in a highly regulated industry. Under various state laws each of our dealerships must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. In addition, we are subject to federal, state and local laws regulating the conduct of our business including:

- advertising;
- motor vehicle and retail installment sales practices;
- leasing;
- sales of finance, insurance and vehicle protection products;

consumer credit; deceptive trade practices;

consumer protection;

consumer privacy;

money laundering;

environmental;

land use and zoning; and

health and safety and employment practices.

Our business is also subject to laws and regulations generally relating to corporate entities. We actively make efforts to assure we are in compliance with these laws and related regulations. See Risk Factors Other Risks Government regulations and environment regulation compliance costs may adversely affect our profitability.

We benefit from the protection of state dealer laws which limit a manufacturer s ability to terminate or refuse to renew a franchise agreement, provide dealers with protest rights with respect to the addition of dealerships within proscribed geographic areas, and protect dealers against manufacturers unreasonably withholding consent to proposed changes in ownership of dealerships. However, some framework agreements attempt to limit the protection of state dealer laws. See Risk Factors Risks Related to Our Dependence On Vehicle Manufacturers The reorganization or bankruptcy of one or more of the vehicle manufacturers could have a material adverse effect on our operations; and 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.

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 are not aware of any non-compliance with the wastewater discharge requirements, requirements for the containment of potential discharges and spill contingency planning or other environmental laws applicable to our operations.

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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 change frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. As a result, 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. Our operations are subject to substantial laws and regulations and related claims and proceedings, any of which could adversely affect our business and financial results.

Employees

As of December 31, 2008, we employed approximately 7,300 people. 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, general liability, worker s compensation, employee medical and employee dishonesty insurance.

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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.

RISKS RELATED TO OUR COMPANY

If we are unable to generate sufficient cash, our ability to service our debt may be materially adversely affected, and our failure to comply with certain covenants in our debt, mortgage and lease agreements could adversely affect our ability to access our revolving credit facilities and adversely affect our ability to conduct our business.

We have substantial debt service obligations. As of December 31, 2008, we had total debt of $620.7 million, excluding floor plan notes payable and the effects of our terminated fair value hedge on our 8% Senior Subordinated Notes due 2014 (the 8% Notes). In addition, we and our subsidiaries have the ability to obtain additional debt from time to time to finance acquisitions, real property purchases, capital expenditures or for other purposes, subject to the restrictions contained in our BofA Revolving Credit Facility, our JPMorgan Used Vehicle Floor Plan Facility and the indentures governing our 8% Notes and our 7.625% Senior Subordinated Notes due 2017 (the 7.625% 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 certain of our leases and in our debt instruments, including our revolving credit facilities with Bank of America, N.A. and JPMorgan Chase Bank N.A., the indentures under our 8% Notes and our 7.625% Notes and the mortgage agreements or guarantees for mortgages held with Wachovia Bank, National Association, Wachovia Financial Services, Inc., BMW Financial Services NA, LLC and Wells Fargo, N.A. These restrictions and covenants limit, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, and to make certain payments (including dividends and repurchases of our shares and investments).

Because of the uncertainties regarding our compliance with financial covenants during 2009, as discussed below, our independent registered public accounting firm included an explanatory paragraph that indicated there is uncertainty that we will remain in compliance with certain covenants in our debt agreements and that condition raises substantial doubt about our ability to continue as a going concern in its audit report for our 2008 financial statements. The inclusion of this going concern explanatory paragraph constituted a default under our BofA Revolving Credit Facility, JPMorgan Used Vehicle Floor Plan Facility and our floor plan facilities with General Motors Acceptance Corporation. We obtained waivers with respect to these defaults from the relevant lenders prior to the filing of this Form 10-K with the U.S. Securities and Exchange Commission. However, there can be no assurances that (i) our independent public accounting firm will not issue a similar opinion in the future; (ii) we would be able to obtain waivers to our financial covenants; or (iii) we can repurchase debt as needed to remain compliant under our financial covenants.

Our revolving credit facilities, mortgages and/or guarantees related to such mortgages, and certain of our lease agreements require us to maintain certain financial ratios. As of December 31, 2008, we were in compliance with all of these covenants. In order to satisfy certain of our financial covenants in 2008, we relied in part upon income recognized in connection with our purchases of $59.8 million of our outstanding debt securities at a significant discount. These purchases generated approximately $34.2 million of income before tax in 2008. We expect that we may need to engage in similar purchases in order to satisfy our financial covenants during 2009. We cannot give any assurance that we will be able to make such repurchases in 2009 in amounts and at prices sufficient to satisfy our covenants and our ability to comply with these ratios, including our ability to repurchase debt significantly below face value, may be affected by events beyond our control. Our Board of Directors has authorized us to use an additional $50.0 million in cash to repurchase debt securities and/or make unscheduled principal payments on our existing mortgages. Currently, our BofA Revolving Credit Facility and our JPMorgan Used Vehicle Floor Plan Facility limit our ability to purchase our debt securities to $30.0 million per calendar year, plus 50% of the net proceeds from asset sales during any given calendar year.

Failure to satisfy any of these covenants would constitute a default under the relevant debt agreements, which would entitle the lenders under such agreements to terminate our ability to borrow under the relevant agreements and accelerate our obligations to repay outstanding borrowings unless compliance with the covenants is waived. Obtaining such waivers often requires the payment to the bank lenders of certain fees. If we fail to satisfy any of these covenants, we could be required to apply our available cash to repay these borrowings and we could be prevented from making debt service payments on our 8% Notes, our 7.625% Notes, and our 3% Senior Subordinated Convertible Notes due 2012. In many cases, defaults under one of our agreements could trigger cross default provisions in our other agreements. If we are unable to comply with our financial or other covenants, we would be required to seek waivers or modifications of our covenants from our lenders, or we would need to raise debt and/or equity financing or sell assets to generate proceeds sufficient to repay such debt. In light of current depressed conditions in the automotive industry and the exceptionally difficult current conditions in the credit markets generally, we cannot give any assurance that we would be able to successfully take these actions.

A number of our dealerships are located on properties that we lease. Certain of the leases governing such properties have certain covenants with which we must comply. If we fail to comply with the covenants under our leases, the respective landlords could, among other remedies, terminate the leases and seek damages which could equal the amount to which the accelerated rents under the applicable lease for the remainder of the lease term exceeds the fair market rent over the same periods or evict us from the property.

We have significant indebtedness, which may limit our flexibility to manage our business.

Our indebtedness and lease obligations could have important consequences to us, including the following:

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;

- a substantial portion of our current cash flow from operations must be dedicated to the payment of principal on our indebtedness, thereby reducing the funds available to us for our operations and other purposes;

- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates; and

- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

Global financial markets and economic conditions have been, and continue to be, disrupted and volatile. The debt and equity capital markets have been exceedingly distressed. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk and the current weak economic conditions have made, and will likely continue to make, it difficult to obtain funding.

In particular, availability of funds from those markets generally has diminished significantly, while the cost of raising money in the debt and equity capital markets has increased substantially. Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets generally has increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at maturity at all or on terms similar to current debt, and reduced and, in some cases, ceased to provide funding to borrowers.

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If the retail environment continues to be challenging and our dealerships are unable to generate sufficient cash, our liquidity position may be materially adversely affected and may impact our ability to continue as a going concern.

The automotive retail environment experienced an unprecedented challenging environment during 2008, and we expect that the environment in 2009 will continue to be challenging. Excluding the impact of impairment expenses, we expect to experience lower net income in 2009 as compared to 2008, as a result of (i) our expectation of 2009 U.S. new vehicle unit sales between 10.0 million and 11.0 million, which had been above 16.0 million since 1999, and was 13.2 million for 2008, (ii) retail margins continuing to decrease while manufacturers bring supply in line with demand, and (iii) continued difficulty for consumers to secure vehicle financing.

If we are unable to generate sufficient operating cash flow, we may need to sell certain of our dealerships or other assets and borrow under our existing credit facilities to generate cash to sustain our operations. In the current economic environment, there can be no assurance that, if necessary, we will be able to sell our dealerships and other assets in a timely manner and on reasonable terms, if at all. Furthermore, in the event we are required to sell dealership assets to maintain our liquidity, the sale of a material portion of such assets could have an adverse effect on our revenue stream, the size of our operations and the efficiencies that are generated from being a certain corporate size. If we are unable to generate sufficient operating cash flow or execute the sale of our assets in a timely and lucrative manner, our liquidity may be materially adversely affected, which could impact our ability to continue as a going concern.

Although we currently have funds available for borrowings under our credit facilities to finance our operations, our lenders may be unable to fund borrowings under their credit commitments to us if these lenders face bankruptcy, failure, collapse or sale. The inability to draw cash under our credit facilities due to any such event facing any one of our lenders would have a material adverse effect on our liquidity and operations. See also, Risk Factors Risks Related to our Company Recent turmoil in the credit markets and financial services industry could negatively impact our business, results of operations, financial condition or liquidity below.

Recent turmoil in the credit markets and financial services industry could negatively impact our business, results of operations, financial condition or liquidity.

Recently, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions, an unprecedented level of intervention from the United States federal government and other foreign governments and tighter availability of credit. While the ultimate outcome of these events cannot be predicted, they could have a negative impact on our liquidity and financial condition if our ability to borrow money to finance operations or obtain credit from creditors were to be impaired.

We currently have revolving credit facilities with Bank of America, JPMorgan Chase Bank, N.A., and a syndicate of other banks under those credit facilities, and we have hedge transactions in place with Wells Fargo, N.A., Wachovia Financial Services, Inc., Goldman Sachs & Co. and Deutsche Bank AG, London Branch. If any of these financial institutions that have extended credit commitments to us or have entered into hedge or similar transactions with us are adversely affected by the conditions of the U.S. and international capital markets, they may become unable to fund borrowings under their credit commitments to us or otherwise fulfill their obligations under the relevant transactions, which could have a material and adverse impact on our financial condition and our ability to borrow additional funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes.

The recent events in the credit markets and financial services industry have generally made equity and debt financing more difficult to obtain. If these recent trends continue, additional equity or debt financing might not be available on reasonable terms, if at all. Any additional equity financings will be dilutive to our stockholders and any additional debt financings may involve operating covenants that further restrict our business, beyond the operating covenants currently in place.

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In addition, the current economic crisis could also adversely impact our customers' ability to purchase or pay for vehicles or other products and services from us or adversely affect the manufacturers ability to provide us with vehicles, either of which could negatively impact our business and results of operations. See also, Risk Factors Risks Related to the Automotive Retail Industry A decline of available consumer financing may adversely affect our sales of vehicles and the results of our business below.

If economic conditions in the United States do not improve, and the capital markets remain depressed causing a further negative impact on our stock price, such negative effect on our stock price could jeopardize our listing on the NYSE and affect our ability to raise equity in the future.

The United States economy has been in a recession since December 2007, according to the National Bureau of Economic Research, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. These general economic conditions have had an adverse effect on the capital markets, causing a sharp decline in the overall stock market and the price of shares of stock in the automotive retailing sector of the economy. On December 31, 2008, our common stock closed at $4.57 on the NYSE and we had a market capitalization of approximately $146.0 million, representing a 70% and 69% decline in our stock price and market capitalization, respectively, from December 31, 2007. As of March 12, 2009, our common stock closed at $2.13 and we had a market capitalization of approximately $68.0 million.

Market or business conditions may continue to decline, and may continue to have a negative impact on our stock price. If our common stock were to trade at an average 30-day closing market price of less than $1 per share and/or our equity market capitalization fell under the $25.0 million minimum requirement of the NYSE, our common stock could be removed from the NYSE and traded in the over the counter market. All of these factors, along with otherwise volatile equity market conditions, could limit our ability to raise new equity capital in the future.

Our capital costs and our results of operations may be materially and adversely affected by changes in interest rates.

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 have the ability to obtain capital for general corporate purposes, dealership acquisitions and property 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. In addition, 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 most 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, 2008, each one percent increase in market interest rates would increase our total annual interest expense, including floor plan interest, by $7.3 million.

RISKS RELATED TO OUR DEPENDENCE ON VEHICLE MANUFACTURERS

The reorganization or bankruptcy of one or more of the vehicle manufacturers could have a material adverse effect on our operations.

Certain vehicle manufacturers have incurred substantial operating losses in recent years and have required government bailout funds. Sustained periods of poor financial performance by a manufacturer may cause it 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 dealership locations, an elimination of certain makes or models, a decrease in the value of our inventory as consumer demand drops, a disruption in delivery or availability of service or parts, a delay or failure to reimburse us for warranty work and holdback receivables, a disruption in vehicle deliveries to our dealerships, or a significant disruption in the availability of consumer credit for the purchase or lease of vehicles or negative changes in the terms of such financing. If an attempted reorganization proves unsuccessful for the manufacturer, the continued financial distress could result in the cessation of its operations.

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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 their efforts may be successful if the state dealership laws that limit their ability to terminate our franchise agreements are superseded by federal bankruptcy laws, (ii) if the manufacturer is successful in terminating all or certain of our franchises, we may not receive adequate compensation for them, (iii) 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, (iv) our cost to obtain financing for our new vehicle inventory may increase with such manufacturer s captive finance subsidiary or the manufacturer s captive finance subsidiary may no longer provide financing for our new vehicle inventory, which may cause us to finance our new vehicle inventory with alternate finance sources on less favorable terms, (v) consumer demand for such manufacturer s products could be materially adversely affected, especially if costs related to improving such manufacturer s poor financial condition are imputed to the price of its products, (vi) may result in a significant disruption in the availability of consumer credit to purchase or lease vehicles or negative changes in the terms of such financing, which may negatively impact our sales, (vii) there may be a reduction in the value of receivables and inventory associated with that manufacturer and (viii) there may be an impairment of our manufacturer franchise rights, to the extent that such franchise rights are included in our consolidated balance sheet. The occurrence of any one or more of the above-mentioned events could have a material adverse effect on our business and results of operations.

Our exposure in these areas of our inventory and manufacturer receivables, net of amounts due to manufacturers, as of December 31, 2008, together with comparative data as of December 31, 2007, are as follows:

(in millions)	**December 31, 2008**	**December 31, 2007**
Chrysler Brands		
New vehicle inventory	$ 21.0	$ 34.2
Parts inventory	1.9	2.0
Receivables, net of payables of $0.6 million and $0.9 million, respectively	0.7	1.0
General Motors Brands		
New vehicle inventory	49.0	60.5
Parts inventory	2.9	3.1
Receivables, net of payables of $0.0 million and $0.1 million, respectively	2.0	2.8
Manufacturer franchise rights	0.3	5.0
Ford Brands		
New vehicle inventory	54.8	72.0
Parts inventory	3.3	3.7
Receivables, net of payables of $0.4 million	3.4	4.3
Manufacturer franchise rights	3.3	4.5

Adverse conditions affecting the manufacturers of the vehicles that we sell may negatively impact our revenues and profitability.

Our ability to successfully market vehicles to the public depends to a great extent on aspects of our manufacturers operations. Conditions which negatively affect our manufacturers in the following areas could similarly have an adverse affect on our revenues and profitability:

- financial condition;
- marketing efforts;
- vehicle design;
- production capabilities;

reputation for quality;

management; and

labor relations.

If we fail to obtain renewals of one or more of our dealer and framework 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 and/or is authorized to service. Our dealerships may obtain new vehicles from manufacturers, service vehicles, 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, framework and related 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 these agreements govern key aspects of our operations, acquisition strategy and capital spending.

Our franchise agreements may be terminated or not renewed by manufacturers for a number of reasons, and many of the manufacturers have the right to direct us to divest our dealerships if there is a default under the franchise agreement, an unapproved change of control, or other unapproved events. Although we currently have certain dealer agreements that will expire during 2009, and we expect that these agreements will be renewed, there can be no assurances that we will be able to renew these agreements or that we will be able to obtain renewals on favorable terms. Most of our dealer agreements also provide the manufacturer with the right of first refusal to purchase from us any franchise we seek to sell. 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.

If we fail to comply with the financial covenants contained in certain of our framework agreements, the manufacturers who are parties to such agreements may terminate our dealer agreements with them and cause us to divest our dealerships with them, which would have a material adverse effect on our business.

Certain of our manufacturers require us to meet certain financial ratios. Our failure to comply with these ratios gives the manufacturer the right to reject proposed acquisitions, and may give them the right to repurchase their franchises for fair value. The inability to acquire additional dealerships could inhibit the growth of our business, and the repurchase of our dealerships by the manufacturers may have a material adverse effect on our operations.

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 are in addition to the right 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 sales or performance criteria for that dealership. These criteria have been modified by various manufacturers from time to time in the past, and we cannot assure you that they will not be further modified or replaced by different criteria in the future. Some of our dealerships have had difficulty from time to time meeting these standards. We cannot assure you that our dealerships will be able to comply with these standards in the future.

In addition, manufacturers may use these criteria 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 acquisitions and hinder our ability to grow. In addition, we receive payments and incentives from certain manufacturers based, in part, on CSI scores, and future payments may be materially reduced or eliminated if our CSI scores decline.

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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 or that manufacturers will consent to future acquisitions, which may prevent 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 into 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 a 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 or wait until the buyer is able to meet the requirements of the manufacturer. A delay in the sale of a 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 own. 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, as well as limits on store ownership in contiguous markets. If we reach these limits, 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.

Applicable 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. Furthermore, if a manufacturer seeks protection from creditors in bankruptcy, it is possible that the federal bankruptcy laws may supersede the state laws which protect automotive retailers. See also, Risk Factors Risk Factors Related to our Dependence on Vehicle Manufacturers The reorganization or bankruptcy of one or more of the vehicle manufacturers could have a material adverse effect on our operations. See Business Dealer and Framework Agreements Regulations.

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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 services. 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, 2008, brands representing 5% or more of our revenues from new light vehicle retail sales were as follows:

Brand	% of Total New Light Vehicle Retail Sales
Honda	25%
Nissan	11%
Toyota	10%
BMW	9%
Mercedes-Benz	8%
Lexus	6%
Ford	6%
Acura	5%

No other brand accounted for more than 5% of our total new light vehicle retail sales revenue for the year ended December 31, 2008.

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 and in some instances on the level of capital expenditures. If our dealerships experience prolonged periods of sales declines, those manufacturers may cut back their allotments of popular vehicles to our dealerships and new vehicle sales and profits may decline.

Furthermore, if a manufacturer fails to produce desirable vehicles or has a reputation for producing undesirable vehicles, and we own dealerships of that manufacturer, our revenues at those dealerships could be adversely affected as consumers veer their purchases toward more desirable brands, makes and models.

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

Our dealerships benefit from certain sales incentives, warranties and other programs of our manufacturers that are intended to promote and support new vehicle sales. Some key incentive programs include:

- customer rebates on new vehicles;
- dealer incentives on new vehicles;
- special financing or leasing terms;
- warranties on new and used vehicles; and

sponsorship of used vehicle sales by authorized new vehicle dealers.

Manufacturers often make many changes to their incentive programs during each year. A reduction or discontinuation of key manufacturers incentive programs may reduce our new vehicle unit sales and related revenue.

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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 the franchise (either through termination or forced sale) 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. 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.

RISKS RELATED TO THE AUTOMOTIVE RETAIL INDUSTRY

A continued decline in consumer demand will adversely affect our profitability.

Our business is heavily dependent on consumer demand and preferences. We have witnessed severe economic conditions in the U.S. and globally in 2008 and the economic forecast for 2009 is equally bleak. The seasonally adjusted annual rate (SAAR) of new vehicle sales in the U.S. decreased to 10.3 million in the fourth quarter, compared to 16.2 million in U.S. industry-wide vehicle sales for the full-year of 2007. Our revenues will be materially and adversely affected if the downward trend in overall levels of consumer spending is not reversed. 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. The current economic climate in the United States and future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, fuel prices in 2008 reached historically high levels. Significant or sustained increases in gasoline prices could cause a reduction in automobile purchases and a shift in buying patterns from luxury or SUV models (which typically provide higher profit margins to retailers) to smaller, more economical vehicles (which typically have lower profit margins). A continued preference for smaller, more economic vehicles with lower profit margins by consumers may have an adverse affect on our revenues and results of operations.

A decline of available consumer financing may adversely affect our sales of vehicles and the results of our business.

The majority of vehicle buyers finance their purchases, particularly those seeking to purchase used vehicles. During 2008, consumers experienced a decline in the availability of credit due to a tightening of the lending markets. If there is a continued decline in the availability of credit or an increase in the cost to consumers for such credit, and such decline is sustained over several periods, the ability of consumers to purchase vehicles could be limited, resulting in a decline in our vehicle sales. Retail sales of used vehicles generally have higher gross margins than new vehicles. A decline in our vehicle sales could have a material adverse effect on our revenues and an adverse effect on our profitability.

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, Princeton, 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.

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. Sub-prime lenders have become more stringent with their credit standards, which has made it more difficult for consumers needing sub-prime financing to obtain credit. Furthermore, the sub-prime lenders may continue to apply higher standards in the future. If there is a continuous 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.

The results of our second and third quarter results may be disproportionately affected by adverse conditions.

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, foreign trade risks and currency valuations 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 import duties, exchange rates, 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. The relative weakness of the U.S. dollar against foreign currencies may adversely affect our cost of purchasing certain vehicles, which may also result in an increase in the retail price of such vehicles, which could discourage consumers from purchasing such vehicles. This could adversely impact our profitability.

RISKS RELATED TO OUR DEALERSHIP PORTFOLIO MANAGEMENT

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

We believe that the automobile retailing industry is a mature industry whose sales are significantly impacted by the prevailing economic climate in local markets. 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 and impairing relationships with employees;
- incurring undisclosed liabilities at acquired dealerships;
- disrupting our ongoing business and diverting our management resources to newly acquired dealerships; and
- impairing relationships with 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 or divestitures may limit our future growth and impact our profitability.

There is competition to acquire automotive dealerships, and we may not be able to fully implement our growth through acquisition strategy if attractive targets are acquired by competing buyers or if the market 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 target criteria. However, we compete with several other national, regional and local dealer groups, and other strategic and financial buyers, some of which may have greater financial resources. Competition for attractive acquisition targets may result in fewer acquisition opportunities for us, and increased acquisition costs. We will have to forego acquisition opportunities to the extent that we cannot negotiate acquisitions on acceptable terms.

OTHER RISKS

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

The automotive retail and service 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;
- privately negotiated sales of used vehicles;
- Internet-based used vehicle brokers that sell used vehicles to consumers;
- 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 additional franchises are awarded in our markets.

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Government 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, including local licensing requirements. These laws regulate the conduct of our business, including:

- motor vehicle and retail installment sales practices;
- leasing;
- sales of finance, insurance and vehicle protection products;
- consumer credit; deceptive trade practices;
- consumer protection;
- consumer privacy;
- money laundering;
- advertising;
- land use and zoning; and
- health and safety and employment practices.

Environmental laws and regulations govern, among other things, discharges into the air and water, storage of petroleum substances and chemicals, the handling and disposal of wastes and remediation of contamination arising from spills and releases. In addition, we may also have liability in connection with materials that were sent to third-party recycling, treatment and/or disposal facilities under federal and state statutes. These federal and state statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and will continue to incur capital and operating expenditures and other costs in complying with such federal and state statutes.

If we or our employees at the individual dealerships violate or are alleged to violate these laws and regulations, we could be subject to individual or consumer class actions, administrative, civil or criminal actions investigations or actions and adverse publicity. Such actions could 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. Some jurisdictions regulate finance fees and administrative or document fees that may be charged in connection with vehicle sales, which could restrict our ability to generate revenue from these activities.

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, during 2008, the Financial Accounting Standards Board (FASB) issued FSP ABA 14-a, which changed the accounting for convertible debt that may be settled in cash upon conversion. FSP-ABA 14-a will cause an increase to our interest expense by $1.7 million in 2009.

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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. Manufacturer dealer or framework agreements may require the prior approval of the applicable manufacturer before any change is made in dealership general managers or other management positions. The loss of the services of one or more of these key employees may materially impair the profitability 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 manager of the acquired dealership not continue to manage the business. 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 us or the manufacturers.

We depend on our executive officers as well as other key personnel. Most of our key personnel are not 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.

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Item 1B. Unresolved Staff Comments
None.

Item 2. Properties
We lease our corporate headquarters, which is located at 2905 Premiere Parkway, NW, Suite 300, Duluth, Georgia. In addition, as of December 31, 2008, we had 115 franchises situated in 87 dealership locations throughout 11 states. As of December 31, 2008, we leased 52 of these locations and owned the remainder. We have three 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 25 collision repair centers. We lease 13 of these collision repair centers and own the remainder.

	Dealership Locations		Collision Repair Centers	
	Owned	Leased	Owned	Leased
Coggin Automotive Group	11	6(a)	5	2
Courtesy Autogroup		9		2
Crown Automotive Company	7	10	1	1
David McDavid Auto Group	5	2	2	3
Gray-Daniels Auto Family	1	5		1
Nalley Automotive Group	5	11	3	2
California Dealerships		4(b)		
Northpoint Auto Group	2	4	1	1
Plaza Motor Company	4	1		1
Total	35	52	12	13

(a) Includes one dealership that leases a new vehicle facility and operates a separate used vehicle facility that is owned.
(b) Includes three pending divestitures as of December 31, 2008.

Item 3. Legal Proceedings
From time to time, we and our dealerships are named in claims, including class action 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 the sellers of dealerships that 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. However, the outcome of these matters cannot be predicted with certainty, and unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, liquidity, results of operations or financial statement disclosures.

On August 27, 2008, a U.S. District Court jury in Portland, Oregon reached a verdict against one of our subsidiaries in an action by four former salesmen alleging claims related to a hostile work environment at our former Thomason Toyota dealership in Gladstone, Oregon. We sold the Thomason Toyota dealership in 2006, though the alleged conduct involved in this matter occurred in 2005. During trial, the court dismissed the plaintiffs claims for race discrimination and retaliation in employment as well as their claims for economic damages. The jury, however, awarded $19.0 million in total damages against our subsidiary consisting of $8.0 million in non-economic damages and $11.0 million in punitive damages.

In a post-trial opinion and order issued January 23, 2009, the U.S. District Court in Portland, Oregon reduced the total damages awarded against our subsidiary to $1.2 million consisting of $600,000 in non-economic damages and $600,000 in punitive damages. The court gave the plaintiffs the choice of either accepting the reduced award or proceeding with a new trial on damages.

We will seek to further reduce damages if the plaintiffs request a new trial and, if necessary, we will seek to overturn the verdict or seek to eliminate or further reduce damages on appeal to the U.S. Court of Appeals for the Ninth Circuit. We believe that the jury verdict is unsupported by both the evidence and the law, and that we will prevail on appeal.

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

None.

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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 . Quarterly information concerning (i) our high and low closing sales price per share of our common stock as reported by the NYSE and (ii) the cash dividends that we paid to our stockholders, in 2008 and 2007, is as follows:

	High	Low	Dividend (per share)
Fiscal Year Ended December 31, 2007			
First Quarter	$ 28.50	$ 22.94	$ 0.20
Second Quarter	29.82	24.22	0.20
Third Quarter	25.29	19.01	0.225
Fourth Quarter	21.27	14.84	0.225
Fiscal Year Ended December 31, 2008			
First Quarter	$ 15.62	$ 12.19	$ 0.225
Second Quarter	17.39	12.85	0.225
Third Quarter	13.71	9.91	0.225
Fourth Quarter	10.92	2.00	

On March 12, 2009, the last reported sale price of our common stock on the New York Stock Exchange was $2.13 per share, and there were approximately 90 record holders of our common stock.

The repurchase of stock and payment of dividends are subject to certain limitations under the terms of our 8% Notes, 7.625% Notes, BofA Revolving Credit Facility and our JPMorgan Used Vehicle Floor Plan Facility. Such limits are calculated by adding 50% of cumulative net income or subtracting 100% of cumulative net losses (the Cumulative Net Income Basket); however, under our most restrictive covenant we may spend $15.0 million in addition to amounts provided by the Cumulative Net Income Basket to repurchase common stock or pay dividends. As of December 31, 2008, our ability to repurchase common stock or pay dividends was limited to $2.4 million under our most restrictive covenant. In addition, notwithstanding the limitations mentioned above, we may spend up to $2.0 million per year to repurchase common stock.

Due to the challenging retail environment and the resulting decline in our profitability, in October 2008, our board of directors elected to suspend our dividend program.

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PERFORMANCE GRAPH

The following graph furnished by the Company shows the value as of December 31, 2008, of a $100 investment in the Company s common stock made on December 31, 2003 (with dividends reinvested), 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, Inc., Sonic Automotive, Inc., Group 1 Automotive, Inc., Penske Automotive Group, Inc. and Lithia Motors, Inc., 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.

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Item 6. Selected Financial Data

The accompanying (loss) income statement data for the years ended December 31, 2007, 2006, 2005, and 2004 have been reclassified to reflect the status of our discontinued operations as of December 31, 2008.

(Loss) Income Statement Data:	2008	2007	2006	2005	2004
	For the Years Ended December 31, (in millions, except per share data)				
Revenues:					
New vehicle	$ 2,705.8	$ 3,263.9	$ 3,294.7	$ 3,137.3	$ 2,841.9
Used vehicle	1,085.3	1,389.8	1,357.5	1,237.6	1,089.8
Parts and service	692.6	664.9	631.7	587.6	529.0
Finance and insurance, net	135.8	155.2	147.2	139.9	123.9
Total revenues	4,619.5	5,473.8	5,431.1	5,102.4	4,584.6
Cost of sales	3,862.3	4,621.0	4,601.5	4,334.5	3,896.1
Gross profit	757.2	852.8	829.6	767.9	688.5
Selling, general and administrative expenses	616.6	656.2	634.2	598.6	547.5
Depreciation and amortization	23.4	20.6	19.1	18.5	17.3
Impairment expenses	535.9				
Other operating expense (income), net	1.3	1.0	(1.4)	0.6	(0.7)
(Loss) income from operations	(420.0)	175.0	177.7	150.2	124.4
Other income (expense):					
Floor plan interest expense	(30.8)	(41.0)	(38.8)	(26.2)	(17.6)
Other interest expense	(40.1)	(39.1)	(43.9)	(40.7)	(38.7)
Interest income	1.5	4.3	5.1	1.0	0.7
Gain (loss) on extinguishment of long-term debt, net	32.5	(18.5)	(1.1)		
Total other expense, net	(36.9)	(94.3)	(78.7)	(65.9)	(55.6)
(Loss) income before income taxes	(456.9)	80.7	99.0	84.3	68.8
Income tax (benefit) expense	(133.8)	29.0	37.3	31.6	25.6
(Loss) income from continuing operations	(323.1)	51.7	61.7	52.7	43.2
Discontinued operations, net of tax	(14.9)	(0.7)	(1.0)	8.4	6.9
Net (loss) income	$ (338.0)	$ 51.0	$ 60.7	$ 61.1	$ 50.1
(Loss) income from continuing operations per common share:					
Basic	$ (10.19)	$ 1.59	$ 1.86	$ 1.61	$ 1.33
Diluted	$ (10.19)	$ 1.55	$ 1.81	$ 1.60	$ 1.32
Cash dividends declared per common share	$ 0.68	$ 0.85	$ 0.40	$	$

Balance Sheet Data:	2008	2007	2006	2005	2004
	As of December 31, (in millions)				
Working Capital	$ 165.2	$ 320.7	$ 412.0	$ 347.0	$ 295.5
Inventories(a)	689.5	782.8	780.1	728.7	769.4
Total assets	1,654.3	2,016.3	2,030.8	1,930.8	1,898.0
Floor plan notes payable(b)	633.4	683.8	704.7	631.2	658.4

Total debt	607.1	475.6	455.9	496.9	526.4
Total shareholders equity	222.7	584.2	611.8	547.8	481.7

(a) Includes amounts classified as Assets held for sale on our consolidated balance sheets.

(b) Includes amounts classified as Liabilities associated with assets held for sale on our consolidated balance sheets.

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 115 franchises (87 dealership locations) in 22 metropolitan markets within 11 states as of December 31, 2008. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. We offer 37 domestic and foreign brands of new vehicles, including 7 heavy truck brands. We also operate 25 collision repair centers that serve customers in our local markets.

During the third quarter of 2008, we initiated a phased restructuring plan, which included the relocation of our corporate offices and the reorganization of our retail network. We have moved our corporate headquarters to Duluth, Georgia and we expect to close our corporate offices in New York, New York, and Stamford, Connecticut, by the end of March 2009. Our retail network reorganization has reduced our operating structure to two regions, East and West, from our previous structure of four regions and two stand-alone platforms, and includes nine locally branded dealership groups: (i) our East region includes our Coggin dealerships, operating primarily in the Florida markets of Jacksonville, Fort Pierce and Orlando; our Courtesy dealerships operating in Tampa, Florida; our Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia; and our Nalley dealerships operating in Atlanta, Georgia; and (ii) our West region includes our McDavid dealerships operating throughout Texas; our North Point dealerships operating in Little Rock, Arkansas; our California dealerships operating in Los Angeles, Sacramento and Fresno; our Plaza dealerships operating in St. Louis, Missouri; and our Gray Daniels dealerships operating in Jackson, Mississippi.

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers (new light vehicle retail), commercial customers (fleet) and new heavy trucks (heavy trucks) (the terms new light vehicle retail, fleet and heavy trucks being collectively referred t new); (ii) the sale of used vehicles to individual retail customers (used retail) and 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 parts and service); and (iv) the arrangement of vehicle financing and the sale of various insurance, warranty and maintenance 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 sold, our parts and service operations based on aggregate gross profit, and F&I based on F&I per vehicle sold. 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 full months.

Our organic growth 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. Our vehicle sales have historically fluctuated with general, local and national economic conditions, including consumer confidence, availability of consumer credit and fuel prices. We believe that the impact on our business by any future negative trends in new vehicle sales will be partially mitigated by (i) the stability of our parts and service operations, (ii) the variable nature of significant components of our cost structure and (iii) 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 sales of parts and services. As a result, when used vehicle and parts and service 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 improve our high margin businesses and to leverage our selling, general and administrative (SG&A) expense structure, although such initiatives may not keep pace with declining margins and lower gross profit as a result of lower sales volumes.

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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 cost structure is variable (such as sales commissions), or controllable (such as advertising), generally allowing us to adapt to changes in the retail environment over the long-term. 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 operating results are generally subject to changes in the economic environment as well as seasonal variations. 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 related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things. We anticipate that certain automotive manufacturers will continue to use a combination of vehicle pricing and financing incentive programs to increase demand for their product offerings. In addition, we believe the automotive manufacturers will adjust production to meet consumer demand; however, we do not expect that the near-term production adjustments by automotive manufacturers will be sufficient to align inventories with current consumer demand.

The automotive retail market declined significantly throughout 2008, and our results reflect the impact of weak economic conditions in the U.S., including turmoil in the debt markets, broad declines in the equity markets and continued weakness in the housing markets. The seasonally adjusted annual rate (SAAR) of new vehicle sales in the U.S. decreased to 10.3 million in the fourth quarter, compared to 16.2 million in U.S. industry-wide vehicle sales for the full-year of 2007. The economic environment was particularly weak in Florida during 2008, which has historically generated over 30% of our total revenues. Tighter lending standards for automotive financing and certain manufacturers decisions to reduce support of customer leasing programs has limited some customers ability to purchase vehicles. In addition, rapid changes in customer vehicle preferences due to volatility of gasoline prices provided further challenges for us during the second half of 2008.

While U.S. vehicle sales for all major vehicle manufacturers have declined during the current difficult economic environment, U.S. domestic manufacturers have contributed a disproportionate amount of the decline in U.S. industry-wide vehicle sales. The financial condition of the domestic manufacturers continued to deteriorate during 2008, and the domestic manufacturers may require additional government assistance to avoid bankruptcy. Although the full impact on us of a bankruptcy of any one or more of the domestic manufacturers is not determinable at this time, such bankruptcy could have a material adverse impact on our operations, liquidity position and financial results. Risks associated with a manufacturer bankruptcy include our ability to collect net receivables due from manufacturers, a reduction in the values of our new vehicle and parts inventory and an impairment of our manufacturer franchise rights, to the extent that such franchise rights are included in our consolidated balance sheet. Our exposure in these areas as of December 31, 2008, together with comparable data as of December 31, 2007, are as follows:

(in millions)	December 31, 2008	December 31, 2007
Chrysler Brands		
New vehicle inventory	$ 21.0	$ 34.2
Parts inventory	1.9	2.0
Receivables, net of payables of $0.6 million and $0.9 million, respectively	0.7	1.0
General Motors Brands		
New vehicle inventory	49.0	60.5
Parts inventory	2.9	3.1
Receivables, net of payables of $0.0 million and $0.1 million, respectively	2.0	2.8
Manufacturer franchise rights	0.3	5.0
Ford Brands		
New vehicle inventory	54.8	72.0
Parts inventory	3.3	3.7
Receivables, net of payables of $0.4 million	3.4	4.3
Manufacturer franchise rights	3.3	4.5

In addition, we rely on the manufacturer captive finance companies of Ford Motor Company and General Motors for new vehicle floor plan financing. The bankruptcy of either of these domestic manufacturers could result in an attempt by the related captive finance company to terminate our floor plan financing, which would have a material adverse impact on our operations and liquidity position.

We expect 2009 to continue to be a very challenging retail environment, which will continue to negatively impact new vehicle, used vehicle and F&I revenue. We have experienced increasing momentum in period over period parts and service sales declines, with the fourth quarter of 2008 having the largest sales decline in our history. We expect it will be challenging to maintain 2008 parts and service revenue in 2009. However, we expect the luxury and mid-line import brands, which comprised approximately 85% of our light vehicle unit volumes in the fourth quarter of 2008, will continue to increase their share of the U.S. market. Excluding the impact of impairment expenses, we expect to experience lower net income in 2009 as compared to 2008, as a result of our expectation (i) of new vehicle unit sales between 10.0 million and 11.0 million in 2009, which had been above 16.0 million since 1999, and was 13.2 million for 2008, (ii) that retail margins will remain under pressure while manufacturers bring supply in line with demand, and (iii) that continued difficulty for consumers to secure vehicle financing. As a result of our lower expectations of net income, it may be necessary for us to repurchase debt significantly below face value in order to remain in compliance with the financial covenants included in our debt and lease agreements. See also the discussion under, Risk Factors Risks Related to our Company If we are unable to generate sufficient cash, our ability to service our debt may be materially adversely affected, and our failure to comply with certain covenants in our debt, mortgage and lease agreements could adversely affect our ability to access our revolving credit facilities and adversely affect our ability to conduct our business.

MANAGEMENT S PLAN FOR MANAGING THROUGH THE CURRENT ECONOMIC CRISIS

In response to the weakening U.S. automotive retail environment in 2008 and our expectation for continued weakness in U.S. automotive sales in 2009, we took action to further align our expense structure to current business levels, including our phased restructuring plan, which was initiated during the third quarter of 2008, and our store-level productivity initiatives. We expect that the relocation of our corporate offices will deliver pre-tax cost savings of up to $5.0 million annually, resulting principally from staffing reductions and lower rent expense, from which we began to benefit in January 2009, and expect to receive full benefit beginning in April 2009. We expect that the reorganization of our operating structure to two regions will reduce the annual pre-tax operating expenses of our regions, consisting of personnel and rent expense, by approximately $8.0 million annually. We began to experience the benefit from our restructuring plan in January 2009, and expect to receive full benefit beginning in July 2009. In addition to our phased restructuring, other recent cost saving measures include (i) a 10% salary reduction for executive management, (ii) no 2008 bonuses or 2009 raises for corporate employees, (iii) suspension of 401(k) matching contributions for employees with a salary greater than $105,000, and (iv) suspension of the company matching contributions for all employees in our deferred compensation plan for 2009. These efforts, combined with our store-level productivity initiatives, delivered a $63.4 million (10%) reduction in same-store SG&A expense in 2008 and, more recently, a $26.6 million (17%) reduction in same-store SG&A expense in the fourth quarter of 2008, compared to the corresponding quarter of 2007. Overall, our nationwide workforce was reduced by 14% during the second half of 2008. Looking ahead, our phased restructuring plan and store-level productivity initiatives have been designed with the objective of structuring our business to be profitable in the current, depressed automotive retail market.

In addition to our expense reduction initiatives, in the fourth quarter of 2008, we placed a greater focus on working capital efficiency and liquidity, as well as managing our capital structure to ensure compliance with our debt covenants. We repurchased a total of $59.8 million of our senior subordinated notes for $24.0 million, resulting in a gain of $34.2 million, which is net of a $1.6 million pro-rata write-off of related debt issuance costs. In addition, we reviewed our dealership portfolio to limit our exposure to domestic manufacturers by selling stores, closing stores and reducing new vehicle inventory. We continuously evaluate the financial and operating results of our dealerships, as well as our geographic exposure, and expect to refine our dealership portfolio through strategic divestitures. We may use the proceeds from the future sale of dealerships to

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supplement our liquidity position in the current difficult economic environment and to manage our capital structure in order to remain in compliance with the financial covenants included in our debt agreements. Please refer to Liquidity and Capital Resources for further discussion.

BASIS OF PRESENTATION

Management s discussion and analysis should be read in conjunction with the accompanying consolidated financial statements which have been prepared assuming that we will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, uncertainty exists regarding our need to repurchase debt and the potential need to seek waivers or modifications of our debt covenants from our lenders to maintain compliance with our debt covenants. Management s plans concerning these matters are also described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

RESULTS OF OPERATIONS

Year Ended December 31, 2008, Compared to the Year Ended December 31, 2007

	For the Years Ended December 31,			
	2008	2007	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 2,705.8	$ 3,263.9	$ (558.1)	(17)%
Used vehicle	1,085.3	1,389.8	(304.5)	(22)%
Parts and service	692.6	664.9	27.7	4%
Finance and insurance, net	135.8	155.2	(19.4)	(13)%
Total revenues	4,619.5	5,473.8	(854.3)	(16)%
GROSS PROFIT:				
New vehicle	181.2	235.1	(53.9)	(23)%
Used vehicle	91.0	121.1	(30.1)	(25)%
Parts and service	349.2	341.4	7.8	2%
Finance and insurance, net	135.8	155.2	(19.4)	(13)%
Total gross profit	757.2	852.8	(95.6)	(11)%
OPERATING EXPENSES:				
Selling, general and administrative	616.6	656.2	(39.6)	(6)%
Depreciation and amortization	23.4	20.6	2.8	14%
Impairment expenses	535.9		535.9	NM
Other operating expense, net	1.3	1.0	0.3	30%
(Loss) income from operations	(420.0)	175.0	(595.0)	NM
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(30.8)	(41.0)	(10.2)	(25)%
Other interest expense	(40.1)	(39.1)	1.0	3%
Interest income	1.5	4.3	(2.8)	(65)%
Gain (loss) on extinguishment of long-term debt, net	32.5	(18.5)	51.0	276%
Total other expense, net	(36.9)	(94.3)	57.4	(61)%
(Loss) income before income taxes	(456.9)	80.7	(537.6)	NM
INCOME TAX (BENEFIT) EXPENSE	(133.8)	29.0	(162.8)	NM
(LOSS) INCOME FROM CONTINUING OPERATIONS	(323.1)	51.7	(374.8)	NM
DISCONTINUED OPERATIONS, net of tax	(14.9)	(0.7)	(14.2)	NM

NET (LOSS) INCOME	$ (338.0)	$ 51.0	$ (389.0)	NM
(Loss) income from continuing operations per common share Diluted	$ (10.19)	$ 1.55	$ (11.74)	NM
Net (loss) income per common share Diluted	$ (10.66)	$ 1.53	$ (12.19)	NM

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	For the Years Ended December 31, 2008	2007
REVENUE MIX PERCENTAGES:		
New light vehicles	54.4%	55.7%
New heavy trucks	4.1%	4.0%
Used retail	18.2%	19.3%
Used wholesale	5.4%	6.1%
Parts and service	15.0%	12.1%
Finance and insurance, net	2.9%	2.8%
GROSS PROFIT MIX PERCENTAGES:		
New light vehicles	22.9%	26.4%
New heavy trucks	1.0%	1.2%
Used retail	12.5%	14.5%
Used wholesale	(0.4)%	(0.3)%
Parts and service	46.1%	40.0%
Finance and insurance, net	17.9%	18.2%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	81.4%	76.9%

Net (loss) income and (loss) income from continuing operations decreased $389.0 million and $374.8 million, respectively, during 2008, as compared to 2007, primarily as a result of impairment expenses during 2008 totaling $383.0 million, net of tax. Discontinued operations decreased $14.2 million, net of tax, during 2008 as compared to 2007, primarily related to $9.9 million of impairment expenses, net of tax, during 2008 associated with two dealerships that are pending disposition. Our operations during 2008 and 2007 were impacted by certain items that are not core dealership operating items, which we believe are important to highlight when reviewing our results and should not be considered when forecasting our future results. (Loss) income from continuing operations during 2008 and 2007 includes net of tax non-core items of $354.1 million and $15.3 million, respectively, as detailed in the table below.

	For the Years Ended December 31, 2008	2007
	(In millions)	
NON CORE ITEMS		
Impairment expenses	$ 535.9	$
(Gain) loss on extinguishment of long-term debt, net	(32.5)	18.5
Corporate generated F&I gain	(4.7)	
Restructuring costs	5.8	
Executive separation benefits expense	1.7	3.0
Dealer management system implementation costs	1.0	
Legal settlements expense		2.5
Secondary offering expenses		0.3
Tax impact of non-core items above	(152.0)	(9.0)
Reversal of deferred tax valuation allowance	(1.1)	
Total non-core items	$ 354.1	$ 15.3

The non-core items shown in the table above include (i) impairment expenses totaling $491.7 million related to the write-off of all of our goodwill, a $36.8 million impairment of franchise rights and other intangible assets and a $7.4 million impairment of certain property and equipment as a result of a sustained decline in our market capitalization and a significant decline in our total revenue in the fourth quarter of 2008, (ii) gains and losses on the extinguishment of long-term debt, (iii) a corporate generated F&I gain related to the sale of our remaining interest in a pool of maintenance contracts, (iv) restructuring costs consisting primarily of severance and retention expenses related to the relocation of our corporate headquarters, (v) a reversal of deferred tax asset valuation allowances that we now expect to realize, (vi) executive separation benefits in 2008 and 2007, related to the departure of our former chief financial officer and chief executive officer, respectively, (vii) implementation costs associated with transitioning approximately 35% of our dealerships to DealerTrack s Arkona dealer management system, (viii) legal settlement expenses in 2007 related to the settlement of legal claims arising in, and before, the year 2003, and (ix) secondary offering expenses in 2007 related to two secondary offerings in which we did not receive any proceeds.

The $374.8 million decrease in (loss) income from continuing operations was primarily a result of impairment expenses totaling $373.1 million, net of tax. New and used vehicle gross profit decreased $53.9 million (23%) and $30.1 million (25%), respectively, and F&I gross profit decreased $19.4 million (13%), all primarily as a result of lower unit sales volumes. The decrease in new vehicle, used vehicle and F&I gross profit had a de-leveraging impact on our selling, general and administrative expense (SG&A) as a percentage of gross profit, which increased 450 basis points to 81.4%. These decreases in (loss) income from continuing operations were partially offset by (i) a $51.0 million favorable variance relating to debt extinguishments, including a $32.5 million net gain during 2008 and an $18.5 million loss in 2007, from the repurchases of our senior subordinated notes, and (ii) a $10.2 million (25%) decrease in floor plan interest expense, as a result of lower inventory and lower short-term interest rates. The $32.5 million net gain from debt extinguishments in 2008 and the $18.5 million loss in 2007 include $3.3 million and $5.5 million, respectively, in write-offs of debt issuance costs.

The $854.3 million (16%) decrease in total revenue was primarily a result of a $558.1 million (17%) decrease in new vehicle revenue and a $304.5 million (22%) decrease in used vehicle revenue. The decrease in new vehicle revenue includes a $666.1 million (22%) decrease in same store light vehicle revenue, a $25.3 million (12%) decrease in heavy truck revenue, partially offset by $133.3 million derived from dealership acquisitions. The decrease in used vehicle revenue includes a $246.0 million (23%) decrease in same store retail revenue and $103.6 million (31%) decrease in same store wholesale revenue, partially offset by a $45.1 million increase in used vehicle revenue derived from dealership acquisitions.

The $95.6 million (11%) decrease in total gross profit was primarily a result of a $53.9 million (23%) decrease in new vehicle gross profit, a $30.1 million (25%) decrease in used vehicle gross profit and a $19.4 million (13%) decrease in F&I gross profit. Our total gross profit margin increased 80 basis points to 16.4%, principally as a result of a mix shift to our higher margin parts and service and F&I businesses. We expect our total gross profit margin to increase as a result of a continued mix shift to our higher margin parts and service and F&I businesses. Our total light vehicle gross profit margin increased 80 basis points to 16.7%.

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New Vehicle

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
New retail revenue same store(1)				
Luxury	$ 856.4	$ 1,095.4	$ (239.0)	(22)%
Mid-line import	1,145.3	1,402.3	(257.0)	(18)%
Mid-line domestic	359.8	514.2	(154.4)	(30)%
Value	19.9	35.6	(15.7)	(44)%
Total light vehicle revenue same store(1)	2,381.4	3,047.5	(666.1)	(22)%
Heavy trucks	191.1	216.4	(25.3)	(12)%
Total new revenue same store(1)	2,572.5	3,263.9	(691.4)	(21)%
New retail revenue acquisitions	133.3			
New vehicle revenue, as reported	$ 2,705.8	$ 3,263.9	$ (558.1)	(17)%
New revenue per vehicle sold same store(1)	$ 30,912	$ 30,737	$ 175	1%
New revenue per vehicle sold actual	$ 30,834	$ 30,737	$ 97	%
New revenue mix same store(1)				
Luxury	33%	34%		
Mid-line import	45%	43%		
Mid-line domestic	14%	15%		
Value	1%	1%		
Heavy trucks	7%	7%		
Gross Profit:				
New gross profit same store(1)				
Luxury	$ 61.2	$ 86.8	$ (25.6)	(29)%
Mid-line import	76.6	99.5	(22.9)	(23)%
Mid-line domestic	24.1	36.7	(12.6)	(34)%
Value	1.0	1.8	(0.8)	(44)%
Total light vehicle gross profit same store(1)	162.9	224.8	(61.9)	(28)%
Heavy trucks	7.6	10.3	(2.7)	(26)%
Total new gross profit same store(1)	170.5	235.1	(64.6)	(27)%
New gross profit acquisitions	10.7			
Total new gross profit, as reported	$ 181.2	$ 235.1	$ (53.9)	(23)%
New gross profit per vehicle sold same store(1)	$ 2,049	$ 2,214	$ (165)	(7)%
New gross profit per vehicle sold actual	$ 2,065	$ 2,214	$ (149)	(7)%
New retail gross margin same store(1)	6.6%	7.2%	(0.6)%	(8)%
New retail gross margin actual	6.7%	7.2%	(0.5)%	(7)%

New gross mix same store(1)		
Luxury	36%	37%
Mid-line import	44%	42%
Mid-line domestic	14%	16%
Value	1%	1%
Heavy trucks	5%	4%

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
New Retail Units:				
New retail units same store(1)				
Luxury	18,362	23,207	(4,845)	(21)%
Mid-line import	46,317	55,113	(8,796)	(16)%
Mid-line domestic	10,828	15,039	(4,211)	(28)%
Value	997	1,785	(788)	(44)%
Total light vehicle retail units same store(1)	76,504	95,144	(18,640)	(20)%
Fleet vehicles	3,831	7,419	(3,588)	(48)%
Total light vehicle units same store(1)	80,335	102,563	(22,228)	(22)%
Heavy trucks	2,885	3,625	(740)	(20)%
Total new vehicle units same store(1)	83,220	106,188	(22,968)	(22)%
New vehicle units acquisitions	4,534			
New vehicle units actual	87,754	106,188	(18,434)	(17)%
Total light vehicle units same store(1)	80,335	102,563	(22,228)	(22)%
Total light vehicle units acquisitions	4,534			
Total light vehicle units	84,869	102,563	(17,694)	(17)%
New vehicle units mix same store(1)				
Luxury	22%	22%		
Mid-line import	56%	52%		
Mid-line domestic	13%	14%		
Value	1%	2%		
Heavy trucks	3%	3%		
Fleet vehicles	5%	7%		

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $558.1 million (17%) decrease in new vehicle revenue was primarily a result of a $666.1 million (22%) decrease in same store light vehicle revenue due to a 20% decrease in same store light vehicle retail unit sales and a 48% decrease in same store fleet unit sales. These decreases were partially offset by $133.3 million of revenue derived from acquisitions. The decreases in new vehicle revenue was driven by declining consumer confidence, an overall weak economic environment, tighter lending standards and a mix shift toward more fuel efficient, lower priced vehicles, and away from the higher priced trucks and SUVs.

The new vehicle business declined significantly throughout 2008. We experienced sales decreases across all brands; however, our sales decreases were generally in line with overall U.S. vehicle sales and brand specific sales in our regions. New vehicle SAAR reached its lowest level since the first quarter of 1993, decreasing to 10.3 million in the fourth quarter of 2008, from 16.2 million during the full year of 2007. Our revenue was impacted by turmoil in the financial markets, which led to tighter lending standards for manufacturer captive and bank financing, including decreasing loan-to-value ratios and increasing credit score requirements. Unit volumes declined in each brand segment including a 28% decrease in same store light vehicle retail unit sales from our mid-line domestic brands, a 21% decrease from our luxury brands and a 16% decrease from our mid-line import brands. We believe that it has been difficult for manufacturers to adapt in the short-term to the sharp decrease in consumer demand and as a result, it has been challenging for us to adjust our inventories to consumer demand and maintain retail margins. However, we continue to benefit from our brand mix as mid-line domestic brands continue to lose market share to the luxury and mid-line import brands. In addition, we expect a significant amount of U.S. dealerships to close during the year, and believe that most of these dealerships will be domestic dealerships, which we anticipate will result in market share gains for mid-line import and luxury dealerships.

The $53.9 million (23%) decrease in new vehicle gross profit was due to a $61.9 million (28%) decrease in same store light vehicle gross profit, resulting from a 20% decrease in same store light vehicle retail unit sales

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and a 60 basis point decrease in same store gross margin. These decreases were partially offset by $10.7 million of gross profit derived from acquisitions. The unit sales and margin decreases reflect a competitive marketplace with less business available due to the overall weak economic environment and tighter lending standards. We continue to experience a mix shift away from higher margin truck and SUVs towards more fuel efficient, lower gross margin cars. These factors contributed to a 7% decline in same store gross profit per vehicle sold.

Used Vehicle

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
Used retail revenues same store(1)				
Light vehicle	$ 802.4	$ 1,039.8	$ (237.4)	(23)%
Heavy trucks	7.2	15.8	(8.6)	(54)%
Total used retail revenues same store(1)	809.6	1,055.6	(246.0)	(23)%
Used retail revenues acquisitions	32.3			
Total used retail revenues	841.9	1,055.6	(213.7)	(20)%
Used wholesale revenues same store(1)	230.6	334.2	(103.6)	(31)%
Used wholesale revenues acquisitions	12.8			
Total used wholesale revenues	243.4	334.2	(90.8)	(27)%
Used vehicle revenue, as reported	$ 1,085.3	$ 1,389.8	$ (304.5)	(22)%
Gross profit:				
Used retail gross profit same store(1)				
Light vehicle	$ 92.0	$ 123.2	$ (31.2)	(25)%
Heavy trucks	(0.1)	0.1	(0.2)	(200)%
Total used retail gross profit same store(1)	91.9	123.3	(31.4)	(25)%
Used retail gross profit acquisitions	2.9			
Total used retail gross profit	94.8	123.3	(28.5)	(23)%
Used wholesale gross profit same store(1)	(3.7)	(2.2)	(1.5)	(68)%
Used wholesale gross profit acquisitions	(0.1)			
Total used wholesale gross profit	(3.8)	(2.2)	(1.6)	(73)%
Used vehicle gross profit, as reported	$ 91.0	$ 121.1	$ (30.1)	(25)%
Used retail units same store(1)				
Light vehicle	45,419	57,234	(11,815)	(21)%
Heavy trucks	188	429	(241)	(56)%
Total used retail units same store(1)	45,607	57,663	(12,056)	(21)%
Used retail units acquisitions	1,718			

Used retail units actual	47,325	57,663	(10,338)	(18)%
Used revenue PVR same store(1)	$ 17,752	$ 18,306	$ (554)	(3)%
Used revenue PVR actual	$ 17,790	$ 18,306	$ (516)	(3)%
Used gross profit PVR same store(1)	$ 2,015	$ 2,138	$ (123)	(6)%
Used gross profit PVR actual	$ 2,003	$ 2,138	$ (135)	(6)%
Used retail gross margin same store(1)	11.4%	11.7%	(0.3)%	(3)%
Used retail gross margin actual	11.3%	11.7%	(0.4)%	(3)%

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(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $304.5 million (22%) decrease in used vehicle revenue includes a $246.0 million (23%) decrease in same store retail revenue and a $103.6 million (31%) decrease in same store wholesale revenue, partially offset by $45.1 million derived from dealership acquisitions. The $30.1 million (25%) decrease in used vehicle gross profit was primarily a result of a $31.4 million (25%) decrease in same store retail gross profit. The decrease in used vehicle retail revenue and gross profit reflect (i) a weak retail environment, (ii) a tighter lending environment, (iii) lower sales to sub-prime customers and (iv) a sharp increase in consumer demand for smaller and more fuel efficient vehicles and away from trucks and SUVs. The rapid decline in consumer demand for trucks and SUVs has caused us to lower our inventory and retail more of these vehicles that otherwise would have been wholesaled because of weak demand for these vehicles at auction. The decrease in used vehicle wholesale revenue was a result of lower new retail and used retail unit sales, which provided fewer vehicles from trade-ins to sell at auction. In addition, the wholesale markets were virtually closed towards the end of the third quarter and early fourth quarter of 2008, which further reduced our wholesale results.

We have experienced reduced used vehicle sales to sub-prime customers, primarily as a result of tighter lending standards, particularly in the second half of 2008. We are closely managing our sub-prime business and continue to believe there is opportunity to improve our used vehicle profitability by offering appropriately priced used vehicle inventory; however, we expect our sub-prime gross margins to decrease from their 2008 levels as a result of financing providers lowering their loan to value ratios and increasing credit score requirements.

We continue to focus on inventory management, including aligning our inventory to meet consumer demands and decreasing our inventory in response to the slower retail environment. Although our same store wholesale losses were $3.7 million, we decreased our used vehicle inventory by 41% in 2008. As a result, we believe our used vehicle inventory is now better aligned with consumer demand, with approximately 35 days sales in our year end inventory. We expect that this improvement in our used vehicle inventory will help mitigate the impact of the challenging economic environment on our used vehicle performance. In addition, we continue to focus on the growth of all used vehicle product offerings, including factory certified, traditional and low value trade-ins.

Parts and Service

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
	(Dollars in millions)			
Revenue:				
Light vehicle same store(1)	$ 602.3	$ 601.8	$ (0.5)	%
Heavy trucks	62.2	63.1	(0.9)	(1)%
Total revenue same store(1)	664.5	664.9	(0.4)	%
Revenues acquisitions	28.1			
Parts and service revenue, as reported	$ 692.6	$ 664.9	$ 27.7	4%
Gross profit:				
Light vehicle same store(1)	$ 315.1	$ 321.1	$ (6.0)	(2)%
Heavy trucks	19.7	20.3	(0.6)	(3)%
Total gross profit same store(1)	334.8	341.4	(6.6)	(2)%
Gross profit acquisitions	14.4			
Parts and service gross profit, as reported	$ 349.2	$ 341.4	$ 7.8	2%

Parts and service gross margin	same store(1)	50.4%	51.3%	(0.9)%	(2)%
Parts and service gross margin	actual	50.4%	51.3%	(0.9)%	(2)%

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(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

The $27.7 million (4%) increase in parts and service revenues and $7.8 million (2%) increase in parts and service gross profit was primarily due to revenue and gross profit derived from dealership acquisitions as same store revenue decreased by $0.4 million and same store gross profit decreased by $6.6 million (2%) during 2008, as compared to 2007. Same store customer pay parts and service revenue and gross profit decreased $5.0 million (1%) and $1.5 million (1%), respectively. Same store revenue and gross profit from our wholesale parts business increased $8.3 million (6%) and $2.6 million (9%), respectively. We continue to experience decreases in our warranty business as same store warranty revenue decreased $3.8 million (3%) as a result of improvements in the quality of vehicles produced in recent years.

Despite the challenging retail and overall economic environment, our parts and service business during 2008 remained relatively stable. However, we have experienced increasing momentum in period over period sales declines in the second half of 2008, with the fourth quarter being the largest sales decline in our history, down 8% on a same-store basis. We believe that in difficult economic times consumers may delay new vehicle purchases, but will continue to require maintenance and repair work. However, we believe that customers are deferring larger cost repair items. We continue to focus on improving our customer pay business over the long-term as we (i) continue to invest in additional service capacity, where appropriate, (ii) upgrade equipment, (iii) improve customer retention and customer satisfaction and (iv) capitalize on our regional training programs. In addition, we expect to recognize improved parts and service gross profit in the future from heavy trucks as a result of the addition of service capacity at our heavy truck service center in 2007, and as the customers who purchased vehicles prior to the emission law changes in January 2007, which accelerated demand for 2006 model year heavy trucks into 2006 and the first half of 2007, begin to bring their vehicles in for maintenance and repairs.

Finance and Insurance, net

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
	(In millions, except for per vehicle data)			
Dealership generated F&I, net same store(1)				
Light vehicle	$ 126.5	$ 154.3	$ (27.8)	(18)%
Heavy trucks	0.3	0.9	(0.6)	(67)%
Dealership generated F&I, net same store(1)	126.8	155.2	(28.4)	(18)%
Dealership generated F&I acquisitions	4.3			
Dealership generated F&I, net	131.1	155.2	(24.1)	(16)%
Corporate generated F&I gain	4.7			
F&I, net as reported	$ 135.8	$ 155.2	$ (19.4)	(13)%
Dealership F&I per vehicle sold same store(1)(2)	$ 984	$ 947	$ 37	4%
Dealership F&I per vehicle sold actual(2)	$ 971	$ 947	$ 24	3%
F&I per vehicle sold same store(1)	$ 1,021	$ 947	$ 74	8%
F&I per vehicle sold actual	$ 1,005	$ 947	$ 58	6%

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

(2) Dealership generated F&I per vehicle sold excludes the corporate generated F&I gain.

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We evaluate our F&I performance on a per vehicle sold basis by dividing F&I gross profit by the number of vehicles sold during the period. F&I decreased $19.4 million (13%) during 2008 as compared to 2007, as a result of a $28.4 million (18%) decrease in same store dealership generated F&I, partially offset by $4.7 million from a corporate generated F&I gain related to the sale of our remaining interest in a pool of maintenance contracts and $4.3 million derived from dealership acquisitions. The decrease in same store dealership generated F&I was a result of a 21% decrease in same store unit sales, partially offset by a 4% increase in same store dealership generated F&I per vehicle sold. The increase in dealership generated F&I per vehicle sold was attributable to (i) improved F&I performance of the bottom third of our stores, (ii) lengthening of finance contract terms and (iii) mix shift away from sub-prime customers, as these deals typically generate less finance and insurance revenue. These increases were partially offset by lower financing commissions due to tighter lending standards. The tighter lending standards included lower loan to value ratios, which decrease our opportunity to offer customers our full menu of finance and insurance products. In addition, customers were very concerned about their monthly payment during the difficult economic environment.

Overall, our F&I performance is dependent on unit sales and the lending environment. We expect to experience lower F&I per vehicle sold levels in 2009 compared to 2008 as a result of (i) tighter lending standards, including loan-to-value constraints, (ii) lower income as a result of our decision to discontinue our investments in consumer loans and (iii) lower F&I retro payments as a result of the sale of our remaining interest in a pool of extended maintenance contracts. We expect to mitigate these decreases by (i) improving our F&I results at our lower-performing stores, (ii) continuing to refine and enhance in the menu of products we offer our customers and (iii) shifting away from sub-prime customers.

Selling, General and Administrative

	For the Years Ended December 31,					% of Gross Profit
	2008	% of Gross Profit	2007	% of Gross Profit	Increase (Decrease)	Increase (Decrease)
	(Dollars in millions)					
Personnel costs	$ 277.6	38.3%	$ 300.3	35.2%	(22.7)	3.1%
Sales compensation	74.0	10.2%	93.6	11.0%	(19.6)	(0.8)%
Share-based compensation	1.9	0.3%	5.9	0.7%	(4.0)	(0.4)%
Outside services	57.7	8.0%	60.3	7.1%	(2.6)	0.9%
Advertising	41.2	5.7%	47.6	5.6%	(6.4)	0.1%
Rent	48.6	6.7%	55.1	6.5%	(6.5)	0.2%
Utilities	17.8	2.5%	17.6	2.1%	0.2	0.4%
Insurance	13.5	1.9%	13.8	1.6%	(0.3)	0.3%
Other	60.5	8.2%	62.0	7.1%	(1.5)	1.1%
Selling, general and administrative same store(1)	592.8	81.8%	656.2	76.9%	(63.4)	4.9%
Acquisitions	23.8					
Selling, general and administrative actual	$ 616.6	81.4%	$ 656.2	76.9%	(39.6)	4.5%
Gross Profit same store	$ 725.0		$ 852.8			
Gross Profit actual	$ 757.2		$ 852.8			

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

Same store SG&A expense as a percentage of gross profit was 81.8% for 2008, as compared to 76.9% for 2007. The 490 basis point increase was primarily a result of the de-leveraging impact on our cost structure from the decline in vehicle sales volumes, including a 310 basis point increase in personnel costs and a 90 basis point increase in outside services due primarily to Arkona dealer management system installation costs, as well as increased training costs. These items were partially offset by (i) a 40 basis point decrease in share-based compensation expense as a result of an increase in our forfeiture estimates and reductions in performance estimates of employee equity awards and (ii) an 80 basis point decrease in sales compensation expense due to our focus on compensation plans.

During the third quarter of 2008, we initiated a phased restructuring plan, which included the relocation of our corporate offices and the reorganization of our retail network. We have moved our corporate headquarters to Duluth, Georgia, and we will close our corporate offices in New York, New York, and Stamford, Connecticut, by the end of March 2009. We expect that this relocation will deliver pre-tax cost savings of up to $5.0 million annually, resulting principally from staffing reductions and lower rent expense. During 2008, we incurred pre-tax costs of $5.8 million associated with our restructuring plans. In addition, other recent cost saving measures include (i) a 10% salary reduction for executive management, (ii) no 2008 bonuses or 2009 raises for corporate employees, (iii) suspension of 401(k) matching contributions for employees with a salary greater than $105,000, and (iv) suspension of the company matching contributions for all eligible employees in our deferred compensation plan for 2009.

Our retail network reorganization has reduced our operating structure to two regions, from our previous structure of four regions and two stand-alone platforms. We expect that this restructuring will reduce the annual pre-tax operating expenses of our regions, consisting of personnel and rent expense, by approximately $8.0 million annually. We expect approximately 75% of this plan to be complete by the first quarter of 2009 and the remaining 25% to be complete by the end of the third quarter of 2009.

Finally, we are expanding our store-level productivity initiatives, focusing on personnel and advertising expenses, improved inventory management, and selected technology investments to enhance our efficiency. These efforts, combined with our store-level productivity initiatives, delivered a $63.4 million (10%) reduction in same-store SG&A expense in 2008 and, more recently, same-store SG&A expense was down $26.6 million (17%) in the fourth quarter of 2008, compared to the corresponding quarter of 2007.

SG&A expense as a percentage of gross profit is heavily dependent on our unit sales and overall gross profit generation. Therefore, we expect that, despite our cost reduction efforts, it will be challenging to maintain the current level of SG&A expense as a percentage of gross profit in 2009, in what we expect will continue to be a challenging retail environment.

Depreciation and Amortization

The $2.8 million (14%) increase in depreciation and amortization expense was a result of property and equipment acquired during 2008 and 2007, including the purchase of $207.9 million of previously leased property in the second quarter of 2008.

Impairment Expenses

During the fourth quarter of 2008, we experienced a sustained decline in market capitalization and a significant decline in total revenue due to overall retail industry conditions driven by declining consumer confidence, tightening lending standards, rising gas prices, changes in consumer demand and falling home prices. Our stock price decreased 60% from $11.52 as of September 30, 2008, to $4.57 as of December 31, 2008. In addition, our total revenues decreased approximately 30% during the fourth quarter of 2008 as compared to the fourth quarter of 2007. During 2008, we recognized impairment expenses from continuing operations totaling $535.9 million, which includes (i) a $491.7 million write-off of all of our goodwill, (ii) a $36.8 million impairment of franchise rights and other intangible assets and (iii) a $7.4 million impairment of certain property and equipment (for further discussion of our asset impairment expenses, please refer to Note 9 of our consolidated financial statements).

Other Operating Expense

Other operating expense includes gains and losses from the sale of property and equipment, income derived from sub-lease arrangements and other non-core operating items. Other non-core operating items include $1.7 million and $3.0 million of expenses during 2008 and 2007, respectively, related to the departure of our former chief financial officer and chief executive officer.

Floor Plan Interest Expense

The $10.2 million (25%) decrease in floor plan interest expense was attributable to a lower average balance of new vehicle inventory and the lower short-term rate environment.

Other Interest Expense

The $1.0 million (3%) increase in other interest expense was primarily attributable to interest expense on $151.1 million of mortgage borrowings in the second quarter of 2008 in connection with the purchase of previously leased real estate, partially offset by the repurchase of $59.8 million of senior subordinated notes in the fourth quarter of 2008 and our debt restructuring in the first quarter of 2007.

Extinguishment of Long-Term Debt

During 2008, we recognized a $32.5 million net gain on the extinguishment of long-term debt. Included in the $32.5 million net gain was a $34.2 million gain on the repurchase of $59.8 million of our senior subordinated notes for $24.0 million, partially offset by a $1.6 million pro-rata write-off of debt issuance costs. In addition, we recognized a $1.7 million loss as a result of our decision to terminate our credit facility with JPMorgan Chase Bank N.A. in September 2008, which represents the unamortized debt issuance costs associated with such facility.

During 2007, we recognized an $18.5 million loss on the extinguishment of long-term debt in connection with our long-term debt refinancing. The $18.5 million loss includes (i) a $12.9 million premium on the repurchase of the 9% Notes and 8% Notes, (ii) $5.5 million of costs associated with a pro-rata write-off of unamortized debt issuance costs related to our 9% Notes and 8% Notes, and (iii) $0.1 million of costs associated with a pro-rata write-off of the unamortized value of our terminated fair value swap associated with the 8% Notes.

Interest Income

The $2.8 million (65%) decrease in interest income is primarily a result of a lower average cash balance and lower interest rates during 2008 as compared to 2007.

Income Tax (Benefit) Expense

The $162.8 million decrease in income tax expense was primarily a result of $535.9 million of impairment expenses from continuing operations. Our effective tax rate decreased from 35.9% for the 2007 period to 29.3% for the 2008 period. The 660 basis point decrease is primarily a result of excess book goodwill over tax goodwill for which we will not receive a tax benefit, the impact of losses on our corporate owned life insurance policies for which we will not receive a tax benefit, partially offset by the reversal of deferred tax asset valuation allowances that we now expect to realize. In 2007, our effective tax rate was impacted by (i) a reversal of a deferred tax asset valuation allowance related to a tax benefit we now expect to realize and (ii) tax credits recognized for employing individuals in the areas affected by Hurricane Katrina. Our effective tax rate is highly dependant on the level of income before income taxes and permanent differences between book and tax income. As a result, it is difficult to project our effective tax rate. Excluding the impact of permanent differences between book and tax income and based upon our current expectation of 2009 income before income taxes, we expect our effective income tax rate will be between 38% and 40% in 2009.

Discontinued Operations

During 2008, we sold or closed thirteen franchises (seven dealership locations), twelve of which were classified as discontinued operations, and as of December 31, 2008, we were actively pursuing the sale of three franchises (two franchises are currently classified as discontinued operations). The $14.9 million, net of tax, net loss from discontinued operations for 2008 is a result of (i) $9.9 million, net of tax, of impairment expenses related to discontinued operations, (ii) $4.7 million, net of tax, of net operating losses of franchises sold or pending disposition as of December 31, 2008, including rent expense of idle facilities and legal expenses of franchises sold prior December 31, 2008, and (iii) a $0.3 million, net of tax, loss on the sale of five franchises (four dealership locations).

The $0.7 million, net of tax, of net losses from discontinued operations during 2007, includes $1.2 million, net of tax, loss on the sale of two franchises (two dealership locations), partially offset by $0.5 million of net operating income of franchises sold or pending disposition as of December 31, 2008, including rent expense of idle facilities and miscellaneous legal expenses of franchises sold prior to December 31, 2008.

We continuously evaluate the financial and operating results of our dealerships, as well as each dealership s geographical location, and expect to refine our dealership portfolio through strategic divestitures.

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RESULTS OF OPERATIONS

Year Ended December 31, 2007, Compared to Year Ended December 31, 2006

	For the Years Ended December 31,			
	2007	2006	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 3,263.9	$ 3,294.7	$ (30.8)	(1)%
Used vehicle	1,389.8	1,357.5	32.3	2%
Parts and service	664.9	631.7	33.2	5%
Finance and insurance, net	155.2	147.2	8.0	5%
Total revenues	5,473.8	5,431.1	42.7	1%
GROSS PROFIT:				
New vehicle	235.1	235.7	(0.6)	%
Used vehicle	121.1	127.5	(6.4)	(5)%
Parts and service	341.4	319.2	22.2	7%
Finance and insurance, net	155.2	147.2	8.0	5%
Total gross profit	852.8	829.6	23.2	3%
OPERATING EXPENSES:				
Selling, general and administrative	656.2	634.2	22.0	3%
Depreciation and amortization	20.6	19.1	1.5	8%
Other operating expense (income), net	1.0	(1.4)	(2.4)	(171)%
Income from operations	175.0	177.7	(2.7)	(2)%
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(41.0)	(38.8)	2.2	6%
Other interest expense	(39.1)	(43.9)	(4.8)	(11)%
Interest income	4.3	5.1	(0.8)	(16)%
Loss on extinguishment of long-term debt	(18.5)	(1.1)	(17.4)	NM
Total other expense, net	(94.3)	(78.7)	(15.6)	20%
Income before income taxes	80.7	99.0	(18.3)	(18)%
INCOME TAX EXPENSE	29.0	37.3	(8.3)	(22)%
INCOME FROM CONTINUING OPERATIONS	51.7	61.7	(10.0)	(16)%
DISCONTINUED OPERATIONS, net of tax	(0.7)	(1.0)	0.3	30%
NET INCOME	$ 51.0	$ 60.7	$ (9.7)	(16)%
Income from continuing operations per common share Diluted	$ 1.55	$ 1.81	$ (0.26)	(14)%
Net income per common share Diluted	$ 1.53	$ 1.78	$ (0.25)	(14)%

	For the Years Ended December 31,	
	2007	2006
REVENUE MIX PERCENTAGES:		
New light vehicles	55.7%	54.5%
New heavy trucks	4.0%	6.1%
Used retail	19.3%	19.1%
Used wholesale	6.1%	6.0%
Parts and service	12.1%	11.6%
Finance and insurance, net	2.8%	2.7%
GROSS PROFIT MIX PERCENTAGES:		
New light vehicles	26.4%	26.8%
New heavy trucks	1.2%	1.6%
Used retail	14.5%	15.5%
Used wholesale	(0.3)%	(0.1)%
Parts and service	40.0%	38.5%
Finance and insurance, net	18.2%	17.7%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	76.9%	76.4%

Net income and income from continuing operations decreased $9.7 million and $10.0 million during 2007 as compared to 2006, respectively, primarily as a result of an $18.5 million loss on extinguishment of long-term debt. Discontinued operations increased $0.3 million, net of tax, during 2007. Our operations during 2007 and 2006 were impacted by certain items that are not core dealership operating items, which we believe are important to highlight when reviewing our results and should not be considered when forecasting our future results. Income from continuing operations during 2007 and 2006 includes net of tax non-core items of $15.3 million and $0.9 million, respectively, as detailed in the table below.

	For the Years Ended December 31,	
	2007	2006
	(In millions)	
NON CORE ITEMS		
Loss on extinguishment of long-term debt	$ 18.5	$ 1.1
Corporate generated F&I gain		(3.4)
Gain on sale of a franchise		(2.6)
Executive separation benefits expense	3.0	
Abandoned strategic projects expense		1.8
Legal settlements expense	2.5	
Secondary offering expenses	0.3	1.1
Tax impact of non-core items above	(9.0)	1.1
Total non-core items	$ 15.3	$ (0.9)

The non-core items shown in the table above include (i) losses on the extinguishment of long-term debt, resulting from our repurchase of $253.0 million and $17.6 million of senior subordinated notes in 2007 and 2006, respectively, (ii) a corporate generated F&I gain in 2006 related to the sale of our remaining interest in a pool of extended service contracts, (iii) a gain recognized in 2006 on the sale of a franchise in which the dealership facility was retained in our operations, (iv) executive separation benefits related to the departure of our former chief executive officer, (v) our decision to abandon certain strategic projects in 2006, (vi) legal settlement expenses in 2007 related to the settlement of legal claims arising in, and before, the year 2003, and (vii) secondary offering expenses in 2007 and 2006 related to secondary offerings in which we did not receive any proceeds.

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The $10.0 million (16%) decrease in income from continuing operations was primarily a result of an $18.5 million loss on the extinguishment of long-term debt. New and used vehicle gross profit decreased $0.6 million and $6.4 million (5%), respectively, primarily as a result of lower unit sales volumes. The decrease in new vehicle and used vehicle gross profit had a de-leveraging impact on our SG&A as a percentage of gross profit, which increased 50 basis points to 76.9%. These decreases in income from continuing operations were partially offset by increased parts and service and F&I gross profit of $22.2 million (7%) and $8.0 million (5%), respectively. In addition, our other interest expense decreased $4.8 million (11%) due to a lower average effective interest rate on our long-term debt as a result of our long-term debt refinancing, which was substantially completed during the first quarter of 2007 and finalized in the second quarter of 2007.

The $42.7 million (1%) increase in total revenue was primarily a result of a $33.2 million (5%) increase in parts and service revenue and a $32.3 million (2%) increase in used vehicle revenue. New vehicle revenue decreased $30.8 million (1%), primarily due to a $116.9 million (35%) decrease in heavy truck revenue, partially offset by a $17.5 million (1%) increase in same store light vehicle revenue and $68.6 million derived from dealership acquisitions. The increase in used vehicle revenue includes a $5.4 million (2%) increase in same store wholesale revenue and $30.4 million derived from dealership acquisitions, partially offset by a $3.5 million decrease in same store retail revenue.

The $23.2 million (3%) increase in total gross profit was a result of a $22.2 million (7%) increase in parts and service gross profit and an $8.0 million (5%) increase in F&I gross profit, partially offset by a $6.4 million (5%) decrease in used vehicle gross profit. Our total gross profit margin increased 30 basis points to 15.6%, principally as a result of a mix shift to our higher margin parts and service and F&I businesses. Our total light vehicle gross profit margin increased 10 basis points to 15.9%.

New Vehicle

	For the Years Ended December 31, 2007	2006	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
New retail revenue same store(1)				
Luxury	$ 1,055.2	$ 1,015.0	$ 40.2	4%
Mid-line import	1,381.5	1,356.8	24.7	2%
Mid-line domestic	509.5	560.1	(50.6)	(9)%
Value	32.7	29.5	3.2	11%
Total light vehicle revenue same store(1)	2,978.9	2,961.4	17.5	1%
Heavy trucks	216.4	333.3	(116.9)	(35)%
Total new revenue same store(1)	3,195.3	3,294.7	(99.4)	(3)%
New retail revenue acquisitions	68.6			
New vehicle revenue, as reported	$ 3,263.9	$ 3,294.7	$ (30.8)	(1)%
New revenue per vehicle sold same store(1)	$ 30,700	$ 30,823	$ (123)	%
New revenue per vehicle sold actual	$ 30,737	$ 30,823	$ (86)	%
New revenue mix same store(1)				
Luxury	33%	31%		
Mid-line import	43%	41%		
Mid-line domestic	16%	17%		
Value	1%	1%		
Heavy trucks	7%	10%		

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	For the Years Ended December 31, 2007	2006	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Gross Profit:				
New gross profit same store(1)				
Luxury	$ 83.6	$ 80.7	$ 2.9	4%
Mid-line import	97.9	99.7	(1.8)	(2)%
Mid-line domestic	36.2	40.2	(4.0)	(10)%
Value	1.7	1.7		%
Total light vehicle gross profit same store(1)	219.4	222.3	(2.9)	(1)%
Heavy trucks	10.3	13.4	(3.1)	(23)%
Total new gross profit same store(1)	229.7	235.7	(6.0)	(3)%
New gross profit acquisitions	5.4			
Total new gross profit, as reported	$ 235.1	$ 235.7	(0.6)	%
New gross profit per vehicle sold same store(1)	$ 2,207	$ 2,205	$ 2	%
New gross profit per vehicle sold actual	$ 2,214	$ 2,205	$ 9	%
New retail gross margin same store(1)	7.2%	7.2%	%	%
New retail gross margin actual	7.2%	7.2%	%	%
New gross mix same store				
Luxury	36%	34%		
Mid-line import	43%	42%		
Mid-line domestic	15%	17%		
Value	1%	1%		
Heavy trucks	5%	6%		

(1) Same store amounts include the results of dealerships for the identical months for each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

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	For the Years Ended December 31, 2007	2006	Increase (Decrease)	% Change
New Retail Units:				
New retail units same store(1)				
Luxury	22,248	22,272	(24)	%
Mid-line import	54,268	54,425	(157)	%
Mid-line domestic	14,874	16,062	(1,188)	(7)%
Value	1,646	1,412	234	17%
Total light vehicle retail units same store(1)	93,036	94,171	(1,135)	(1)%
Fleet vehicles	7,419	7,154	265	4%
Total light vehicle units same store(1)	100,455	101,325	(870)	(1)%
Heavy trucks	3,625	5,566	(1,941)	(35)%
Total new vehicle units same store(1)	104,080	106,891	(2,811)	(3)%
New vehicle units acquisitions	2,108			
New vehicle units actual	106,188	106,891	(703)	(1)%
Total light vehicle units same store(1)	100,455	101,325	(870)	(1)%
Total light vehicle units acquisitions	2,108			
Total light vehicle units	102,563	101,325	1,238	1%
New vehicle units mix same store(1)				
Luxury	21%	21%		