ASBURY AUTOMOTIVE GROUP INC
Form 10-K
March 16, 2006

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, 2005

or

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

For the transition period from to

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

(212) 885-2500

(Registrant s telephone number, including area code)

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

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

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ 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 o

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

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

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

Based on the closing price of the registrant s common stock as of June 30, 2005, the aggregate market value of the common stock held by non-affiliates of the registrant was $173,091,638.

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 13, 2006, was 32,973,156 (net of 1,586,587 treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

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

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

ASBURY AUTOMOTIVE GROUP, INC.
2005 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 and availability of capital;
- capital expenditures;
- the amount of our indebtedness;
- the completion of pending and future acquisitions;
- general economic trends, including consumer confidence levels and interest rates; and
- automotive retail industry trends.

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

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

- changes in, or failure or inability to comply with, laws and regulations governing the operation of automobile franchises, accounting standards, the environment and taxation requirements;

- high levels of competition in the automotive retailing industry which may create pricing pressures on the products and services we offer;

- our inability to minimize operating expenses or adjust our cost structure;
- our failure to achieve expected future cost savings from our recent reorganization;
- the loss of key personnel; and
- the outcome of any pending or threatened litigation.

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

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

Additional Information

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

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

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

As required by Section 303A.12 of the Listed Company Manual of the New York Stock Exchange (the NYSE), our chief executive officer submitted to the NYSE his annual certification on May 17, 2005 stating that he was not aware of any violation by our company of the corporate governance listing standards of the NYSE. In addition, we have filed, as exhibits to our annual report on Forms 10-K and 10K/A for the year ended December 31, 2004, the certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the Commission.

Item 1. Business

We are one of the largest automotive retailers in the United States, operating 125 franchises at 90 dealership locations as of December 31, 2005. We offer our customers an extensive range of automotive products and services, including:

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

For the year ended December 31, 2005, our revenues were $5.5 billion and our net income was $61.1 million.

Asbury Automotive Group, Inc. was incorporated in Delaware on February 15, 2002. On March 13, 2002, we effected an initial public offering of our common stock, and on March 14, 2002, our stock was listed on the NYSE under the ticker symbol ABG . Our predecessor entity, a limited liability company, was formed in 1994 by then-current management and Ripplewood L.L.C. In 1997, an investment fund affiliated with Freeman Spogli, acquired a significant interest in us. These groups identified an opportunity to aggregate a number of the nation s top automotive dealers as one cohesive organization with the end result being the Company described in this Annual Report on Form 10-K.

General Description of Our Operations

As of December 31, 2005, we operated dealerships in 23 metropolitan markets throughout the United States. In late 2004, we began the process of reorganizing our retail network. Prior to that time, we had nine regional dealership groups or platforms. Each platform originally operated as an independent business before being acquired and integrated into our operations. We completed our retail network reorganization in the first quarter of 2005. As a result of such reorganization, our retail network is comprised of principally four regions and includes eleven dealership groups, each marketed under different local brands. During the fourth quarter of 2005, we sold four of our Thomason dealerships in Portland, Oregon and are in the process of selling the remaining two dealerships as well as our Spirit Nissan and Dodge stores in Southern California. We expect to complete these sales in the first half of 2006, which will reduce the number of metropolitan markets in which we operate to 21.

The following is a detailed breakdown of our markets and dealerships as of December 31, 2005:

Brand Names by Region	Date of Initial Acquisition	Markets	Franchises
South			
Nalley Automotive Group	September 1996	Atlanta, GA	Acura, Audi, BMW, Chrysler, Hino, Honda, Infiniti, Isuzu Truck, Jaguar, Jeep, Lexus(a), Navistar, Peterbilt, Volvo
North Point Auto Group	February 1999	Little Rock, AR	BMW, Ford, Hyundai(a), Lincoln, Mazda, Mercury, Nissan(a), Toyota, Volkswagen, Volvo

Florida			
Courtesy Autogroup	September 1998	Tampa, FL	Chrysler, GMC(d), Hyundai, Infiniti, Jeep, Kia, Mercedes-Benz, Nissan, Pontiac(d), Toyota
Coggin Automotive Group	October 1998	Jacksonville, FL	Chevrolet, GMC(a), Honda(a), Kia, Nissan(a), Pontiac(a), Toyota, Buick
		Orlando, FL	Buick, Chevrolet, Ford, GMC, Honda(a), Lincoln, Mercury, Pontiac
		Fort Pierce, FL	BMW, Honda, Mercedes-Benz
West			
Thomason Autogroup	December 1998	Portland, OR	Honda(b), Hyundai(b)
Northern California Dealerships	April 2003	Fresno, CA	Mercedes-Benz, Nissan
		Sacramento, CA	Mercedes-Benz
Spirit Automotive Group	April 2004	Rancho Santa Margarita, CA Los Angeles, CA	Nissan(c) Dodge(b), Honda
David McDavid Auto Group	April 1998	Dallas/Fort Worth, TX	Acura, Buick, GMC, Honda(a), Lincoln, Mercury, Pontiac
		Houston, TX	Honda, Nissan
		Austin, TX	Acura
Mid-Atlantic			
Crown Automotive Company	December 1998	Greensboro, NC	Acura, BMW, Cadillac, Chevrolet, Chrysler, Dodge, GMC, Honda, Nissan, Pontiac, Volvo
		Chapel Hill, NC	Honda, Volvo
		Fayetteville, NC	Dodge, Ford
		Charlotte, NC	Honda
		Richmond, VA	Acura, BMW(a), MINI
		Charlottesville, VA	BMW, Porsche
		Greenville, SC	Chrysler, Jeep, Nissan
Gray-Daniels Auto Family	April 2000	Jackson, MS	Buick, Cadillac, Chevrolet(a), Ford, GMC, Lincoln, Mercury, Nissan(a), Pontiac, Toyota
Plaza Motor Company	December 1997	St. Louis, MO	Audi, BMW, Cadillac, Infiniti, Land Rover, Lexus, Mercedes-Benz, Porsche

(a) This market has two of these franchises.

(b) Pending divestitures as of December 31, 2005.

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(c) Pending divestiture at December 31, 2005 and sold in first quarter of 2006.

(d) Includes one franchise that did not qualify as a discontinued operation as of December 31, 2005, but was sold in the first quarter of 2006.

In addition to the sale of new and used vehicles, our dealerships offer a wide range of other products and services, including repair and warranty work, replacement parts, extended warranty coverage and finance and insurance products.

New vehicle sales

Our franchises include a diverse portfolio of 33 American, European and Asian brands. Our new vehicle sales include the sale of new vehicles to individual retail customers (new retail) and the sale of new vehicles to commercial customers (fleet) (the terms new retail and fleet being collectively referred to as new). In 2005, we retailed approximately 106,000 new vehicles through our dealerships. New vehicle retail sales were approximately 58% of our total revenues and 28% of our total gross profit for the year ended December 31, 2005. Fleet sales, which provide significantly less margin than retail sales, were approximately 3% of total revenues for the year ended December 31, 2005. We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle retailed (PVR). We believe that our diverse brand, product and price mix enables us to reduce our exposure to specific product supply shortages and changing customer preferences. Please see Business Strategy Focus on Premier Brand Mix, Strategic Markets and Diversification below for a discussion on our diverse offering of brands and products.

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

Used vehicle sales

We sell used vehicles at virtually all of our franchised dealerships. Used vehicle sales include the sale of used vehicles to individual retail customers (used retail) and the sale of used vehicles to other dealers at auction (wholesale) (the terms used retail and wholesale being collectively referred to as used). In 2005, we retailed approximately 61,000 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 14% of our total gross profit for the year ended December 31, 2005. Used vehicle revenue from wholesale sales was 6% of total revenue for the year ended December 31, 2005. Profits from the sales of used vehicles are dependent primarily on the ability of our dealerships to obtain a high quality supply of used vehicles and effectively manage inventory. Our new vehicle operations provide our used vehicle operations with a large supply of high quality trade-ins and off-lease vehicles, which we believe are a good source of attractive used vehicle inventory. In addition, a significant portion of our used vehicle inventory is purchased at auctions restricted to new vehicle dealers (offering off-lease, rental and fleet vehicles) and open auctions which offer vehicles sold by other dealers and repossessed vehicles. Used vehicle inventory is typically wholesaled after approximately 60 days, except for low value trade-ins, which are wholesaled almost immediately. The reconditioning of used vehicles also creates profitable service work for our fixed operations departments.

We intend to grow our used vehicle sales by maintaining high quality inventory across all price ranges, providing competitive prices and continuing to enhance our marketing initiatives. Based on sharing of best practices among our dealerships, we have regionally centralized used car functions responsible for working with our general managers to determine which vehicles to stock at each store.

We transfer used vehicles among our dealerships to provide a balanced mix of used vehicle inventory at each of our dealerships. We believe that acquisitions of additional dealerships will expand the internal market for the transfer of used vehicles among our dealerships and, therefore, increase the ability of each dealership to offer a balanced mix of used vehicles.

We have taken several steps towards building client confidence in our used vehicle inventory, including participation in the manufacturers certification processes, which was traditionally only available to new vehicle franchises. These processes make certain used vehicles eligible for new vehicle benefits such as new vehicle finance rates and extended manufacturer warranties. In addition, each dealership offers customers the opportunity to purchase extended warranties, which are provided by third parties, on its used car sales.

Parts, service and collision repair

We refer to the parts, service and collision repair area of our business as fixed operations . We sell parts and provide maintenance and repair service at all of our franchised dealerships, primarily for the vehicle brands sold at those dealerships. In addition, as of December 31, 2005, we maintained 24 free-standing collision repair centers in close proximity to our dealerships. Our dealerships and collision repair centers collectively operate approximately 2,100 service bays. Parts, service and collision repair centers accounted for approximately 12% of our total revenues and 40% of our total gross profit as of December 31, 2005.

Historically, fixed operations revenues have been more stable than vehicle sales. Industry-wide, parts and service revenues have consistently increased over the last 20 years primarily due to the increased cost of maintaining vehicles, the added technical complexity of vehicles and the increased number of vehicles on the road. We believe the variety and quality of extended warranty plans available for both new and used vehicles in recent years has seen progressive expansion and improvement. We believe this trend may also be a contributing factor in our fixed operations revenue growth. As of December 31, 2005, warranty work accounted for approximately 20% of our parts and service business revenue.

Historically, the automotive repair industry has been highly fragmented. However, we believe that the increased use of advanced technology in vehicles has made it difficult for independent repair shops to have the expertise required to perform major or technical repairs, especially as such repairs relate to luxury and mid-line imports which comprise a majority of our new vehicle retail sales. Additionally, many manufacturers require warranty work to be performed only at franchised dealerships. As a result, unlike independent service stations or independent and superstore used car dealerships with service operations, our franchised dealerships are qualified to perform work covered by manufacturer warranties on increasingly technologically complex motor vehicles.

We use variable rate compensation structures designed to reflect the difficulty and sophistication of different types of repairs to compensate employees working in parts and service. In addition, the profit percentages for parts vary according to market conditions and type.

One of our major goals is to retain each vehicle purchaser as a long-term customer of our parts and service departments. Currently, we estimate that approximately 30% of customers return to our dealerships for other services after the vehicle warranty expires. Therefore, we believe that significant opportunity for growth exists in the maintenance service business. Each dealership has systems in place to track customer maintenance records and to notify owners of vehicles purchased at the dealership when their vehicles are due for periodic services. Service and repair activities are an integral part of our overall approach to customer service. As such, we added approximately 140 fixed operations employees, including approximately 100 technicians, to our continuing operations during 2005, to ensure that our customers continue to receive excellent service as this aspect of our business expands.

Finance and insurance

We generally arrange for the financing of the sale or lease of new and used vehicles to customers through third party vendors. We arranged customer financing with no recourse to us on approximately 60% of the vehicles we sold during the year ended December 31, 2005. These transactions result in commissions being paid to us by the third party lenders, including manufacturer captive finance subsidiaries. To date, we have entered into preferred lender agreements with 18 lenders. Under the terms of the preferred lender agreements, each lender has agreed to provide a marketing fee to us above the standard commission for each loan that our dealerships place with that lender. Furthermore, many of the insurance products we sell result in additional underwriting profits and investment income yields based on portfolio performance.

We receive highly favorable pricing on these products from our vendors as a result of our size and sales volume. We earn sales-based commissions on substantially all of these products while taking virtually no risk related to loan payments, insurance payments or investment performance, which are generally borne by third parties. These commissions are subject to cancellation, in certain circumstances, if the customer cancels the contract. 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, 2005.

Recent Developments

In January 2006, we sold one franchise (one dealership location) in Southern California. We sold this franchise for $3.1 million and recognized a loss on the sale of approximately $1.0 million. In March 2006, we sold two franchises (one dealership location) in Tampa, Florida. We sold these franchises for $6.1 million and recognized a gain on the sale of approximately $1.0 million. We did not have a commitment to sell these franchises as of December 31, 2005 and therefore did not classify these franchises as discontinued operations as of December 31, 2005.

We have a committed credit facility (the Committed Credit Facility) with JPMorgan Chase Bank, N.A. and 17 other financial institutions. In March 2006 we amended our Committed Credit Facility to include DaimlerChrysler Financial Services (DCFS) in the syndicate of lenders (the Syndicate) and to extend the Committed Credit Facility to March 2009. In addition, DCFS will provide $120.0 million of floor plan financing outside of the Syndicate to finance inventory purchases at our Mercedes, Chrysler, Dodge and Jeep dealerships. Subsequent to the signing of this amendment, floor plan borrowings from DCFS will be included in Floor Plan Notes Payable Manufacturer Affiliated on our Consolidated Balance Sheets. The DCFS facility has no stated termination date and borrowings will accrue interest based on LIBOR. In addition, we reduced the borrowing capacity of the revolving line of credit under the Committed Credit Facility from $150.0 million to $125.0 million and reduced the commitment of the Syndicate to finance our inventory purchases from $650.0 million to $425.0 million.

Business Strategy

Focus on Premier Brand Mix, Strategic Markets and Diversification

We classify our franchise sales lines into luxury, mid-line import, mid-line domestic, value, and heavy trucks. Luxury and mid-line imports together accounted for approximately 73% of our new retail vehicle revenues as of December 31, 2005 and comprised over half of our total franchises. Over the last 15 years, luxury and mid-line imports have gained market share at the expense of mid-line domestic brands.

Generally, luxury and mid-line imports generate above average gross margins and greater customer loyalty. Furthermore, customers for these brands tend to service their vehicles more frequently at a franchised dealership than customers of other brands, which makes these brands more profitable from a parts and service perspective.

The following table reflects current franchises and the share of new retail vehicle revenue represented by each class of franchise:

Class/Franchise	**Number of Franchises as of December 31, 2005**	**% of New Retail Vehicle Revenue for the Year Ended December 31, 2005**	
Luxury			
BMW	8	6	%
Acura	5	5	
Mercedes-Benz	5	8	
Lincoln	4	1	
Volvo	4	2	
Cadillac	3	1	
Infiniti	3	3	
Lexus	3	6	
Audi	2	1	
Porsche	2	*	
Jaguar	1	*	
Land Rover	1	*	
Total Luxury	41	33	%
Mid-Line Import			
Honda(a)	14	20	%
Nissan(a)	12	12	
Toyota	4	7	
Mazda	1	*	
MINI	1	*	
Volkswagen	1	1	
Total Mid-Line Import	33	40	%
Mid-Line Domestic			
GMC(b)	7	3	%
Pontiac(b)	7	1	
Chevrolet	5	3	
Buick	4	*	
Chrysler	4	2	
Ford	4	6	
Mercury	4	1	
Dodge(a)	3	1	
Jeep	3	1	
Total Mid-Line Domestic	41	18	%
Value			
Hyundai(a)	4	1	%
Kia	2	1	
Total Value	6	2	%
Heavy Trucks			
Hino	1	*	%
Isuzu	1	1	
Navistar	1	4	
Peterbilt	1	2	
Total Heavy Trucks	4	7	%
TOTAL	125	100	%

* Franchise accounted for less than 1% of new retail vehicle revenue for the year ended December 31, 2005.

(a) Includes one pending divestiture as of December 31, 2005.

(b) Includes one franchise sold subsequent to December 31, 2005 that was not a pending divestiture as of December 31, 2005 and therefore was not classified as a discontinued operation as of December 31, 2005.

Asbury s geographic coverage encompassed 23 different metropolitan markets at 90 locations in 11 states as of December 31, 2005: Arkansas, California, Florida, Georgia, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Texas and Virginia. New vehicle sales revenue is diversified among manufacturers and for the year ended December 31, 2005 of which Honda (20%), Nissan (12%), Mercedes-Benz (8%), Toyota (7%), BMW (6%), Ford (6%), Lexus (6%) and Acura (5%) represented the highest concentrations. We believe that our broad geographic coverage as well as diversification among manufacturers decreases our exposure to regional economic downturns and manufacturer-specific risks such as warranty issues or production disruption. See Risk Factors Risk Factors Related to our Dependence on Vehicle Manufacturers Adverse conditions affecting the manufacturers may negatively impact our profitability for a list of such manufacturer-specific risks.

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

Maintain Variable Cost Structure and Emphasize Expense Control

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

Focus on Higher Margin Products and Services

While new vehicle sales are critical to drawing customers to our dealerships, used vehicle retail sales, fixed operations 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 dealership 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 have the independence and flexibility to respond effectively to local market conditions, each pursues an integrated strategy, as directed from our centralized management team, to grow these higher margin businesses to enhance profitability and stimulate internal growth.

- **Fixed Operations.** We offer parts, perform vehicle service work and operate collision repair centers, all of which provide important sources of recurring revenue with high gross profit margins. For the year ended December 31, 2005, gross profits from these businesses absorbed approximately 58% of our total operating expenses, including corporate office expenses, but excluding salespersons compensation. We intend to continue to grow this higher-margin business and increase this cost absorption rate by adding new service bays and increasing capacity utilization of existing service bays. To help ensure high levels of customer satisfaction within our parts, service and collision repair operations, we added approximately 140 fixed operations employees, including approximately 100 technicians, to our continuing 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.

- **Finance and Insurance.** We intend to continue to bolster our finance and insurance revenues by offering a broad range of conventional finance and lease alternatives to fund the purchase of new and used vehicles. In addition to offering these third party financing products, we intend to expand our already broad offering of third party products such as credit insurance, extended service contracts, maintenance programs and a host of other niche products to meet all of our customer needs on a one stop shopping basis. Moreover, continued in-depth sales training efforts and innovative computer technologies will serve as important tools in growing our finance and insurance profitability. We have increased dealership generated finance and insurance revenue per vehicle retailed to $883 for the year ended December 31, 2005 from $843 for the year ended December 31, 2004. We have successfully increased our dealership generated finance and insurance revenue per vehicle retailed each year since our inception. See Management s Discussion and Analysis of Financial Condition and Results of Operations Reconciliation of Non-GAAP Financial Information.

Local Management of Dealership Operations and Centralized Administrative and Strategic Functions

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

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

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

Experienced and Incentivized Corporate and Dealership Management

We have a corporate management team that has served in prominent leadership positions at other Fortune 500 companies. Kenneth B. Gilman, our president and chief executive officer, has extensive experience in the retail sector. He served for 25 years at Limited Brands (formerly, The Limited, Inc.) where his last assignment was as chief executive officer of Lane Bryant, a retailer of women s clothing and a subsidiary of Limited Brands. From 1993 to 2001, Mr. Gilman served as vice chairman and chief administrative officer of Limited Brands with responsibility for, among other things, finance, information technology, supply chain management and production. Mr. Gilman has served as our president and chief executive officer since December 2001.

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

Furthermore, 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.

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

Continued Growth Through Targeted Acquisitions

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

Tuck-in acquisitions are typically re-branded immediately 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. By having a presence in all major brands and by avoiding concentration with one manufacturer, we are well-positioned to reduce our exposure to specific product supply shortages and changing customer preferences. At the same time, we will seek to continue to increase the proportion of our dealerships that are in markets with favorable demographic characteristics or that are franchises of fast-growing, high-margin brands.

We believe that these tuck-in acquisitions have facilitated, and will continue to facilitate, our regional operating efficiencies and cost savings. In addition, we have generally been able to improve the gross profit of tuck-in dealerships within twelve months following an acquisition. We believe this is due to improvements in the number of finance and insurance products sold per vehicle retailed, greater utilization of additional service bays acquired in the acquisition, improved management practices and enhanced unit sales volumes related to the strength of our local brand names.

Commitment to Customer Service

We are focused on providing a high level of customer service to meet the needs of an increasingly sophisticated and demanding automotive consumer. We attempt to design our dealership service business to meet the needs of our customers and establish relationships that will result in both repeat business and additional business through customer referrals. Furthermore, we incentivize our dealership managers to employ more efficient selling approaches, engage in extensive follow-up to develop long-term relationships with customers and extensively train our sales staff to be able to meet customer needs. We continually evaluate innovative ways to improve the buying experience for our customers and believe that our ability to share best practices across our dealerships gives us an advantage over independent dealerships. In addition, our dealerships regard service and repair operations as an integral part of the overall approach to customer service, providing an opportunity to foster ongoing relationships with customers and deepen loyalty. As such, we added approximately 140 fixed operations employees, including approximately 100 technicians, to our continuing operations during 2005, to ensure that our customers continue to receive excellent service as this aspect of our business expands.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building our business with a broad base of repeat, referral and new customers. Our primary advertising medium is local newspapers, followed by radio, television, direct mail, the Internet and the yellow pages. The automotive retail industry has traditionally used locally produced, largely non-professional materials for advertising, often developed under the direction of each dealership s general manager. We have created common marketing materials for our brand names using professional advertising agencies. Our sales and marketing department helps oversee and share creative materials and general marketing best practices across our dealerships. Our total company marketing expense was $51.3 million for the year ended December 31, 2005, which translates into an average of $308 per retail vehicle sold. In addition, manufacturers direct advertising spending in support of their brands has been historically a significant component of the total amount spent on new car advertising in the United States.

Management Information Systems

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

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

Competition

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

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

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

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

Dealer and Framework Agreements

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

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

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

Some dealer agreements and framework agreements grant the manufacturer the right to purchase its dealerships from us under certain additional circumstances, including the dealerships failure to meet the manufacturer s capitalization or working capital requirements or operating guidelines, our failure to meet certain financial requirements, the occurrence of an extraordinary corporate transaction (at our parent entity level or dealership operating entity level) without the manufacturer s prior consent, a material breach of the framework agreement or acceleration of obligations under our credit facility (the Committed Credit Facility), our 9% Senior Subordinated Notes due 2012 or our 8% Senior Subordinated Notes due 2014. Some of our dealer agreements and framework agreements also give the manufacturer a right of first refusal if we propose to sell any dealership representing the manufacturer s brands to a third party. These agreements may also attempt to limit the protections available under state dealer laws and require us to resolve disputes through binding arbitration.

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

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

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

Manufacturers Limitations on Acquisitions. Our dealer agreements and framework agreements typically require us to maintain certain performance standards and obtain the consent of the applicable manufacturer before we can acquire any additional dealership franchises. A majority of these agreements impose limits on the number of dealerships we are permitted to own at the metropolitan, regional and national levels. These limits vary according to the agreements we have with each of the manufacturers but are generally based on fixed numerical limits or on a fixed percentage of the aggregate sales of the manufacturer. Under our current framework and dealer agreements, we are close to our franchise ceiling with Toyota and Lexus and at such ceiling with Jaguar. As a result of certain performance deficiencies asserted by Ford, we are currently ineligible to acquire additional Ford, Lincoln or Mercury dealerships and we do not anticipate regaining such eligibility any time in the foreseeable future. However, we do not

believe our inability to acquire additional Ford, Lincoln or Mercury dealerships will have a material affect on our business.

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

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

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

Governmental Regulations

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

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

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

Environmental Matters

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

Our business also involves the use of above ground and underground storage tanks. Under applicable laws and regulations, we are responsible for the proper use, maintenance and abandonment of our regulated storage tanks and for remediation of subsurface soils and groundwater impacted by releases from existing or abandoned storage tanks. In addition to these regulated tanks, we own, operate, or have otherwise closed in place other underground and above ground devices or containers (such as automotive lifts and service pits) that may not be classified as regulated tanks, but which could or may have released stored materials into the environment, thereby potentially obligating us to clean up any soils or groundwater resulting from such releases.

We are also subject to laws and regulations governing remediation of contamination at or from our facilities or to which 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, imposes liability, 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 may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and 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 subject to any material Superfund liabilities.

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

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

Employees

As of December 31, 2005, we employed approximately 8,800 persons. We believe our relationship with our employees is favorable. We do not have employees that are represented by a labor union. In the future, we may acquire additional businesses that have unionized employees. Certain of our facilities are located in areas of high union concentration, and such facilities are susceptible to union-organizing activity. In addition, because of our dependence on vehicle manufacturers, we may be affected adversely by labor strikes, work slowdowns and walkouts at vehicle manufacturers production facilities and transportation modes.

Insurance

Because of their vehicle inventory and nature of business, automobile retail dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes multiple umbrella policies with a total per occurrence and aggregate limit of $100.0 million. We also have directors and officers insurance, real property insurance, comprehensive coverage for our vehicle inventory, garage liability and employee dishonesty insurance.

Item 1A. Risk Factors

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

RISK FACTORS RELATED TO OUR DEPENDENCE ON VEHICLE MANUFACTURERS

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

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

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

In addition, we have agreements with Toyota which provide that in the event that our payment obligations under our Committed Credit Facility or our 9% Senior Subordinated Notes due 2012 (the 9% Notes) are accelerated or demand for payment is made under our subsidiaries guarantees of the Committed Credit Facility or our 9% Notes, Toyota will have the right to purchase our Toyota and Lexus dealerships for cash at their fair market value, unless the acceleration or demand is waived within a cure period of no less than 30 days after Toyota s notification of its intent to exercise its right to purchase. If fair market value cannot be agreed by the parties, it will be determined by an independent nationally recognized and experienced appraiser. We also have an agreement with Ford that provides if any of the lenders of our Committed Credit Facility or floor plan facilities accelerate those payment obligations, or if we are notified of any default under our Committed Credit Facility, then Ford may exercise its right to acquire our Ford, Lincoln and Mercury dealerships for their fair market value.

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

Many manufacturers attempt to measure customers satisfaction with their experience in our sales and service departments through rating systems that are generally known as consumer satisfaction indexes (CSI), augmenting manufacturers monitoring of dealerships financial and sales performance. At the time we acquire a dealership or enter into a new dealership or framework agreement, several manufacturers establish certain sales or performance criteria for that dealership, in some cases in the form of a business plan. In the event that a dealership is unable to meet these goals, we may be prevented from making future acquisitions, which would have an adverse effect on our ability to grow. Manufacturers may use these performance indicators, as well as sales performance numbers, as factors in evaluating applications for acquisitions. The components of these performance indicators have been modified by various manufacturers from time to time in the past, and we cannot assure you that these components will not be further modified or replaced by different systems in the future. Some of our dealerships have had difficulty from time to time meeting these standards. We cannot assure you that we will be able to comply with these standards in the future. A manufacturer may refuse to consent to our acquisition of one of its franchises if it determines our dealerships do not comply with its performance standards. This may impede our ability to execute our acquisition strategy. In addition, we receive payments from certain manufacturers based, in part, on CSI scores, and future payments may be materially reduced or eliminated if our CSI scores decline.

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

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

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

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

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

We are generally required to obtain manufacturer consent before we can acquire any additional dealerships. In addition, many of our dealer and framework agreements require that we meet certain customer service and sales performance standards as a condition to additional dealership acquisitions. We cannot assure you that we will meet these performance standards and that manufacturers will consent to future acquisitions, which may deter us from being able to take advantage of market opportunities and restrict our ability to expand our business. The process of applying for and obtaining manufacturer consents can take a significant amount of time, generally 60 to 90 days or more. Delays in consummating acquisitions caused by this process may negatively affect our ability to acquire dealerships that we believe will produce acquisition synergies and integrate well to our overall growth strategy. In addition, manufacturers typically establish minimum capital requirements for each of their dealerships on a case-by-case basis. As a condition to granting consent to a proposed acquisition, a manufacturer may require us to remodel and upgrade our facilities and capitalize the subject dealership at levels we would not otherwise choose, causing us to divert our financial resources from uses that management believes may be of higher long-term value to us. Furthermore, the exercise by manufacturers of their right of first refusal to acquire a dealership may prevent us from acquiring dealerships that we have identified as important to our growth, thereby having an adverse affect on our business.

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

Many vehicle manufacturers place limits on the total number of franchises that any group of affiliated dealerships may obtain. Certain manufacturers place limits on the number of franchises or share of total brand vehicle sales maintained by an affiliated dealership group on a national, regional or local basis. Manufacturers may also tailor these types of restrictions to particular dealership groups. We are close to our franchise ceilings with Toyota and Lexus and at such ceiling with Jaguar. If we reach these franchise ceilings discussed above, we may be prevented from making further acquisitions, which could affect our growth. While we have not reached a numerical limit with Ford, Lincoln or Mercury, we have a dispute over whether our performance should limit additional acquisitions at this time. However, we do not believe our inability to acquire additional Ford, Lincoln or Mercury dealerships will have a material affect on our business.

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

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

Manufacturers restrictions regarding a change in our stock ownership may result in the termination or forced sale of our franchises, which could have a material adverse effect on our ability to grow and 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 several manufacturers provide that, under certain circumstances, we may lose (either through termination or forced sale) the franchise if a person or entity acquires an ownership interest in us above a specified level (ranging from 20% to 50% depending on the particular manufacturer s restrictions) or if a person or entity acquires the right to vote 20% or more of our common stock without the approval of the applicable manufacturer. This trigger level can fall to as low as 5% if another vehicle manufacturer or a person with a criminal record is the entity acquiring the ownership interest or voting rights. In addition to imposing the restrictions previously mentioned, Toyota may require us to sell our Toyota franchises (including our Lexus franchises) if, without its consent, the owners of our equity prior to our initial public offering cease to control a majority of our voting stock or if Timothy C. Collins ceases to indirectly control us.

Violations by our stockholders of these ownership restrictions are generally outside of our control and may result in the termination or non-renewal of our dealer and framework agreements or forced sale of one or more franchises, which may have a material adverse effect on us. These restrictions may also prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock.

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

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

For the year ended December 31, 2005, brands representing 5% or more of our revenues from new vehicle retail sales were as follows:

Brand	**% of Total New Vehicle Retail Sales**
Honda	20 %
Nissan	12 %
Mercedes-Benz	8 %
Toyota	7 %
BMW	6 %
Ford	6 %
Lexus	6 %
Acura	5 %

No other brand accounted for more than 5% of our total new vehicle retail sales revenue for the year ended December 31, 2005.

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

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

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

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

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

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

Adverse conditions affecting the manufacturers may negatively impact our profitability.

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

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

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

RISKS RELATED TO OUR ACQUISITION STRATEGY

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

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

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

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. If we incorrectly value acquisition targets or fail to successfully integrate acquired businesses, we may be required to take write downs of the manufacturer franchise rights attributed to the acquired businesses, which could be significant. See also Risk Factors Related to our Dependence on Vehicle Manufacturers Manufacturers restrictions on acquisitions may limit our future growth.

The competition with other dealer groups to acquire automotive dealerships is intense, and we may not be able to fully implement our growth through acquisition strategy if attractive targets are acquired by competing groups or priced out of our reach due to competitive pressures.

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

RISKS RELATED TO COMPETITION

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

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

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

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

RISKS RELATED TO THE AUTOMOTIVE RETAIL INDUSTRY

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

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income, credit availability and interest rates. Future recessions may have a material adverse effect on our retail business,

particularly sales of new and used automobiles. In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury/SUV models (which typically provide higher profit margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

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

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

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

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

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

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

OTHER RISKS RELATED TO OUR BUSINESS

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

We have certain debt service obligations. As of December 31, 2005, we had total debt of $505.0 million, excluding floor plan notes payable and the effects of our fair value hedge on our 8% Senior Surbordinated Notes due 2014 (the 8% Notes). In addition, we and our subsidiaries may incur additional debt from time to time to finance acquisitions or capital expenditures or for other purposes, subject to the restrictions contained in our Committed Credit Facility and the indentures governing our 9% Notes and our 8% Notes. We will have substantial debt service obligations, consisting of required cash payments of principal and interest, for the foreseeable future.

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

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

We generally finance our purchases of new vehicle inventory and have the ability to finance the purchase of used vehicle inventory using floor plan credit facilities under which we are charged interest at floating rates. In addition, we obtain capital for general corporate purposes, dealership acquisitions and real estate purchases and improvements under predominantly floating interest rate credit facilities. Therefore, our interest expense from variable rate debt will rise with increases in interest rates. Rising interest rates are generally associated with increasing macroeconomic business activity and improvements in gross domestic product. However, rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because many of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues. Given our debt composition as of December 31, 2005, each one percent increase in market interest rates would increase our total annual interest expense, including floor plan interest, by $8.6 million.

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

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

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, consumer protection and privacy laws, wage and hour, anti-discrimination and other employment practices laws, and environmental requirements governing, among other things, discharges into the air and water, aboveground and underground storage of petroleum substances and chemicals, handling and disposal of wastes and remediation of contamination arising from spills and releases. If we or our employees at the individual dealerships violate these laws and regulations, we may be subject to civil and criminal penalties, or a cease and desist order may be issued against our operations that are not in compliance. Our future acquisitions may also be subject to governmental regulation, including antitrust reviews. Future laws and regulations relating to our business may be more stringent than current laws and regulations and require us to incur significant additional costs.

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

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

The loss of key personnel may adversely affect our business.

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

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

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

Our principal stockholders have substantial influence over us.

Our principal stockholders, Ripplewood L.L.C. and Freeman Spogli, beneficially own over 50% of our outstanding common stock. In addition, these entities have entered into a stockholders agreement with several of our other stockholders pursuant to which the other stockholders are required to vote their stock with Ripplewood and Freemen Spogli. In addition, Ripplewood and Freeman Spogli both have representatives that are members of our board of directors. As a result, these principal stockholders have the ability to control us and direct our affairs and business.

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

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practices have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, the Financial Accounting Standards Board has announced a change to generally accepted accounting principles in the United States that will require us to record charges to earnings for employee stock-based awards beginning in 2006. This requirement will negatively impact our earnings in the future. We expect our selling, general and administrative expense to increase by approximately $5.0 million in 2006 as a result of the adoption of SFAS No. 123 (revised 2004) and our decision to issue restricted stock units instead of stock options. Certain of our equity awards have conditions based on the performance of the company that may affect the number of awards ultimately issued. Therefore the amount of stock-based compensation expense recorded may materially differ from our current estimate.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We lease our corporate headquarters, which is located at 622 Third Avenue, 37th Floor, New York, New York. In addition, as of December 31, 2005, we had 125 franchises situated in 90 dealership locations throughout eleven states. As of December 31, 2005, we leased 80 of these locations and owned the remainder. We have three locations in Mississippi, two locations in North Carolina 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 24 collision repair centers. We lease 20 of these collision repair centers and own the remainder.

	Dealerships		Collision Repair Centers	
	Owned	**Leased**	**Owned**	**Leased**
Coggin Automotive Group	2	15 (a)	1	4
Courtesy Autogroup		8 (c)		2
Crown Automotive Company	4	15		3
David McDavid Auto Group		8		5
Gray-Daniels Auto Family		6		2
Nalley Automotive Group		11 (a)	3	1
Northern California Dealerships		3		
Northpoint Auto Group		8		2
Plaza Motor Company	4	1		1
Spirit Automotive Group		3 (b)		
Thomason Autogroup		2 (b)		
Total	10	80	4	20

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

(b) Includes two pending divestitures as of December 31, 2005.

(c) Includes one dealership sold subsequent to December 31, 2005 that was not a pending divestiture as of December 31, 2005

Item 3. Legal Proceedings

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

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

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

None.

PART II

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

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

	High	Low
Fiscal Year Ended December 31, 2004		
First Quarter	$ 19.35	$ 15.71
Second Quarter	17.36	13.30
Third Quarter	14.97	12.59
Fourth Quarter	14.10	12.87
Fiscal Year Ended December 31, 2005		
First Quarter	$ 17.39	$ 13.86
Second Quarter	15.89	13.71
Third Quarter	18.00	15.33
Fourth Quarter	17.93	15.84

On March 13, 2006, the last reported sale price of our common stock on the New York Stock Exchange was $19.46 per share, and there were approximately 29 record holders of our common stock.

Although the board of directors has not currently authorized the repurchase shares of our outstanding common stock or the payment of cash dividends, we have the ability to do so subject to certain limitations from our 9% Notes, 8% Notes and Committed Credit Facility. Such limits become less restrictive each quarter to the extent that we have positive net income. As of December 31, 2005, our ability to repurchase shares of our outstanding common stock or pay cash dividends was limited to $47.4 million. Any future change in our dividend policy will be made at the discretion of our board of directors and will depend on then applicable contractual restrictions contained in our financing credit facilities and other agreements, our results of operations, earnings, capital requirements and other factors considered relevant by our board of directors.

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Item 6. Selected Financial Data

The accompanying income statement data for the years ended December 31, 2004, 2003, 2002, and 2001 have been reclassified to reflect the status of our discontinued operations as of December 31, 2005.

Income Statement Data:	For the Years Ended December 31, 2005 (in thousands, except per share data)	2004	2003	2002	2001
Revenues:					
New vehicle	$ 3,385,294	$ 3,070,274	$ 2,575,700	$ 2,243,006	$ 2,070,250
Used vehicle	1,356,523	1,189,458	1,056,367	1,007,580	945,534
Parts, service and collision repair	647,262	577,820	490,764	435,490	401,785
Finance and insurance, net	151,584	134,376	111,727	94,507	82,339
Total revenues	5,540,663	4,971,928	4,234,558	3,780,583	3,499,908
Cost of sales	4,702,293	4,216,105	3,581,240	3,184,752	2,957,787
Gross profit	838,370	755,823	653,318	595,831	542,121
Selling, general and administrative expenses	654,210	596,620	506,955	457,941	415,227
Depreciation and amortization	19,733	18,243	17,585	16,391	23,241
Income from operations	164,427	140,960	128,778	121,499	103,653
Other income (expense):					
Floor plan interest expense	(29,054)	(19,457)	(14,790)	(13,834)	(20,062)
Other interest expense	(40,846)	(39,059)	(39,935)	(38,004)	(43,698)
Interest income	971	746	449	1,102	2,271
Loss on extinguishment of debt					(1,433)
Other income (expense), net	260	765	1,522	(127)	(1,275)
Total other expense, net	(68,669)	(57,005)	(52,754)	(50,863)	(64,197)
Income before income tax expense, minority interest and discontinued operations	95,758	83,955	76,024	70,636	39,456
Income tax expense	35,854	31,306	28,889	34,658	5,288
Minority interest in subsidiary earnings					1,240
Income from continuing operations	59,904	52,649	47,135	35,978	32,928
Discontinued operations, net of tax	1,177	(2,576)	(31,948)	2,107	11,256
Net income	$ 61,081	$ 50,073	$ 15,187	$ 38,085	$ 44,184
Income from continuing operations per common share:					
Basic	$ 1.83	$ 1.62	$ 1.44	$ 1.09	*
Diluted	$ 1.82	$ 1.61	$ 1.44	$ 1.09	*

* Not a publicly traded company

Balance Sheet Data:	As of December 31, 2005 (in thousands)	2004	2003	2002	2001
Working Capital	$ 346,954	$ 295,496	$ 259,784	$ 167,141	$ 147,617
Inventories	709,791	761,557	650,397	591,839	496,054
Total assets	1,930,800	1,897,959	1,814,279	1,605,644	1,465,013
Floor plan notes payable	614,382	650,948	602,167	528,591	451,375
Total debt (including current portion)	496,949	526,416	590,658	475,152	538,337
Total shareholders /members equity	547,766	481,732	434,825	426,951	347,907

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 90 dealership locations (125 franchises) in 23 metropolitan markets within 11 states as of December 31, 2005. We offer 33 different brands of new vehicles, including four heavy truck brands. We also operate 24 collision repair centers that serve our markets.

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

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

Our retail network was organized as separate dealership groups until the first quarter of 2005, when we reorganized our network into principally four regions: (i) Florida (comprising our Coggin dealerships operating primarily in Jacksonville and Orlando and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas, our Thomason dealerships operating in Portland, Oregon, our Spirit dealerships operating primarily in Los Angeles, California and our Northern California Dealerships), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and Southern Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia, and our North Point dealerships operating in Little Rock, Arkansas). Our Plaza dealerships in St. Louis, Missouri and our Gray Daniels dealerships operating in Jackson, Mississippi remain standalone operations. During the fourth quarter of 2005, we sold four of our Thomason dealerships in Portland, Oregon and are in the process of selling the remaining two dealerships as well as our Spirit Nissan and Dodge stores in Southern California. We expect to complete these sales in the first half of 2006, which will reduce the number of metropolitan markets in which we operate to 21.

Within this more streamlined structure, we evaluate our operations and financial results by dealership, rather than by platform. The general managers, with direction from the regional CEOs and corporate management, will continue to have the independence and flexibility to respond effectively to local market conditions. We expect a significant improvement in management effectiveness as a result of the reorganization, as well as added operating and cost efficiencies. During the year ended December 31, 2005, we incurred $0.5 million, net of tax, ($2.6 million of severance and other related costs, offset by a one-time $2.1 million benefit from the implementation of a national employee benefit plan) of costs related to our regional reorganization. We began realizing the benefit of our realigned structure through lower personnel costs beginning in the second quarter of 2005. As a result, through December 31, 2005, we have realized $3.2 million ($2.0 million, net of tax) of lower personnel costs. Currently, we estimate that the regional reorganization will improve income from continuing operations by approximately $3.0 million each year beginning in 2006.

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

Selling, general and administrative (SG&A) expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities and other customary operating expenses. A significant portion of our selling expenses is variable (such as sales commissions), or controllable expenses (such as advertising), generally allowing our cost structure to adapt in response to trends in our business. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit and all other SG&A expenses in the aggregate as a percentage of total gross profit.

Sales of vehicles (particularly new vehicles) have historically fluctuated with general macroeconomic conditions, including consumer confidence, availability of consumer credit and fuel prices. Although these factors may impact our business, we believe that any future negative trends will be mitigated by increased used vehicle sales and stability of our fixed operations, our variable cost structure, our regional diversity and our advantageous brand mix. Historically, our brand mix, which is weighted towards luxury and mid-line import brands, 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 operations are generally subject to seasonal variations as we tend to generate more revenue and operating income in the second and third quarters than in the first and fourth quarters. Generally, the seasonal variations in our operations are caused by factors relating to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

Over the past several years, certain automobile manufacturers have used a combination of vehicle pricing and financing incentive programs to generate increased customer demand for new vehicles. We anticipate that the manufacturers will continue to use these incentive programs in the future. In addition, we will continue to expand our service capacity in order to meet anticipated future demand, as the relatively high volume of new vehicle sales, resulting from the highly incentivized new vehicle market, will drive future service demand at our dealership locations.

Interest rates increased during 2005 and we expect this to continue into 2006. We do not believe that changes in interest rates significantly impact customer overall buying patterns, as changes in interest rates do not dramatically increase the monthly payment of a financed vehicle. For example, the monthly payment for a typical vehicle financing transaction in which a customer finances $25,000 at 8.0% over 60 months increases by approximately $6.00 with each 50-basis-point increase in interest rates.

RESULTS OF OPERATIONS

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

	For the Year Ended December 31,					
	2005	% of Gross Profit	2004	% of Gross Profit	Increase (Decrease)	% Change
	In thousands					
REVENUES:						
New vehicle	$ 3,385,294		$ 3,070,274		$ 315,020	10 %
Used vehicle	1,356,523		1,189,458		167,065	14 %
Parts, service and collision repair	647,262		577,820		69,442	12 %
Finance and insurance, net	151,584		134,376		17,208	13 %
Total revenues	5,540,663		4,971,928		568,735	11 %
COST OF SALES	4,702,293		4,216,105		486,188	12 %
GROSS PROFIT	838,370	100 %	755,823	100 %	82,547	11 %
OPERATING EXPENSES:						
Selling, general and administrative	654,210	78 %	596,620	79 %	57,590	10 %
Depreciation and amortization	19,733	2 %	18,243	2 %	1,490	8 %
Income from operations	164,427	20 %	140,960	19 %	23,467	17 %
OTHER INCOME (EXPENSE):						
Floor plan interest expense	(29,054)	4 %	(19,457)	3 %	9,597	49 %
Other interest expense	(40,846)	5 %	(39,059)	5 %	1,787	5 %
Other income, net	1,231	%	1,511	%	(280)	(19)%
Total other expense, net	(68,669)	9 %	(57,005)	8 %	11,664	20 %
Income before income taxes	95,758	11 %	83,955	11 %	11,803	14 %
INCOME TAX EXPENSE	35,854	4 %	31,306	4 %	4,548	15 %
INCOME FROM CONTINUING OPERATIONS	59,904	7 %	52,649	7 %	7,255	14 %
DISCONTINUED OPERATIONS, net of tax	1,177	%	(2,576)	%	3,753	146 %
NET INCOME	$ 61,081	7 %	$ 50,073	7 %	$ 11,008	22 %

Net income increased 22%, or $0.33 per diluted share, to $61.1 million, or $1.86 per diluted share, for the year ended December 31, 2005, from $50.1 million, or $1.53 per diluted share, for the year ended December 31, 2004.

Income from continuing operations increased 14%, or $0.21 per diluted share, to $59.9 million, or $1.82 per diluted share, for the year ended December 31, 2005, from $52.6 million, or $1.61 per diluted share, for the year ended December 31, 2004.

The increase in net income for the year ended December 31, 2005, compared to the year ended December 31, 2004, resulted from several factors, including: (i) an 14% and 8% increase in used vehicle and fixed operations same store gross profit as a result of a strategic focus on our high margin businesses; (ii) continued strong performance of our finance and insurance business, which delivered a 5% increase in same store dealership generated PVR; (iii) several expense control initiatives, including our regional reorganization, insurance, and new vehicle advertising, all of which contributed to a 90 basis point improvement in our SG&A expense as a percentage of gross profit; (iv) an $8.8 million tax benefit associated with the sale of one of our Thomason dealerships in Portland, Oregon, which is included in discontinued operations and (v) the incremental results of dealerships acquired during 2005 and 2004. These factors were partially offset by (a) a 49% increase in floor plan interest expense as a result of continued increases in interest rates and (b) a 25% increase in rent expense, which is as a result of our strategy to reduce our ownership of real estate through the use of sale-leaseback transactions.

Total revenues increased 11% to $5.5 billion for the year ended December 31, 2005, from $5.0 billion for the year ended December 31, 2004. Total same store revenues increased 8% to $5.4 billion from $5.0 billion for the year ended December 31, 2005 and 2004, respectively. The 11% increase in total revenues was a result of double digit revenue increases in all of our businesses lead by a 14% increase in used vehicle revenues. We expect total revenue to increase as we continue to acquire dealerships and expand our service capacity in order to meet anticipated future demand.

Total gross profit increased 11% to $838.4 million for the year ended December 31, 2005, from $755.8 million for the year ended December 31, 2004. Total same store gross profit increased 8% to $815.2 million from $755.8 million for the year ended December 31, 2005 and 2004, respectively. The increase in gross profit was driven by an 14% increase of same store used vehicle retail gross profit and an 8% increase in same store fixed operations gross profit.

New Vehicle

	For the Years Ended December 31, 2005		2004		Increase (Decrease)	% Change
	(In thousands, except for unit and PVR data)					
Revenue:						
New retail revenue same store(1)						
Luxury	$ 1,055,230	34 %	$ 1,001,916	34 %	$ 53,314	5 %
Mid-line import	1,193,457	38 %	1,069,509	36 %	123,948	12 %
Mid-line domestic	567,256	18 %	596,259	20 %	(29,003)	(5)%
Value	76,840	3 %	82,710	3 %	(5,870)	(7)%
Heavy trucks	232,607	7 %	203,751	7 %	28,856	14 %
Total new retail revenue same store(1)	3,125,390	100 %	2,954,145	100 %	171,245	6 %
New retail revenue acquisitions	113,400					
Total new retail revenues	3,238,790		2,954,145		284,645	10 %
Fleet revenue same store(1)	144,248		116,129		28,119	24 %
Fleet revenue acquisitions	2,256					
Total fleet revenue	146,504		116,129		30,375	26 %
New vehicle revenue, as reported	$ 3,385,294		$ 3,070,274		$ 315,020	10 %
New retail units:						
New retail units same store(1)						
Luxury	23,771	23 %	23,145	24 %	626	3 %
Mid-line import	49,410	49 %	45,325	47 %	4,085	9 %
Mid-line domestic	19,920	20 %	20,509	21 %	(589)	(3)%
Value	3,907	4 %	4,242	4 %	(335)	(8)%
Heavy trucks	4,171	4 %	3,927	4 %	244	6 %
Total new retail units same store(1)	101,179	100 %	97,148	100 %	4,031	4 %
New retail units acquisitions	4,342					
Retail units actual	105,521		97,148		8,373	9 %
New revenue PVR same store(1)	$ 30,890		$ 30,409		$ 481	2 %
New revenue PVR actual	$ 30,693		$ 30,409		$ 284	1 %

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

	For the Years Ended December 31, 2005		2004		Increase (Decrease)	% Change
	(In thousands, except for unit and PVR data)					
Gross profit:						
New retail gross profit same store(1)						
Luxury	$ 79,956	36 %	$ 80,152	37 %	$ (196)	%
Mid-line import	80,052	36 %	67,709	31 %	12,343	18 %
Mid-line domestic	38,824	17 %	41,845	19 %	(3,021)	(7)%
Value	6,409	3 %	8,134	4 %	(1,725)	(21)%
Heavy trucks	18,634	8 %	20,557	9 %	(1,923)	(9)%
Total new retail gross profit same store(1)	223,875	100 %	218,397	100 %	5,478	3 %
New retail gross profit acquisitions	7,212					
Total new retail gross profit	231,087		218,397		12,690	6 %
Fleet gross profit same store(1)	2,700		2,170		530	24 %
Fleet gross profit acquisitions	13					
Total fleet gross profit	2,713		2,170		543	25 %
New vehicle gross profit, as reported	$ 233,800		$ 220,567		$ 13,233	6 %
New gross profit PVR same store(1)	$ 2,213		$ 2,248		$ (35)	(2)%
New gross profit PVR actual	$ 2,190		$ 2,248		$ (58)	(3)%
New retail gross margin same store(1)	7.2 %		7.4 %		(0.2)	(3)%
New retail gross margin actual	7.1 %		7.4 %		(0.3)	(4)%

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

New vehicle revenue increased 10% to $3.4 billion from $3.1 billion for the year ended December 31, 2005 and 2004, respectively. Same store new retail revenue increased 6% as a result of a 4% increase in unit sales driven by our mid-line import brands, up 12% and 9%, respectively. Same store new revenue PVR increased 2% to $30,890 as a result of a 7% increase from our heavy trucks business in Atlanta, Georgia. We acquired three franchises (one dealership location) and seven franchises (seven dealership locations) during the year ended December 31, 2005 and 2004, respectively, which contributed $113.4 million to our 2005 new retail revenue.

New vehicle gross profit increased 6% to $233.8 million from $220.6 million for the year ended December 31, 2005 and 2004, respectively. Same store new retail gross profit increased 3% driven by an 18% increase in mid-line import gross profit, including a 23% increase from of our Honda dealerships. This increase was offset by a reduction in gross profit across all other classes, in particular Mid-line domestic, which decreased 7% as a result of general market conditions, which forced us to reduce our new vehicle gross profit PVR in order to maintain unit sales volumes.

Used Vehicle

	For the Years Ended December 31, 2005	2004	Increase (Decrease)	% Change
	(In thousands, except for unit and PVR data)			
Revenue:				
Retail revenues same store(1)	$ 987,500	$ 879,399	$ 108,101	12 %
Retail revenues acquisitions	34,409			
Total used retail revenues	1,021,909	879,399	142,510	16 %
Wholesale revenues same store(1)	322,911	310,059	12,852	4 %
Wholesale revenues acquisitions	11,703			
Total wholesale revenues	334,614	310,059	24,555	8 %
Used vehicle revenue, as reported	$ 1,356,523	$ 1,189,458	$ 167,065	14 %
Gross profit:				
Retail gross profit same store(1)	$ 115,888	$ 101,669	$ 14,219	14 %
Retail gross profit acquisitions	3,684			
Total used retail gross profit	119,572	101,669	17,903	18 %
Wholesale gross profit same store(1)	409	(2,381)	2,790	117 %
Wholesale gross profit acquisitions	2			
Total wholesale gross profit	411	(2,381)	2,792	117 %
Used vehicle gross profit, as reported	$ 119,983	$ 99,288	$ 20,695	21 %
Used retail units same store(1)	58,397	55,448	2,949	5 %
Used retail units acquisitions	2,218			
Used retail units actual	60,615	55,448	5,167	9 %
Used revenue PVR same store(1)	$ 16,910	$ 15,860	$ 1,050	7 %
Used revenue PVR actual	$ 16,859	$ 15,860	$ 999	6 %
Used gross profit PVR same store(1)	$ 1,984	$ 1,834	$ 150	8 %
Used gross profit PVR actual	$ 1,973	$ 1,834	$ 139	8 %
Used retail gross margin same store(1)	11.7 %	11.6 %	0.1	1 %
Used retail gross margin actual	11.7 %	11.6 %	0.1	1 %

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

Used vehicle revenue increased 14% to $1.4 billon from $1.2 billion for the year ended December 31, 2005 and 2004, respectively. Same store used vehicle retail revenue increased 12% to $1.0 billion for the year ended December 31, 2005, as a result of a 5% and 7% increase in same store used retail unit sales and same store used revenue PVR, respectively. The strength of the used vehicle market during 2005, the availability of high-quality used vehicle inventory resulting from the large volumes of trade-ins during the domestic manufacturers employee pricing promotions and our used vehicle merchandising initiatives have resulted in increased used vehicle sales and improved used revenue PVR.

Used vehicle gross profit increased 21% to $120.0 million from $99.3 million for the year ended December 31, 2005 and 2004, respectively. Same store used retail gross profit increased 14% to $115.9 million as a result of our investment in new software to better value trade-ins and improve inventory management and the development of regional management teams dedicated to the used vehicle business.

Fixed Operations

	For the Years Ended December 31, 2005 (In thousands)	2004	Increase (Decrease)	% Change
Revenue:				
Revenues same store(1)				
Parts and service	$ 577,171	$ 522,363	$ 54,808	10 %
Collision repair	57,405	55,457	1,948	4 %
Total revenue same store(1)	634,576	577,820	56,756	10 %
Revenues acquisitions	12,686			
Parts, service and collision repair revenue, as reported	$ 647,262	$ 577,820	$ 69,442	12 %
Gross profit:				
Gross profit same store(1)				
Parts and service	$ 294,831	$ 271,163	$ 23,668	9 %
Collision repair	31,198	30,429	769	3 %
Total gross profit same store(1)	326,029	301,592	24,437	8 %
Gross profit acquisitions	6,974			
Parts, service and collision repair gross profit, as reported	$ 333,003	$ 301,592	$ 31,411	10 %
Parts and service gross margin same store(1)	51.1 %	51.9 %	(0.8)	(2)%
Collision repair gross margin same store(1)	54.7 %	54.9 %	(0.2)	%

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

Fixed operations revenue increased 12% to $647.3 million from $577.8 million for the year ended December 31, 2005 and 2004, respectively. Same store fixed operations revenue increased 10% to $634.6 million, primarily due to an 11% increase in our customer pay parts and service businesses. The growth in our customer pay business is a result of increased capacity utilization, equipment upgrades, continued focus on customer retention initiatives and the implementation of more aggressive advertising campaigns. Our warranty business continued its positive performance driven by continued manufacturer recall programs and increased work on imported vehicles, which typically generate higher revenue than domestic brands. In 2005, we added approximately 70 service stalls and approximately 100 service technicians, on a same store basis and expect fixed operations to continue to grow as we expand our service capacity through 2006.

Fixed operations gross profit increased 10% to $333.0 million from $301.6 million for the year ended December 31, 2005 and 2004, respectively. Same store fixed operations gross profit increased 8% to $326.0 million, resulting primarily from increased gross profit from our customer pay and warranty parts and service businesses.

Finance and Insurance, net

	For the Years Ended December 31, 2005	2004	Increase (Decrease)	% Change
	(In thousands, except for unit and PVR data)			
Dealership generated F&I same store(1)	$ 141,458	$ 128,681	$ 12,777	10 %
Dealership generated F&I acquisitions	5,304			
Dealership generated F&I, net	146,762	128,681	18,081	14 %
Corporate generated F&I	4,822	5,695		
Finance and insurance, net as reported	$ 151,584	$ 134,376	$ 17,208	13 %
Dealership generated F&I PVR-same store(1)	$ 886	$ 843	$ 43	5 %
Dealership generated F&I PVR-actual(2)	$ 883	$ 843	$ 40	5 %
F&I PVR-actual	$ 912	$ 881	$ 31	4 %

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

(2) Refer to Reconciliation of Non-GAAP Financial Information for further discussion regarding dealership generated F&I profit PVR.

Finance and insurance commissions (F&I) increased 13%, to $151.6 million from $134.4 million for the year ended December 31, 2005 and 2004, respectively. Same store F&I increased 10% to $141.5 million as a result of a 5% increase in retail unit sales and a 5% increase in dealership generated F&I PVR. These increases are attributable to (i) increased service contract penetration, (ii) maturation of our corporate-sponsored programs and (iii) improvement of the F&I operations at franchises we acquired in prior periods, as F&I has historically continued to improve for several years after we acquire a franchise. Dealership generated F&I excludes retrospective commissions from contracts negotiated by our corporate office, which are attributable to retail units sold during prior periods. Corporate generated F&I was $4.8 million and $5.7 million for the years ended December 31, 2005 and 2004, respectively. We expect this revenue to decrease significantly over the next few years.

Selling, General and Administrative

For the Year Ended December 31, 2005	% of Gross Profit	2004	% of Gross Profit	Increase (	%