ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
July 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.
(Exact name of Registrant as specified in its charter)

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

(770) 418-8200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer x Accelerated Filer o

Non-Accelerated Filer o Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of July 23, 2013 was 31,124,573.

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PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value and share data)
(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$67.0	$6.2
Contracts-in-transit	118.6	129.4
Accounts receivable (net of allowance of $0.9 and $1.0, respectively)	82.4	94.3
Inventories	712.5	648.5
Deferred income taxes	11.8	10.9
Assets held for sale	9.2	27.6
Other current assets	70.2	69.5
Total current assets	1,071.7	986.4
PROPERTY AND EQUIPMENT, net	578.6	565.8
GOODWILL	28.4	28.4
DEFERRED INCOME TAXES, net of current portion	22.6	27.5
OTHER LONG-TERM ASSETS	54.0	53.3
Total assets	$1,755.3	$1,661.4
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable—trade	$60.7	$55.1
Floor plan notes payable—non-trade	436.8	501.6
Current maturities of long-term debt	5.0	4.6
Accounts payable and accrued liabilities	199.8	209.1
Liabilities associated with assets held for sale	—	9.4
Total current liabilities	702.3	779.8
LONG-TERM DEBT	580.8	461.4
OTHER LONG-TERM LIABILITIES	18.6	17.4
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS’ EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 90,000,000 shares authorized; 40,098,016 and 39,824,708 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	505.7	499.0
Retained earnings	113.9	54.4
Treasury stock, at cost; 8,973,443 and 8,507,948 shares, respectively	(166.1)	(149.4)
Accumulated other comprehensive loss	(0.3)	(1.6)
Total shareholders’ equity	453.6	402.8
Total liabilities and shareholders’ equity	$1,755.3	$1,661.4

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES:				
New vehicle	$743.0	$648.0	$1,407.5	$1,222.9
Used vehicle	395.2	330.7	761.5	647.4
Parts and service	153.9	141.4	301.5	282.1
Finance and insurance, net	52.4	41.4	99.4	79.1
Total revenues	1,344.5	1,161.5	2,569.9	2,231.5
COST OF SALES:				
New vehicle	698.4	606.1	1,322.2	1,142.5
Used vehicle	364.6	305.0	699.6	593.7
Parts and service	59.6	58.6	119.5	119.0
Total cost of sales	1,122.6	969.7	2,141.3	1,855.2
GROSS PROFIT	221.9	191.8	428.6	376.3
OPERATING EXPENSES:				
Selling, general and administrative	154.2	138.5	302.3	275.9
Depreciation and amortization	5.9	5.7	11.8	11.4
Other operating expense, net	4.4	0.6	4.5	0.6
Income from operations	57.4	47.0	110.0	88.4
OTHER EXPENSES:				
Floor plan interest expense	(3.1)	(2.9)	(6.2)	(5.6)
Other interest expense, net	(9.5)	(8.7)	(18.7)	(17.9)
Swap interest expense	(0.9)	(1.2)	(2.1)	(2.5)
Convertible debt discount amortization	—	(0.2)	—	(0.3)
Total other expenses, net	(13.5)	(13.0)	(27.0)	(26.3)
Income before income taxes	43.9	34.0	83.0	62.1
INCOME TAX EXPENSE	16.7	13.1	31.9	24.0
INCOME FROM CONTINUING OPERATIONS	27.2	20.9	51.1	38.1
DISCONTINUED OPERATIONS, net of tax	(0.2)	0.2	8.4	0.6
NET INCOME	$27.0	$21.1	$59.5	$38.7
EARNINGS PER COMMON SHARE:				
Basic—				
Continuing operations	$0.88	$0.67	$1.66	$1.23
Discontinued operations	—	0.01	0.27	0.01
Net income	$0.88	$0.68	$1.93	$1.24
Diluted—				
Continuing operations	$0.87	$0.66	$1.64	$1.21
Discontinued operations	—	0.01	0.27	0.01
Net income	$0.87	$0.67	$1.91	$1.22
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	30.8	31.1	30.8	31.1
Stock options	—	0.2	—	0.3

Restricted stock	0.2	0.1	0.2	0.1
Performance share units	0.1	0.1	0.1	0.1
Diluted	31.1	31.5	31.1	31.6

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$27.0	$21.1	$59.5	$38.7
Other comprehensive income (loss) - net of tax:				
Change in fair value of cash flow swaps	0.1	(0.1)	0.2	(0.1)
Amortization of terminated cash flow swaps	0.8	1.2	1.9	2.4
Income tax expense associated with cash flow swaps	(0.3)	(0.4)	(0.8)	(0.9)
Comprehensive income	$27.6	$21.8	$60.8	$40.1

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$59.5	$38.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities—		
Depreciation and amortization	11.8	11.4
Stock-based compensation	4.4	3.8
Deferred income taxes	4.0	6.5
Loaner vehicle amortization	4.7	4.3
Excess tax benefit on share-based arrangements	(2.2)	(2.1)
Lease termination charge	3.4	—
Loss on disposal of fixed assets	2.4	0.8
Gain on sale of assets	(14.6)	(0.2)
Other adjustments, net	2.4	3.9
Changes in operating assets and liabilities, net of acquisitions and divestitures—		
Contracts-in-transit	10.8	16.1
Accounts receivable	4.5	(8.4)
Proceeds from the sale of accounts receivable	7.5	9.7
Inventories	(33.9)	(52.7)
Other current assets	(41.3)	(37.4)
Floor plan notes payable—trade	5.6	(16.0)
Accounts payable and accrued liabilities	(5.7)	0.5
Proceeds from deferred compensation plan termination	7.8	—
Distribution of deferred compensation plan assets to participants	(7.8)	—
Deferred compensation plan excess funding refund	—	3.2
Other long-term assets and liabilities, net	1.4	—
Net cash provided by (used in) operating activities	24.7	(17.9)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures—excluding real estate	(15.8)	(18.5)
Capital expenditures—capitalized interest	(0.5)	(0.4)
Purchases of real estate	(0.5)	(6.0)
Purchases of previously leased real estate	(13.8)	(4.7)
Proceeds from the sale of assets	33.9	3.3
Net cash provided by (used in) investing activities	3.3	(26.3)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings—non-trade	1,499.7	1,439.7
Floor plan repayments—non-trade	(1,564.5)	(1,345.9)
Floor plan repayments—non-trade divestitures	(5.4)	(2.1)
Proceeds from borrowings	122.2	—
Repayments of borrowings	(2.4)	(42.8)
Payment of debt issuance costs	(2.4)	—
Repurchases of common stock, including those associated with net share settlement of employee share-based awards	(16.7)	(11.3)

Excess tax benefit on share-based arrangements	2.2	2.1
Proceeds from the exercise of stock options	0.1	1.8
Net cash provided by financing activities	32.8	41.5
Net increase (decrease) in cash and cash equivalents	60.8	(2.7)
CASH AND CASH EQUIVALENTS, beginning of period	6.2	11.4
CASH AND CASH EQUIVALENTS, end of period	$67.0	$8.7

See Note 8 for supplemental cash flow information

See accompanying Notes to Condensed Consolidated Financial Statements

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

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 97 franchises (76 dealership locations) in 18 metropolitan markets within 10 states as of June 30, 2013. 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. As of June 30, 2013, we offered 29 domestic and foreign brands of new vehicles. Our current brand mix is weighted 85% towards luxury and mid-line import brands, with the remaining 15% consisting of domestic brands. We also operate 23 collision repair centers that serve customers in our local markets.
Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia;
- Nalley dealerships operating in Atlanta, Georgia;
- McDavid dealerships operating in Austin, Dallas and Houston, Texas;
- North Point dealerships operating in Little Rock, Arkansas;
- Plaza dealerships operating in St. Louis, Missouri; and
- Gray-Daniels dealerships operating in Jackson, Mississippi.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation. In addition, certain reclassifications of amounts previously reported have been made to the accompanying Condensed Consolidated Financial Statements in order to conform to current presentation. These reclassifications had no effect on previously reported net income.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed

quarterly and the effects of any revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying condensed consolidated financial statements include, but are not limited to, those relating to inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance products, certain assumptions related to intangible and long-lived assets, reserves for insurance programs, reserves for certain legal or similar proceedings relating to our business operations, realization of deferred tax assets and reserves for estimated tax liabilities.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements as of June 30, 2013, and for the three and six months ended June 30, 2013 and 2012, have been included. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for any other interim period, or any full year period. Our

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condensed consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Contracts-In-Transit

Contracts-in-transit represent receivables from third-party finance companies for the portion of new and used vehicle purchase price financed by customers through sources arranged by us. Amounts due from contracts-in-transit are generally collected within two weeks following the date of sale of the related vehicle.

Revenue Recognition

Revenue from the sale of new and used vehicles (which excludes sales tax) is recognized upon the latest of delivery, passage of title, signing of the sales contract or approval of financing. Revenue from the sale of parts, service and collision repair work (which excludes sales tax) is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed, as applicable. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a reduction of new vehicle cost of sales at the time the related vehicles are sold.

We receive commissions from third-party lending and insurance institutions for arranging customer financing and from the sale of vehicle service contracts, credit life insurance and disability insurance, and other insurance, to customers (collectively “F&I”). We may be charged back (“chargebacks”) for F&I commissions in the event a contract is prepaid, defaulted upon or terminated. F&I commissions are recorded at the time a vehicle is sold and a reserve for future chargebacks is established based on historical chargeback experience and the termination provisions of the applicable contract. F&I commissions, net of estimated chargebacks, are included in Finance and Insurance, net in the accompanying Condensed Consolidated Statements of Income.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. For all periods presented, there were no adjustments to the numerator necessary to compute diluted earnings per share.

Discontinued Operations

Certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets have been classified as Assets Held for Sale or Liabilities Associated with Assets Held for Sale, with such classification beginning on the date that the assets and associated liabilities were first considered held for sale.

We report franchises and ancillary businesses as discontinued operations when it is evident that the operations and cash flows of a franchise or ancillary business being actively marketed for sale will be eliminated from our on-going operations and that we will not have any significant continuing involvement in its operations. We do not classify franchises as discontinued operations if we believe that the cash flows generated by the franchise will be replaced by expanded operations of our remaining franchises within the respective local market area.

Amounts in the accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2012 have been reclassified to reflect the results of franchises sold or closed subsequent to June 30, 2012 as if we had classified those franchises as discontinued operations for all periods presented.

Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade"), and all floor plan notes payable relating to pre-owned vehicles (together referred to as "Floor Plan Notes Payable-Non-Trade"), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as “Floor Plan Notes Payable - Trade”) is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions are classified as a financing activity. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender

affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory.

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Repayments of Floor Plan Notes Payable - Trade associated with divestitures are classified as an operating activity. Repayments of Floor Plan Notes Payable - Non-Trade associated with divestitures are classified as a financing activity.

Loaner vehicles account for a significant portion of Other Current Assets. We acquire loaner vehicles either with available cash or through borrowings from manufacturer affiliated lenders. Loaner vehicles are initially used by our service department for only a short period of time (typically six to twelve months) before we seek to sell them. Therefore, we classify the acquisition of loaner vehicles and the related borrowings and repayments as operating activities in the accompanying Condensed Consolidated Statements of Cash Flows. The cash outflow to acquire loaner vehicles is presented in Other Current Assets in the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings and repayments of loaner vehicle notes payable are presented in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. When loaner vehicles are taken out of loaner status they are transferred to used vehicle inventory, which is reflected as a non-cash transfer in the accompanying Condensed Consolidated Statements of Cash Flows. The cash inflow from the sale of loaner vehicles is reflected in Inventories in the accompanying Condensed Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

During the first quarter of 2013, we adopted an accounting standard regarding the presentation of comprehensive income. This update was issued to improve the reporting of reclassifications out of Accumulated Other Comprehensive Income ("AOCI"). The update requires that significant items reclassified out of AOCI be presented in one place in the condensed consolidated financial statements. The adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

3. INVENTORIES

Inventories consisted of the following:

	As of June 30, 2013	December 31, 2012
	(In millions)	
New vehicles	$552.2	$517.4
Used vehicles	120.6	94.6
Parts and accessories	39.7	36.5
Total inventories	$712.5	$648.5

The lower of cost or market reserves reduced total inventory cost by $5.0 million and $4.7 million as of June 30, 2013 and December 31, 2012, respectively. In addition to the inventories shown above, as of December 31, 2012 we had $6.6 million of inventories classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheet as they were associated with a franchise held for sale. As of June 30, 2013 and December 31, 2012, certain automobile manufacturer incentives reduced new vehicle inventory cost by $6.3 million, and reduced new vehicle cost of sales from continuing operations for the six months ended June 30, 2013 and June 30, 2012 by $13.0 million and $11.4 million, respectively.

4. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities classified as held for sale include (i) assets and liabilities associated with discontinued operations held for sale at each balance sheet date and (ii) real estate not currently used in our operations that we are actively marketing to sell and the related mortgage notes payable, if applicable.

During the six months ended June 30, 2013, we sold one franchise (one dealership location). There were no assets or liabilities associated with pending dispositions as of June 30, 2013. Assets and liabilities associated with pending dispositions totaled $18.4 million and $9.4 million, respectively, as of December 31, 2012.

Real estate not currently used in our operations that we are actively marketing to sell totaled $9.2 million as of June 30, 2013 and December 31, 2012. There were no liabilities associated with our real estate assets held for sale as of June 30, 2013 or December 31, 2012.

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

	As of June 30, 2013	December 31, 2012
	(In millions)	
Assets:		
Inventories	$—	$6.6
Property and equipment, net	9.2	20.7
Goodwill	—	0.3
Total assets	9.2	27.6
Liabilities:		
Floor plan notes payable—non-trade	—	5.4
Accrued liabilities	—	4.0
Total liabilities	—	9.4
Net assets held for sale	$9.2	$18.2

5. LONG-TERM DEBT

Long-term debt consists of the following:

	As of June 30, 2013	December 31, 2012
	(In millions)	
8.375% Senior Subordinated Notes due 2020	$300.0	$200.0
7.625% Senior Subordinated Notes due 2017	143.2	143.2
Mortgage notes payable bearing interest at fixed and variable rates	129.1	118.9
Capital lease obligations	3.8	3.9
	576.1	466.0
Add: unamortized premium on 8.375% Senior Subordinated Notes due 2020	9.7	—
Long-term debt, including current portion	585.8	466.0
Less: current portion	(5.0)	(4.6)
Long-term debt	$580.8	$461.4

In June 2013, we completed an add-on issuance of $100.0 million aggregate principal amount of 8.375% Senior Subordinated Notes due 2020 (the “8.375% Notes”) at a price of 109.75% of par, plus accrued interest from May 15, 2013 (the "June 2013 Offering"). After deducting the initial purchasers' discounts and estimated expenses of the June 2013 Offering of $2.3 million, we received net proceeds of approximately $108.3 million from this offering. The $9.8 million premium paid by the initial purchasers is included as a component of long-term debt on our Condensed Consolidated Balance Sheet as of June 30, 2013. The $9.8 million premium is being amortized as a reduction of interest expense over the remaining term of the 8.375% Notes, and the $2.3 million of capitalized costs associated with the offering are being amortized as an addition to interest expense over the remaining term of the 8.375% Notes. Including the amortization of the $9.8 million premium, and assuming the 8.375% Notes are held until their maturity in November 2020, the effective interest rate on the June 2013 Offering will be 6.725%.

During the six months ended June 30, 2013, we entered into one fixed rate mortgage note payable which was collateralized by the related real estate at one of our owned dealership locations. The initial principal amount of the mortgage note payable was $12.5 million. In connection with our entrance into this mortgage note payable, we paid approximately $0.1 million in debt issuance costs, which were capitalized and are being amortized to Other Interest Expense over the terms of the related mortgage note payable.

Asbury Automotive Group, Inc. is a holding company with no material independent assets or operations. For all periods presented, our 8.375% Notes and our 7.625% Senior Subordinated Notes due 2017 (the "7.625% Notes") have been fully and unconditionally guaranteed, on a joint and several basis, by substantially all of our subsidiaries. Any subsidiaries which have

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not guaranteed such notes are "minor" (as defined in Rule3-10(h) of Regulation S-X). As of June 30, 2013, there were no significant restrictions on the ability of our subsidiaries to distribute cash to us or our guarantor subsidiaries.

6. FINANCIAL INSTRUMENTS AND FAIR VALUE

In determining fair value, we use various valuation approaches, including market, income and/or cost approaches. Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include cash flow swap instruments and exchange-traded debt securities that are not actively traded or do not have a high trading volume.

Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating fair value of non-financial assets and non-financial liabilities in purchase acquisitions and those used in assessing impairment of manufacturer franchise rights.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use inputs that are current as of the measurement date, including during periods of significant market fluctuations.

Financial instruments consist primarily of cash and cash equivalents, contracts-in-transit, accounts receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, subordinated long-term debt, mortgage notes payable and interest rate swap agreements. The carrying values of our financial instruments, with the exception of subordinated long-term debt, approximate fair value due either to their short-term nature or existence of variable interest rates, which approximate market rates. The fair market value of our subordinated long-term debt is based on reported market prices which reflect Level 2 inputs. Level 2 inputs are valuations based on quoted market prices in markets that are not active or do not have a high trading volume. A summary of the carrying values and fair values of our 8.375% Notes and our 7.625% Notes is as follows:

	As of	
	June 30, 2013	December 31, 2012
	(In millions)	
Carrying Value:		
8.375% Senior Subordinated Notes due 2020	$309.7	$200.0

7.625% Senior Subordinated Notes due 2017	143.2	143.2
Total carrying value	$452.9	$343.2
Fair Value:		
8.375% Senior Subordinated Notes due 2020	$330.0	$221.5
7.625% Senior Subordinated Notes due 2017	147.0	147.5
Total fair value	$477.0	$369.0

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We have an interest rate swap agreement which had a notional principal amount of $19.1 million as of June 30, 2013. This swap is designed to provide a hedge against changes in variable interest rate cash flows through maturity in October 2015. The notional value of this swap is reducing over the remaining term to $16.1 million at maturity. This interest rate swap qualifies for cash flow hedge accounting treatment and does not, and will not, contain any ineffectiveness.

Information about the effect of derivative instruments on the accompanying Condensed Consolidated Statements of Income, including the impact on AOCI (in millions):

For the Three Months Ended June 30,	Derivative in Cash Flow Hedging Relationships	Results Recognized in AOCI (Effective Portion)	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Earnings–Active Swaps	Amount Reclassified from AOCI to Earnings–Terminated Swaps	Ineffective Results Recognized in Earnings	Location o Ineffective
2013	Interest rate swaps	$—	Swap interest expense	$(0.1)	$(0.8)	$—	N/A
2012	Interest rate swaps	$(0.1)	Swap interest expense	$—	$(1.2)	$—	N/A

For the Six Months Ended June 30,	Derivative in Cash Flow Hedging Relationships	Results Recognized in AOCI (Effective Portion)	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Earnings–Active Swaps	Amount Reclassified from AOCI to Earnings–Terminated Swaps	Ineffective Results Recognized in Earnings	Location o Ineffective
2013	Interest rate swaps	$—	Swap interest expense	$(0.2)	$(1.9)	$—	N/A
2012	Interest rate swaps	$(0.2)	Swap interest expense	$(0.1)	$(2.4)	$—	N/A

On the basis of yield curve conditions as of June 30, 2013, we anticipate that the amount expected to be reclassified out of AOCI into earnings in the next 12 calendar months will be a loss of $0.2 million.

Fair value estimates reflect a credit adjustment to the discount rate applied to all expected cash flows under the swap. Other than that assumption, all other inputs reflect Level 2 inputs.

Information about amounts reclassified out of AOCI	(In millions)
Accumulated other comprehensive loss—December 31, 2012	$(1.6)
Change in fair value of cash flow swaps	0.2
Amortization of terminated cash flow swaps	1.9
Total amount reclassified to swap interest expense	2.1
Income tax expense associated with cash flow swaps	(0.8)
Accumulated other comprehensive loss—June 30, 2013	$(0.3)

Market Risk Disclosures as of June 30, 2013:

Instruments entered into for trading purposes—None

Instruments entered into for hedging purposes (in millions)—

Type of Derivative	Notional Size	Underlying Rate	Expiration	Fair Value
Interest Rate Swap*	$19.1	1 month LIBOR	October 2015	$(0.4)

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* The total fair value of our swap is a $0.4 million net liability, of which $0.2 million is included in Accounts Payable and Accrued Liabilities and $0.2 million is included in Other Long-Term Liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheet.

Market Risk Disclosures as of December 31, 2012:

Instruments entered into for trading purposes—None

Instruments entered into for hedging purposes (in millions)—

Type of Derivative	Notional Size	Underlying Rate	Expiration	Fair Value
Interest Rate Swap*	$19.7	1 month LIBOR	October 2015	$(0.6)

* The total fair value of our swap is a $0.6 million net liability, of which $0.3 million is included in Accounts Payable and Accrued Liabilities and $0.3 million is included in Other Long-Term Liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheet.

7. DISCONTINUED OPERATIONS AND DIVESTITURES

During the six months ended June 30, 2013, we sold one franchise (one dealership location) that was classified as discontinued operations. The accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2012 have been reclassified to reflect the status of our discontinued operations as of June 30, 2013. Operating expenses in the table below include rent and other expenses of idle facilities previously associated with businesses sold or closed prior to June 30, 2013.

The following tables provide further information regarding our discontinued operations as of June 30, 2013, and includes the results of businesses sold prior to June 30, 2013:

	For the Three Months Ended June 30,	
	2013	2012
	(In millions, except franchise data)	
Franchises:		
Mid-line import	—	1
Luxury	—	3
Total	—	4
Revenues	$—	$33.0
Cost of sales	—	27.7
Gross profit	—	5.3
Operating expenses	0.3	5.2
(Loss) income from operations	(0.3)	0.1
Gain on disposition	—	0.2
(Loss) income before income taxes	(0.3)	0.3
Income tax benefit (expense)	0.1	(0.1)
Discontinued operations, net of tax	$(0.2)	$0.2

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	For the Six Months Ended June 30,	
	2013	2012
	(In millions, except franchise data)	
Franchises:		
Mid-line import	1	1
Luxury	—	3
Total	1	4
Revenues	$3.8	$68.2
Cost of sales	3.4	56.6
Gross profit	0.4	11.6
Operating expenses	1.3	10.7
(Loss) income from operations	(0.9)	0.9
Other expense, net	—	(0.1)
Gain on disposition	14.6	0.2
Income before income taxes	13.7	1.0
Income tax expense	(5.3)	(0.4)
Discontinued operations, net of tax	$8.4	$0.6

8. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2013 and 2012, we made interest payments, including amounts capitalized, totaling $23.2 million and $23.1 million, respectively. Included in these interest payments are $5.8 million and $5.1 million of floor plan interest payments for the six months ended June 30, 2013 and 2012, respectively.

During the six months ended June 30, 2013 and 2012, we made income tax payments, net of refunds received, totaling $29.3 million and $16.0 million, respectively.

During the six months ended June 30, 2013 and 2012, we sold $7.6 million and $10.0 million, respectively, of trade receivables, at a total discount of $0.2 million and $0.3 million, respectively.

During the six months ended June 30, 2013 and 2012, we transferred $30.8 million and $25.7 million, respectively, of loaner vehicles from Other Current Assets to Inventory on our Condensed Consolidated Balance Sheets.

During the six months ended June 30, 2013, we entered into two transactions in which we purchased various previously leased real estate, for a total purchase price of $13.8 million. These transactions included the termination of the related lease obligations, resulting in a loss of $3.4 million, which is included in Other Operating Expense, net in our Condensed Consolidated Statements of Income for the three and six months ended June 30, 2013.

Until February 2012, we sponsored the Asbury Automotive Wealth Accumulation Plan (the “Deferred Compensation Plan” or the "Plan") wherein eligible employees, generally those at senior levels, could elect to defer a portion of their annual compensation. In February 2012, our Board of Directors elected to terminate the Plan. During the six months ended June 30, 2013, we (i) received a $7.8 million lump sum distribution as a result of the termination of the Plan and (ii) used these proceeds to relieve our corresponding $7.8 million total liability to the Plan's participants.

9. COMMITMENTS AND CONTINGENCIES

Our dealerships are party to dealer and framework agreements with applicable vehicle manufacturers. In accordance with these agreements, each dealership has certain rights and is subject to restrictions typical in the industry. The ability of these manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a materially negative impact on our operating results.

In some instances, manufacturers may have the right, and may direct us, to implement costly capital improvements to dealerships as a condition to entering into, renewing or extending franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to use our financial resources on capital projects that we might not have planned for or otherwise determined to undertake.

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From time to time, we and our dealerships are or may become involved in various claims relating to, and arising out of, our business and our operations. These claims may involve, but not be limited to, financial and other audits by vehicle manufacturers, lenders and certain federal, state and local government authorities, which have historically related primarily to (a) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (b) compliance with lender rules and covenants and (c) payments made to government authorities relating to federal, state and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings and other dispute resolution processes. Such claims, including class actions, could relate to, but may not be limited to, the practice of charging administrative fees and other fees and commissions, employment-related matters, truth-in-lending and other dealer assisted financing obligations, contractual disputes, actions brought by governmental authorities and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

The Company has recently resolved a dispute with an affiliate of a vehicle manufacturer whose brands we sell relating to the alleged receipt by the Company of certain overpayments from vehicle service work. In April 2013, the Company settled this dispute for an amount approximating its previously established accrual for probable loss related to this matter. The settlement was not material to the Company's financial statements.

It is reasonably possible that losses in excess of the amounts accrued for the various types of claims currently known to us could be up to approximately $0.5 million in the aggregate. We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity or results of operations.

A significant portion of our business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign 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.
Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements. No assurances can be provided, however, that future laws or regulations, or changes in existing laws or regulations, would not require us to expend significant resources in order to comply therewith.

We had $14.6 million of letters of credit outstanding as of June 30, 2013, which are required by certain of our insurance providers. In addition, as of June 30, 2013, we maintained a $5.0 million surety bond line in the ordinary course of our business. Our letters of credit and surety bond line are considered to be off balance sheet arrangements. Our other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

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10. SUBSEQUENT EVENTS

In July 2013, we acquired three franchises (three dealership locations) in our existing market of Atlanta, Georgia. We expect that the three franchises (three dealership locations) will represent approximately $115.0 million of annualized revenues.

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

Forward-Looking Information

Certain of the discussions and information included in this report may constitute “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are statements that are not historical in nature and may include statements relating to our goals, plans and projections regarding industry and general economic trends, our expected financial position, results of operations or market position and our business strategy. Such statements can generally be identified by words such as “may,” “target,” “could,” “would,” “will,” “should,” “believe,” “expec “anticipate,” “plan,” “intend,” “foresee” and other similar words or phrases. Forward-looking statements may also relate to our expectations and assumptions with respect to, among other things:

- our ability to execute our business strategy;
- our ability to further improve our operating cash flows, and the availability of capital and liquidity;
- our estimated future capital expenditures;
- the duration of the economic recovery process and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, improvements in manufacturing quality, manufacturer recalls, the recently lower than historical seasonally adjusted annual rate ("SAAR") of new vehicle sales in the U.S. and any changes in business strategy and government regulations;
- the variable nature of significant components of our cost structure;
- our ability to decrease our exposure to regional economic downturns due to our geographic diversity and brand mix;
- manufacturers’ willingness to continue to use incentive programs to drive demand for their product offerings;
- our ability to leverage our common systems, infrastructure and processes in a cost-efficient manner;
- our acquisition and divestiture strategies;
- the continued availability of financing, including floor plan financing for inventory;
- the ability of consumers to secure vehicle financing, including at favorable rates;
- the growth of mid-line import and luxury brands over the long-term;
- our ability to mitigate any future negative trends in new vehicle sales; and
- our ability to increase our net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to:

- our ability to execute our balanced automotive retailing and service business strategy;
- changes in the mix, and total number, of vehicles we are able to sell;
- changes in general economic and business conditions, including changes in consumer confidence levels, interest rates, consumer credit availability and employment levels;
- changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements and environmental laws;
- changes in the price of oil and gasoline;
- our ability to generate sufficient cash flows, maintain our liquidity and obtain additional funds for working capital, capital expenditures, acquisitions, debt maturities and other corporate purposes, if necessary;

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- our continued ability to comply with applicable covenants in various of our financing and lease agreements, or to obtain waivers of these covenants as necessary;
- our relationships with, and the reputation and financial health and viability of, the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;
- significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages or other occurrences that are outside of our control;
- adverse results from litigation or other similar proceedings involving us;
- our relationships with, and the financial stability of, our lenders and lessors;
- our ability to execute our initiatives and other strategies;
- high levels of competition in our industry, which may create pricing and margin pressures on our products and services;
- our ability to renew, and enter into new, framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;
- our ability to attract and to retain key personnel;
- our ability to leverage gains from our dealership portfolio; and
- significant disruptions in the financial markets, which may impact our ability to access capital.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth in the discussion and analysis below and under Item 1A entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statements.

OVERVIEW

We are one of the largest automotive retailers in the United States, operating 97 franchises (76 dealership locations) in 18 metropolitan markets within 10 states as of June 30, 2013. 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. As of June 30, 2013, we offered 29 domestic and foreign brands of new vehicles. Our current brand mix is weighted 85% towards luxury and mid-line import brands, with the remaining 15% consisting of domestic brands. We also operate 23 collision repair centers that serve customers in our local markets. Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships, operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia;

- Nalley dealerships operating in Atlanta, Georgia;
- McDavid dealerships operating in Austin, Dallas and Houston, Texas;
- North Point dealerships operating in Little Rock, Arkansas;
- Plaza dealerships operating in St. Louis, Missouri; and
- Gray-Daniels dealerships operating in Jackson, Mississippi.

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers ("new vehicle retail") and commercial customers ("fleet") (the terms "new vehicle retail" and "fleet" being together referred to as "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 together referred to as "used"); (iii) maintenance and collision repair services and the sale of automotive parts (together referred to as "parts and service"); and (iv) the arrangement of vehicle financing and the sale of a number of aftermarket products, such as insurance and service contracts (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 dealership generated F&I gross profit 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 (“same store”).

Our organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix and the production of desirable vehicles by automobile manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices and employment levels. We believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure and (iii) our brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. We believe that our new vehicle revenue brand mix, which included approximately 50% of revenue from mid-line import brands and 35% of revenue from luxury brands in the second quarter of 2013, is well positioned for growth over the long term.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated 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.

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 service. As a result, when used vehicle and parts and service revenue increase as a percentage of total revenue, we expect our overall gross profit margin to increase.

Selling, general and administrative (“SG&A”) expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other customary operating expenses. A significant portion of our 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, with the exception of advertising expense, which we evaluate on a per vehicle retailed ("PVR") basis.

The United States automotive retail market showed continued improvement through the second quarter of 2013, with new vehicle SAAR increasing to 15.4 million during the second quarter of 2013 as compared to 14.2 million during the second quarter of 2012. We continued to benefit from improving economic conditions in the first half of 2013, which we attribute to improved consumer confidence, the continued availability of credit at terms favorable to consumers resulting primarily from the current low interest rate environment, gradually improving unemployment and the increasing age of the U.S. automotive fleet. We believe that the overall economic recovery will continue to be fragile, and may be subject to further changes based on consumer confidence, interest rates, unemployment levels and other macro-economic factors as the long-term prospects for, and the timing of, a return to a stronger economy continue to be difficult to predict.

We had total available liquidity of $408.0 million as of June 30, 2013, which consisted of cash and cash equivalents of $67.0 million, borrowing availability of $233.1 million under our revolving credit facilities and $107.9 million of availability under our floor plan offset account. For further discussion of our liquidity, please refer to “Liquidity and Capital Resources” below.

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RESULTS OF OPERATIONS
Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2013	2012		
	(Dollars in millions, except per share data)			
REVENUES:				
New vehicle	$743.0	$648.0	$95.0	15 %
Used vehicle	395.2	330.7	64.5	20 %
Parts and service	153.9	141.4	12.5	9 %
Finance and insurance, net	52.4	41.4	11.0	27 %
Total revenues	1,344.5	1,161.5	183.0	16 %
GROSS PROFIT:				
New vehicle	44.6	41.9	2.7	6 %
Used vehicle	30.6	25.7	4.9	19 %
Parts and service	94.3	82.8	11.5	14 %
Finance and insurance, net	52.4	41.4	11.0	27 %
Total gross profit	221.9	191.8	30.1	16 %
OPERATING EXPENSES:				
Selling, general and administrative	154.2	138.5	15.7	11 %
Depreciation and amortization	5.9	5.7	0.2	4 %
Other operating expense, net	4.4	0.6	3.8	NM
Income from operations	57.4	47.0	10.4	22 %
OTHER EXPENSES:				
Floor plan interest expense	(3.1)	(2.9)	0.2	7 %
Other interest expense, net	(9.5)	(8.7)	0.8	9 %
Swap interest expense	(0.9)	(1.2)	(0.3)	(25)%
Convertible debt discount amortization	—	(0.2)	(0.2)	NM
Total other expense, net	(13.5)	(13.0)	0.5	4 %
Income before income taxes	43.9	34.0	9.9	29 %
INCOME TAX EXPENSE	16.7	13.1	3.6	27 %
INCOME FROM CONTINUING OPERATIONS	27.2	20.9	6.3	30 %
DISCONTINUED OPERATIONS, net of tax	(0.2)	0.2	(0.4)	NM
NET INCOME	$27.0	$21.1	$5.9	28 %
Income from continuing operations per common share—Diluted	$0.87	$0.66	$0.21	32 %
Net income per common share—Diluted	$0.87	$0.67	$0.20	30 %

NM—Not Meaningful

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	For the Three Months Ended June 30,	
	2013	2012
REVENUE MIX PERCENTAGES:		
New vehicles	55.3 %	55.8 %
Used retail vehicles	26.1 %	24.0 %
Used vehicle wholesale	3.3 %	4.4 %
Parts and service	11.4 %	12.2 %
Finance and insurance, net	3.9 %	3.6 %
Total revenue	100.0 %	100.0 %
GROSS PROFIT MIX PERCENTAGES:		
New vehicles	20.1 %	21.8 %
Used retail vehicles	14.1 %	13.6 %
Used vehicle wholesale	(0.3)%	(0.2)%
Parts and service	42.5 %	43.2 %
Finance and insurance, net	23.6 %	21.6 %
Total gross profit	100.0 %	100.0 %
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	69.5 %	72.2 %

Net income and income from continuing operations increased by $5.9 million (28%) and $6.3 million (30%), respectively, in the second quarter of 2013 as compared to the second quarter of 2012. The increase in income from continuing operations was primarily the result of a $30.1 million (16%) increase in gross profit, which was partially offset by (i) a $15.7 million (11%) increase in SG&A expenses, (ii) a $3.8 million increase in other operating expense, net and (iii) a $3.6 million (27%) increase in income tax expense. Net income and income from continuing operations for the second quarter of 2013 were reduced by $3.2 million, net of tax, due to real estate related charges. On a pre-tax basis, these charges totaled $5.2 million and are included in Other Operating Expense, net.

Gross profit increased across all four of our business lines and was driven by (i) an $11.5 million (14%) increase in parts and service gross profit, (ii) an $11.0 million (27%) increase in F&I gross profit and (iii) a $4.9 million (19%) increase in used vehicle gross profit. Our total gross profit margin remained unchanged at 16.5%. In reviewing the contributions of our business lines to our overall gross profit, we experienced a 200 basis point increase in our finance and insurance business and a 50 basis point increase in our used retail business, which were partially offset by a 70 basis point decrease in our parts and service business.

The $183.0 million (16%) increase in total revenue was primarily a result of (i) a $95.0 million (15%) increase in new vehicle revenue and (ii) a $64.5 million (20%) increase in used vehicle revenue.

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New Vehicle—

	For the Three Months Ended June 30,		Increase	% Change
	2013	2012		
	(Dollars in millions, except for per vehicle data)			
Revenue:				
New vehicle revenue—same store(1)				
Luxury	$257.2	$231.0	$26.2	11 %
Mid-line import	366.2	322.6	43.6	14 %
Mid-line domestic	108.4	94.4	14.0	15 %
Total new vehicle revenue—same store(1)	731.8	648.0	83.8	13 %
New vehicle revenue—acquisitions	11.2	—		
New vehicle revenue, as reported	$743.0	$648.0	$95.0	15 %
Gross profit:				
New vehicle gross profit—same store(1)				
Luxury	$18.1	$18.1	$—	— %
Mid-line import	19.1	17.7	1.4	8 %
Mid-line domestic	6.8	6.1	0.7	11 %
Total new vehicle gross profit—same store(1)	44.0	41.9	2.1	5 %
New vehicle gross profit—acquisitions	0.6	—		
New vehicle gross profit, as reported	$44.6	$41.9	$2.7	6 %

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2013	2012		
New vehicle units:				
New vehicle retail units—same store(1)				
Luxury	5,178	4,681	497	11 %
Mid-line import	13,632	12,297	1,335	11 %
Mid-line domestic	2,964	2,531	433	17 %
Total new vehicle retail units—same store(1)	21,774	19,509	2,265	12 %
Fleet vehicles	347	694	(347)	(50)%
Total new vehicle units—same store(1)	22,121	20,203	1,918	9 %
New vehicle units—acquisitions	324	—		
New vehicle units—actual	22,445	20,203	2,242	11 %

New Vehicle Metrics—

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2013	2012		
Revenue per new vehicle sold—same store(1)	$33,082	$32,074	$1,008	3 %
Gross profit per new vehicle sold—same store(1)	$1,989	$2,074	$(85)	(4)%
New vehicle gross margin—same store(1)	6.0 %	6.5 %	(0.5)%	(8)%

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

The $95.0 million (15%) increase in new vehicle revenue was primarily a result of a 9% increase in same store new vehicle unit sales, combined with a 3% increase in same store revenue per new vehicle sold. Our total new vehicle revenue also benefited from $11.2 million derived from acquisitions. Same store unit volumes for both our luxury and

mid-line import brand segments increased by 11%, reflecting (i) a general increase in consumer demand, (ii) the continued availability of credit at terms favorable to our customers and (iii) the availability of new vehicle inventory from which to choose. Unit volumes from our

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domestic brands also increased 17% on a same store basis. New vehicle SAAR increased by 8% to 15.4 million for the second quarter of 2013 as compared to 14.2 million for the second quarter of 2012.
Total new vehicle gross profit increased by $2.7 million (6%), driven by the 9% increase in same store new vehicle unit sales but offset by an 8% decrease in our same store gross profit margin. Our same store gross profit per new vehicle sold decreased by $85 (4%), largely driven by a reduction in gross profit per new vehicle sold associated with our luxury and mid-line import vehicle sales. Our margins in the near future are expected to be primarily dependent upon market-based forces of supply and demand.
Used Vehicle—

	For the Three Months Ended June 30, 2013	2012	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
Used vehicle retail revenues—same store(1)	$344.2	$279.6	$64.6	23%
Used vehicle retail revenues—acquisitions	6.5	—		
Total used vehicle retail revenues	350.7	279.6	71.1	25%
Used vehicle wholesale revenues—same store(1)	43.9	51.1	(7.2)	(14)%
Used vehicle wholesale revenues—acquisitions	0.6	—		
Total used vehicle wholesale revenues	44.5	51.1	(6.6)	(13)%
Used vehicle revenue, as reported	$395.2	$330.7	$64.5	20%
Gross profit:				
Used vehicle retail gross profit—same store(1)	$30.9	$26.1	$4.8	18%
Used vehicle retail gross profit—acquisitions	0.3	—		
Total used vehicle retail gross profit	31.2	26.1	5.1	20%
Used vehicle wholesale gross profit—same store(1)	(0.5)	(0.4)	(0.1)	25%
Used vehicle wholesale gross profit—acquisitions	(0.1)	—		
Total used vehicle wholesale gross profit	(0.6)	(0.4)	(0.2)	50%
Used vehicle gross profit, as reported	$30.6	$25.7	$4.9	19%
Used vehicle retail units:				
Used vehicle retail units—same store(1)	17,458	14,496	2,962	20%
Used vehicle retail units—acquisitions	245	—		
Used vehicle retail units—actual	17,703	14,496	3,207	22%

Used Vehicle Metrics—

	For the Three Months Ended June 30, 2013	2012	Increase (Decrease)	% Change
Revenue per used vehicle retailed—same store(1)	$19,716	$19,288	$428	2%
Gross profit per used vehicle retailed—same store(1)	$1,770	$1,800	$(30)	(2)%
Used vehicle retail gross margin—same store(1)	9.0%	9.3%	(0.3)%	(3)%

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

The $64.5 million (20%) increase in used vehicle revenue was the result of a $71.1 million (25%) increase in used vehicle retail revenue, partially offset by a $6.6 million (13%) decrease in used vehicle wholesale revenue. Used vehicle revenue for the second quarter of 2013 included a total of $7.1 million derived from acquisitions. The 20%

increase in same store used vehicle retail unit sales reflects increased consumer demand, the availability of credit at terms favorable to the customer and the ongoing

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impact of our "Asbury 1-2-1" program, a volume-driven initiative with a goal of retailing one used vehicle for every new vehicle retailed. This program is designed to drive not only used retail volume, but to increase revenues from associated parts and service reconditioning and F&I as well.

The $5.1 million (20%) increase in used vehicle retail gross profit was driven primarily by higher unit volumes, partially offset by a 30 basis point decrease in our same store used vehicle retail gross margin. The decrease in our same store used vehicle gross margin can be partially attributed to the increased availability of competitively priced new models that, until mid-2012, were in short supply as a result of the 2011 natural disaster and related events in Japan.

We believe that our used vehicle inventory continues to be well-aligned with current consumer demand, with approximately 36 days of supply in our inventory as of June 30, 2013.

Parts and Service—

	For the Three Months Ended June 30,		Increase	% Change
	2013	2012		
	(Dollars in millions)			
Revenue:				
Parts and service revenue—same store(1)	$151.7	$141.4	$10.3	7 %
Parts and service revenues—acquisitions	2.2	—		
Parts and service revenue, as reported	$153.9	$141.4	$12.5	9 %
Gross profit:				
Parts and service gross profit—same store(1)				
Customer pay	$54.4	$51.2	$3.2	6 %
Reconditioning and preparation	21.6	17.2	4.4	26 %
Warranty	12.0	9.5	2.5	26 %
Wholesale parts	5.0	4.9	0.1	2 %
Total parts and service gross profit—same store(1)	93.0	82.8	10.2	12 %
Parts and service gross profit—acquisitions	1.3	—		
Parts and service gross profit, as reported	$94.3	$82.8	$11.5	14 %
Parts and service gross margin—same store(1)	61.3 %	58.6 %	2.7 %	5 %

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

The $12.5 million (9%) increase in parts and service revenue was primarily due to (i) a $5.6 million (6%) increase in same store customer pay revenue, (ii) a $3.4 million (17%) increase in same store warranty revenue and (iii) $2.2 million derived from acquisitions. The 270 basis point increase in our same store parts and service gross margin was primarily the result of increases in our higher margin parts and service businesses, including a 26% increase in gross profit from reconditioning and preparation of vehicles and a 6% increase in our customer pay parts and service gross profit. The $4.4 million increase in reconditioning and preparation gross profit was primarily driven by a 20% increase in our same store used vehicle retail unit sales and a 9% increase in our same store new vehicle retail unit sales. Gross profit associated with warranty work increased by $2.5 million (26%), partially due to certain manufacturer recalls that occurred during the the first half of 2013 that drove increased warranty work, as well as increased units in operation as sales of new vehicles in the United States have continued to increase over the past few years.

We continue to focus on further increasing our parts and service revenue, and specifically our customer pay business, over the long-term by (i) continuing to invest in additional service capacity, where appropriate, (ii) upgrading equipment, (iii) focusing on improving customer retention and customer satisfaction and (iv) capitalizing on our dealer training programs.

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Finance and Insurance, net—

	For the Three Months Ended June 30,		Increase	% Change
	2013	2012		
	(Dollars in millions, except for per vehicle data)			
Finance and insurance, net—same store(1)	$51.7	$41.4	$10.3	25 %
Finance and insurance, net—acquisitions	0.7	—		
Finance and insurance, net as reported	$52.4	$41.4	$11.0	27 %
Finance and insurance, net per vehicle sold—same store(1)	$1,306	$1,193	$113	9 %

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

F&I increased by $11.0 million (27%) during the second quarter of 2013 as compared to the second quarter of 2012, primarily due to (i) a 14% increase in same store new and used retail unit sales and (ii) a 9% increase in F&I per vehicle sold. The $113 increase in F&I per vehicle sold was primarily attributable to an improvement in the number of F&I contracts sold as a percentage of retail unit sales (also known as our F&I penetration rate), which was driven by (i) the improved availability of consumer credit, which allowed more of our customers to take advantage of a broader array of F&I products, (ii) the addition of key personnel to our F&I management team and (iii) our continued focus on improving the F&I results at our lower-performing stores through our F&I training programs, which include implementing a certification process and certain best practices initiatives.

Selling, General and Administrative Expense—

	For the Three Months Ended June 30,					% of Gross Profit (Decrease) Increase
	2013	% of Gross Profit	2012	% of Gross Profit	Increase (Decrease)	
	(Dollars in millions)					
Personnel costs	$70.7	32.3 %	$62.9	32.8 %	$7.8	(0.5)%
Sales compensation	24.3	11.1 %	20.4	10.6 %	3.9	0.5 %
Share-based compensation	1.9	0.9 %	1.4	0.7 %	0.5	0.2 %
Outside services	14.9	6.8 %	13.6	7.1 %	1.3	(0.3)%
Advertising	7.7	3.5 %	7.0	3.6 %	0.7	(0.1)%
Rent	8.3	3.8 %	8.8	4.6 %	(0.5)	(0.8)%
Utilities	3.2	1.5 %	3.4	1.8 %	(0.2)	(0.3)%
Insurance	2.0	0.9 %	3.0	1.6 %	(1.0)	(0.7)%
Other	19.4	8.8 %	18.0	9.4 %	1.4	(0.6)%
Selling, general and administrative expense—same store(1)	152.4	69.6 %	138.5	72.2 %	13.9	(2.6)%
Acquisitions	1.8		—			
Selling, general and administrative—actual	$154.2	69.5 %	$138.5	72.2 %	$15.7	(2.7)%
Gross profit—same store(1)	$219.1		$191.8			
Gross profit—actual	$221.9		$191.8			

(1) Same store amounts consist of information from dealerships for the identical months of 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 69.6% for the second quarter of 2013 as compared to 72.2% for the second quarter of 2012. The 260 basis point decrease was primarily attributable to (i) a 50 basis point

decrease in

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personnel costs as a result of further leveraging our fixed cost structure and (ii) an 80 basis point decrease in rent expense primarily as a result of our purchase of certain previously leased real estate during 2012 and the first half of 2013.

We continue to be engaged in numerous productivity initiatives designed to further reduce our fixed cost structure and improve our profitability and are currently focused on fully leveraging our single dealer management system with our other technology platforms and various back office processes.

Other Operating Expense, net —

Other operating expense, net includes gains and losses from the sale of property and equipment, income derived from lease arrangements and other non-core operating items. During the second quarter of 2013, we recognized (i) $3.4 million of lease termination charges as a result of our purchase of certain previously leased real estate and (ii) $1.8 million of charges related to property and equipment disposals.

Floor Plan Interest Expense —

The $0.2 million (7%) increase in floor plan interest expense was primarily the result of higher levels of new vehicle inventory during the second quarter of 2013 when compared to the second quarter of 2012, which was the result of depressed new vehicle inventory levels in the first half of 2012 due primarily to the natural disaster and related events in Japan in 2011.

Swap Interest Expense —

We have historically entered into various derivative financial instruments, including fair value and cash flow interest rate swaps, which have been designed to provide hedges against changes in fair value of certain debt obligations and variable rate cash flows. Our earnings have been impacted by these interest rate swaps in the form of (i) amounts reclassified from AOCI to earnings for active swaps, (ii) amortization of amounts reclassified from AOCI to earnings for terminated cash flow swaps and (iii) amortization of terminated fair value swaps. The pre-tax impact on earnings related to our various derivative financial
instruments for the second quarters of 2013 and 2012 was $0.9 million and $1.2 million, respectively. The $0.3 million decrease in swap interest expense during the second quarter of 2013 when compared to the second quarter of 2012 is primarily the result of the completion of the amortization of a previously terminated swap during the second quarter of 2013.

Income Tax Expense—

The $3.6 million (27%) increase in income tax expense was primarily a result of the $9.9 million (29%) increase in income before income taxes in the second quarter of 2013 as compared to the second quarter of 2012. Our effective tax rate decreased from 38.5% for the 2012 period to 38.0% in the 2013 period. Our effective tax rate is highly dependent on our level of income before income taxes and permanent differences between book and tax income. As a result, it is difficult to project our overall effective tax rate for any given period. Based upon our current expectation of 2013 income before income taxes, we expect our effective income tax rate will remain between 38% and 40% in 2013.

Discontinued Operations—

The $0.2 million, net of tax, net loss from discontinued operations in the second quarter of 2013 consists of net operating losses of franchises sold prior to June 30, 2013, including rent and other expenses of idle facilities.

During the second quarter of 2012, we sold one franchise (one dealership location). The $0.2 million, net of tax, net gain from discontinued operations for the second quarter of 2012 includes a $0.1 million, net of tax, gain on the sale of one franchise (one dealership location) and $0.1 million of net operating income of franchises and ancillary businesses sold prior to June 30, 2013, which was partially offset by rent and other expenses of idle facilities.

We continuously evaluate the financial and operating results of our dealerships, as well as each dealership’s geographical
location, and may continue to refine our dealership portfolio through strategic acquisitions or divestitures from time to time.

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RESULTS OF OPERATIONS
The Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012

	For the Six Months Ended June 30,		Increase (Decrease)	% Change
	2013	2012		
	(Dollars in millions, except per share data)			
REVENUES:				
New vehicle	$1,407.5	$1,222.9	$184.6	15%
Used vehicle	761.5	647.4	114.1	18%
Parts and service	301.5	282.1	19.4	7%
Finance and insurance, net	99.4	79.1	20.3	26%
Total revenues	2,569.9	2,231.5	338.4	15%
GROSS PROFIT:				
New vehicle	85.3	80.4	4.9	6%
Used vehicle	61.9	53.7	8.2	15%
Parts and service	182.0	163.1	18.9	12%
Finance and insurance, net	99.4	79.1	20.3	26%
Total gross profit	428.6	376.3	52.3	14%
OPERATING EXPENSES:				
Selling, general and administrative	302.3	275.9	26.4	10%
Depreciation and amortization	11.8	11.4	0.4	4%
Other operating expense, net	4.5	0.6	3.9	NM
Income from operations	110.0	88.4	21.6	24%
OTHER EXPENSES:				
Floor plan interest expense	(6.2)	(5.6)	0.6	11%
Other interest expense, net	(18.7)	(17.9)	0.8	4%
Swap interest expense	(2.1)	(2.5)	(0.4)	(16)%
Convertible debt discount amortization	—	(0.3)	(0.3)	NM
Total other expense, net	(27.0)	(26.3)	0.7	3%
Income before income taxes	83.0	62.1	20.9	34%
INCOME TAX EXPENSE	31.9	24.0	7.9	33%
INCOME FROM CONTINUING OPERATIONS	51.1	38.1	13.0	34%
DISCONTINUED OPERATIONS, net of tax	8.4	0.6	7.8	NM
NET INCOME	$59.5	$38.7	$20.8	54%
Income from continuing operations per common share—Diluted	$1.64	$1.21	$0.43	36%
Net income per common share—Diluted	$1.91	$1.22	$0.69	57%

NM—Not Meaningful

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	For the Six Months Ended June 30,			
	2013		2012	
REVENUE MIX PERCENTAGES:				
New vehicles	54.8	%	54.8	%
Used retail vehicles	26.0	%	24.9	%
Used vehicle wholesale	3.6	%	4.2	%
Parts and service	11.7	%	12.6	%
Finance and insurance, net	3.9	%	3.5	%
Total revenue	100.0	%	100.0	%
GROSS PROFIT MIX PERCENTAGES:				
New vehicles	19.9	%	21.4	%
Used retail vehicles	14.4	%	14.2	%
Used vehicle wholesale	—	%	0.1	%
Parts and service	42.5	%	43.3	%
Finance and insurance, net	23.2	%	21.0	%
Total gross profit	100.0	%	100.0	%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	70.5	%	73.3	%

Net income and income from continuing operations increased by $20.8 million (54%) and $13.0 million (34%), respectively, during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. The increase in income from continuing operations was primarily the result of a $52.3 million (14%) increase in gross profit, which was partially offset by (i) a $26.4 million (10%) increase in SG&A expenses and (ii) a $7.9 million (33%) increase in income tax expense. Net income for the six months ended June 30, 2013 was positively impacted by the sale of one franchise (one dealership location), which resulted in an $8.9 million net-of-tax gain, which is included in discontinued operations, net.

Gross profit increased across all four of our business lines and was driven by (i) a $20.3 million (26%) increase in F&I gross profit, (ii) an $18.9 million (12%) increase in parts and service gross profit, (iii) an $8.2 million (15%) increase in used vehicle gross profit and (iv) a $4.9 million (6%) increase in new vehicle gross profit. Our total gross profit margin decreased 20 basis points to 16.7%, primarily as a result of (i) a 50 basis point decrease in our same store new vehicle retail gross margin and (ii) a 50 basis point decrease in our same store used vehicle retail gross margin, which was partially offset by a 260 basis point increase in our same store parts and service gross margin.

The $338.4 million (15%) increase in total revenue was primarily a result of (i) a $184.6 million (15%) increase in new vehicle revenue, (ii) a $114.1 million (18%) increase in used vehicle revenue and (iii) a $20.3 million (26%) increase in revenue from F&I.

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New Vehicle—

	For the Six Months Ended June 30,		Increase	% Change	
	2013	2012			
	(Dollars in millions, except for per vehicle data)				
Revenue:					
New vehicle revenue—same store(1)					
Luxury	$492.6	$428.3	$64.3	15	%
Mid-line import	689.8	613.0	76.8	13	%
Mid-line domestic	204.9	181.6	23.3	13	%
Total new vehicle revenue—same store(1)	1,387.3	1,222.9	164.4	13	%
New vehicle revenue—acquisitions	20.2	—			
New vehicle revenue, as reported	$1,407.5	$1,222.9	$184.6	15	%
Gross profit:					
New vehicle gross profit—same store(1)					
Luxury	$34.9	$33.4	$1.5	4	%
Mid-line import	36.0	34.9	1.1	3	%
Mid-line domestic	13.3	12.1	1.2	10	%
Total new vehicle gross profit—same store(1)	84.2	80.4	3.8	5	%
New vehicle gross profit—acquisitions					