ASBURY AUTOMOTIVE GROUP INC
Form 10-K
March 01, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from to

Commission file number: 001-31262

ASBURY AUTOMOTIVE GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

(770) 418-8200

(Registrant s telephone number, including area code)

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

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

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

None.

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

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

Based on the closing price of the registrant s common stock as of June 30, 2009, the aggregate market value of the common stock held by non-affiliates of the registrant was $320,798,484 (based upon the assumption, solely for purposes of this computation, that all of the officers and directors of the registrant were affiliates of the registrant).

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 February 26, 2010 was 32,787,070 (net of 4,776,930 treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

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

Portions of the registrant s 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 Annual Report on Form 10-K.

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ASBURY AUTOMOTIVE GROUP, INC.

2009 FORM 10-K ANNUAL REPORT

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PART I

Forward-Looking Information

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

- our relationships with vehicle manufacturers;
- our ability to improve our margins, operating cash flows, availability of capital and liquidity;
- our estimated future capital expenditures;
- the economic recovery and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, manufacturer recalls, the decline in U.S. SAAR and changes in business strategy and government regulations;
- availability of capital;
- the variable nature of significant components of our cost structure and our advantageous brand mix;
- our ability to decrease our exposure to regional economic downturns due to our geographic diversity and advantageous brand mix;
- manufacturers willingness to continue to use incentive programs in the near future to drive demand for their product offerings;
- our ability to implement our dealer management system in a cost-efficient manner;
- our acquisition and divestiture strategies;
- the continued availability of floor plan financing for inventory;
- the ability of consumers to secure vehicle financing;

the continuation of industry-wide gains in market share of mid-line import brands;

our expectations with respect to cost savings resulting from the relocation of our corporate offices, the reorganization of our retail network, and our store-level and other productivity initiatives;

our ability to reduce our annual cash expenditures;

our ability to mitigate any future negative trends in new vehicle sales; and

our ability to increase our net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include:

- changes in general economic and business conditions, including changes in consumer confidence levels, interest rates, consumer credit availability, and employment levels;
- changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements, and environmental laws;
- changes in the price of oil and gasoline;
- our ability to generate sufficient cash flows, maintain our liquidity and obtain additional funds for working capital, capital expenditures, acquisitions and other corporate purposes, if necessary;
- our continued ability to comply with any covenants in various of our financing and lease agreements, or to obtain waivers of these covenants as necessary;
- our relationships with, and the reputation and financial health and viability of vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationship with, and the financial stability of, our lenders and lessors;
- our ability to execute our restructuring programs and other initiatives and other strategies;
- high levels of competition in our industry which may create pricing pressures on our products and services;
- our ability to renew, and enter into new, framework and dealer agreements on terms acceptable to us;
- our inability to retain key personnel;
- our ability to leverage gains from our dealership portfolio; and
- continued disruptions in the financial markets.

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

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 to update any forward-looking statement contained herein.

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Additional Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are made available free of charge on our web site at *http://www.asburyauto.com* on the same day that the information is filed with the Securities and Exchange Commission (the Commission). In addition, the proxy statement that will be delivered to our stockholders in connection with our 2010 Annual Meeting of Stockholders, when filed, will also be available on our web site, and at the URL stated in such proxy statement. We also make available on our web site copies of our charter, bylaws and other materials that outline our corporate governance policies and practices, including:

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

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

You may also obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations Department, Asbury Automotive Group, Inc., 2905 Premiere Parkway, NW, Suite 300, Duluth, Georgia 30097. In addition, the Commission makes available on its web site, free of charge, reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the Commission. The Commission s web site is *http://www.sec.gov*. Unless otherwise specified, information contained on our web site, available by hyperlink from our web site or on the Commission s web site, is not incorporated into this report or other documents we file with, or furnish to, the Commission.

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

Item 1. Business

We are one of the largest automotive retailers in the United States, operating 106 franchises at 81 dealership locations as of December 31, 2009. We offer an extensive range of automotive products and services, including:

- new and used vehicles;
- vehicle maintenance and repair services;
- replacement parts;
- new and used vehicle financing; and

aftermarket products such as insurance, warranty and service contracts.

Asbury Automotive Group, Inc. was incorporated in the State of Delaware on February 15, 2002, and our stock is listed on the New York Stock Exchange under the ticker symbol ABG.

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General Description of Our Operations

As of December 31, 2009, we operated dealerships in 21 metropolitan markets throughout the United States. We have developed our dealership portfolio through the acquisition of large, locally-branded dealership groups operating throughout the United States. We have complemented these large dealership group acquisitions with the purchase of numerous single point dealerships and smaller dealership groups in our then-existing market areas. Our retail network consists of nine locally-branded dealership groups. The following chart gives a detailed breakdown of our markets, brand names and franchises as of December 31, 2009:

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

(a) This market has two of these franchises.
(b) Represents pending divestitures as of December 31, 2009.

New Vehicle Sales

As of December 31, 2009, we had a diverse portfolio of 37 American, European and Asian brands. Our new vehicle unit sales consist of the sale of new vehicles to individual retail customers (new light vehicle retail), the sale of new vehicles to commercial customers (fleet), and the sale of new heavy trucks (heavy truck) (the terms new light vehicle retail, fleet and heavy truck, being collectively referred to as new). Our new ligl vehicle revenue and new light vehicle gross profit include revenue and gross profit from new light vehicle unit and fleet unit sales. In 2009, we sold 64,618 new vehicles through our dealerships. New light vehicle sales were 51% of our total revenues and 21% of our total gross profit for the year ended December 31, 2009. New heavy truck revenue totaled 4% of our total revenues and 1% of our total gross profit for the year ended December 31, 2009. We evaluate the results of our new vehicle sales based on unit volumes and gross profit per vehicle sold.

Our new vehicle revenues include new vehicle sale and lease transactions arranged by our dealerships with third parties. As a result of fixed-period lease terms, customers who lease new vehicles generally return to the market more frequently than customers who purchase new vehicles. In addition, because third-party lessors frequently give our dealerships the first option to purchase vehicles returned by customers at lease-end, leases typically provide us with an additional source of late-model vehicles for our used vehicle inventory. Generally, leased vehicles remain under manufacturer warranty for the term of the lease, which results in increased parts and services revenue, as dealerships are typically relied upon to provide warranty repair service to the lessee throughout the lease term.

Used Vehicle Sales

We sell used vehicles at all of our dealership locations. Used vehicle sales include the sale of used vehicles to individual retail customers (used retail) and the sale of used vehicles to other dealers at auction (wholesale) (the terms used retail and wholesale being together referred to as used). In 2009, we sold 39,972 used retail vehicles through our dealerships. Sales of used retail vehicles, which generally have higher gross margins than new vehicles, accounted for approximately 20% of our total revenues and 13% of our total gross profit for the year ended December 31, 2009. We evaluate the results of our used vehicle sales based on unit volumes and gross profit per vehicle sold. Wholesale sales represented 5% of our total revenues, but did not have a material impact on our total gross profit, for the year ended December 31, 2009.

Gross profit from the sale of used vehicles depends primarily on the ability of our dealerships to obtain a high quality supply of used vehicles and the use of advanced technology to manage our inventory. Our new vehicle operations typically provide our used vehicle operations with a large supply of high quality trade-ins and off-lease vehicles, which we believe are good sources of attractive used vehicle inventory. We also purchase a significant portion of our used vehicle inventory at auctions restricted to new vehicle dealers (offering off-lease, rental and fleet vehicles) and open auctions that offer vehicles sold by other dealers and repossessed vehicles. Used vehicle inventory is typically sold as wholesale if a vehicle is not sold at retail within 60 days, except for used vehicles that do not fit within our inventory mix, which are sold as wholesale almost immediately. The reconditioning of used vehicles also creates service work for our parts and service departments.

Parts and Service

We sell parts and provide maintenance and repair service at all of our franchised dealerships, primarily for the vehicle brands sold at those dealerships. We operate approximately 2,700 service bays at our dealerships. In addition, as of December 31, 2009, we maintained 25 free-standing collision repair centers either on the premises of, or in close proximity to, our dealerships. Sales of parts and service accounted for approximately 17% of our total revenues and 51% of our total gross profit for the year ended December 31, 2009.

Historically, parts and service revenues have been more stable than those from vehicle sales. Industry-wide, parts and service revenues have consistently increased over time primarily due to the increased cost of maintaining vehicles, the added technical complexity of vehicles and the increasing number of vehicles on the road. However, we believe that our parts and service revenues have been, and will continue to be, under pressure in the current challenging retail environment because vehicle owners have been postponing, and may continue to postpone certain repairs that are not necessary to the functional operation of their vehicle. In addition, we continue to believe that vehicles manufactured in recent years continue to show signs of improved manufacturing, resulting in the need for fewer repairs which, in turn, reduces our parts and services revenues. Furthermore, the significant decline in U.S. vehicle sales over the past two years may have an adverse impact on our parts and service business for the next several years.

The automotive parts and service industry tends to be highly fragmented, with franchised dealerships and independent repair shops competing for this business. We believe, however, that the increased use of advanced technology in vehicles has made it difficult for independent repair shops to compete effectively for our service and repair business. These independent repair shops may not be able to invest in the equipment and training necessary to perform major or technical repairs, especially as such repairs relate to luxury and mid-line imports which comprise a significant majority of our new vehicle retail sales. Our parts and service business also benefits from the service work generated through the sale of extended service contracts to customers who purchase new and used vehicles from us, as historically these customers have tended to service their vehicles at the same location where they purchase extended warranty contracts. Additionally, vehicle manufacturers require manufacturer warranty work to be performed only at franchised dealerships. As a result, unlike independent service stations or independent and superstore used car dealerships with service operations, our franchised dealerships are authorized to perform work covered by manufacturer warranties on increasingly technologically complex vehicles. For the year ended December 31, 2009, warranty work accounted for 17% of our parts and service revenue.

Finance and Insurance

We refer to the finance and insurance portion of our business as F&I. Through our F&I business, we arrange for third-party financing of the sale or lease of new and used vehicles to customers, as well as offer a number of aftermarket products such as extended service contracts, guaranteed asset protection (GAP) debt cancellation, prepaid maintenance, credit life and disability insurance, and similar products. Our finance and insurance business generated approximately 3% of our total revenues and 15% of

our total gross profit for the year ended December 31, 2009. The following is a brief description of our significant F&I product offerings:

Extended service contracts covers certain repair work after the expiration of the manufacturer warranty.

GAP debt cancellation covers the difference in value between the actual value of the car and the amount on an auto loan or a lease after the payment from the insurance company at the time of a total loss.

Prepaid maintenance covers certain routine maintenance work, such as (i) oil changes, (ii) cleaning and adjusting of brakes (iii) multi-point vehicle inspections and (iv) tire rotations.

Credit life and disability covers the remaining amounts due on an auto loan or a lease in the event of death or disability.

We earn sales-based commissions on substantially all of the financing that we arrange on behalf of our customers. We may be charged back (chargebacks) for these commissions in the event a finance contract is cancelled, typically within the first 90 days of such contract or if a non-finance contract is canceled prior to its maturity. We arranged customer financing on approximately 70% of the vehicles we sold during the year ended December 31, 2009. These transactions resulted in commissions being paid to us by the third-party lenders, including manufacturer captive finance subsidiaries. Currently, we do not retain liability for the credit risk associated with these purchase and lease transactions after the completion of the transactions.

Similarly, we may be required to refund a portion of our profit relating to the sale of warranty, maintenance and insurance and other products in the event of early cancellation. We do not, however, bear any risk related to insurance payments, which are borne by third parties. We receive discounted pricing compared to smaller competitors in our local markets on many of the warranty, maintenance and insurance products that we provide as a result of our size and sales volume. Historically, chargebacks on finance contracts and warranty, maintenance and insurance products have totaled between 12% and 14% of total F&I revenue.

We are currently party to a number of preferred lender agreements. Under the terms of these preferred lender agreements, each lender has agreed to provide a marketing fee to us above the standard commission rate for each loan that our dealerships place with that lender. Furthermore, many of the warranty and insurance products we sell result in underwriting profits and investment income for us based on portfolio performance. The underwriting profits and investment income, if any, represent the amount of funds available to pay future claims in excess of what is actually used to pay claims on the related policies. These payments are determined by the lenders based upon an agreed-upon earnings schedule.

Recent Developments

New Sprinter Franchises

In January 2010, we were awarded two Sprinter franchises, which were added to our Mercedes-Benz locations in St. Louis, Missouri and Tampa, Florida.

Toyota and Lexus Recalls

On October 5, 2009, Toyota initiated a recall for potential floor mat interference with accelerator pedals, referred to as the pedal entrapment recall, currently covering over 5 million Toyota and Lexus vehicles. On January 21, 2010, Toyota announced a recall for sticking accelerator pedals, referred to as the accelerator pedal recall, currently covering approximately 2.3 million Toyota vehicles. On January 26, 2010, Toyota then temporarily suspended sales of the eight new vehicle models covered by the accelerator pedal recall. In early February 2010, Toyota announced that dealers can resume selling vehicles covered by the accelerator pedal recall, to the extent they perform the necessary repairs to address such recall. On February 8, 2010, Toyota announced additional recalls covering 2010 model year Prius vehicles as well as other Toyota and Lexus vehicles.

We currently own (i) 5 Toyota dealerships representing 9% and 10% of our new and used vehicle sales, respectively and 10% of our total revenues for the year ended December 31, 2009; and (ii) 3 Lexus dealerships representing 5% and 8% of our new and used vehicle sales, respectively and 6% of our total revenues for the year ended December 31, 2009. In addition, a significant amount of our Toyota vehicle inventory is covered by one or more of these recalls. While we do not currently project a material impact on our business from the Toyota and Lexus recalls commenced to date and based on currently available information, the overall impact is uncertain and there can be no assurance that the recalls, or additional recalls that may occur, will not have a material adverse effect on our business.

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Business Strategy

Focus on Premier Brand Mix, Strategic Markets and Diversification

We classify our franchise sales into luxury, mid-line import, mid-line domestic, value, and heavy trucks. Luxury and mid-line imports together accounted for approximately 85% of our new light vehicle sales for the year ended December 31, 2009. Over the last two decades, luxury and mid-line imports have gained market share at the expense of mid-line domestic brands. We believe that in this challenging retail environment, luxury brands will maintain a strong presence in the market and that mid-line import market share gains will continue, primarily because luxury and mid-line import vehicles, based on recent results, have:

- delivered more desirable vehicle models, in terms of fuel efficiency and cost;
- demonstrated greater resilience to downturns in the economy;
- garnered higher customer loyalty; and
- presented more attractive service and used car opportunities.

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The following table reflects (i) the number of franchises and (ii) the percent of new light vehicle revenues represented by each class of franchise as of December 31, 2009:

Class/Franchise	Number of Franchises as of December 31, 2009	% of New Light Vehicle Revenues for the Year Ended December 31, 2009
Light Vehicles		
Luxury		
BMW	9	9%
Acura(a)	6	4
Mercedes-Benz	4	8
Infiniti	4	4
Lincoln	4	2
Lexus	3	6
Volvo	3	1
Audi	2	1
Cadillac	1	1
Jaguar	1	*
Land Rover	1	*
Porsche	1	*
Total Luxury	39	36%
Mid-Line Import		
Honda(a)	14	25%
Nissan	11	12
Toyota	5	10
MINI	2	1
Mazda	1	*
Volkswagen	1	1
Total Mid-Line Import	34	49%
Mid-Line Domestic		
Ford	4	7%
Mercury	4	1
Chevrolet	2	3
Chrysler	2	*
Dodge	3	1
Buick	1	*
GMC	1	*
Jeep	2	1
Pontiac	1	*
Total Mid-Line Domestic	20	13%
Value		
smart	2	*
Hyundai	1	1%
Kia	1	1
Total Value	4	2%
Total Light Vehicles	97	100%

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Class/Franchise	Number of Franchises as of December 31, 2009
Heavy Trucks	
Hino	2
International	2
Isuzu Truck	1
IC Bus	1
Peterbilt	1
UD Truck	1
Workhorse	1
Total Heavy Trucks	9
TOTAL	106

* Franchise accounted for less than 1% of new light vehicle retail revenue for the year ended December 31, 2009.

(a) Includes one pending divestiture as of December 31, 2009.

Our physical locations encompassed 21 different metropolitan markets at 81 locations in the following 11 states as of December 31, 2009: Arkansas, California, Florida, Georgia, Mississippi, Missouri, New Jersey, North Carolina, South Carolina, Texas and Virginia. New vehicle sales revenue is diversified among certain manufacturers as shown in the table above. We believe that our geographic diversity as well as diversification among manufacturers decreases our exposure to regional economic downturns and manufacturer-specific risks such as manufacturer bankruptcy, recalls, warranty issues or production disruption. See Risk Factors for a description of several risks relating to manufacturer-specific risks.

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

Maintain Flexible Cost Structure and Emphasize Expense Control

We continually focus on controlling expenses at our existing dealerships and any that may be integrated into our operations upon acquisition. We categorize our cost structure into three groups, which are variable, semi-variable and fixed. Variable costs include incentive-based compensation, which include commissions and other incentive pay and vehicle carrying cost. Salespeople, sales managers, service managers, parts managers, service advisors, service technicians and the majority of other non-clerical dealership personnel are paid a commission. We also compensate our general managers with incentive pay, based on dealership profitability, and our department managers and salespeople are similarly compensated with an incentive-based pay system based upon departmental profitability and individual performance. In addition, the bonus portion of our salaried employees compensation is tied to our overall operating results, and is thus variable. Semi-variable expenses include base salaries, outside services, travel and entertainment expenses, advertising and loaner vehicle amortization. Fixed costs include rent, utilities and depreciation expense. We are constantly evaluating our cost structure, and believe that we can further manage our costs by:

- centralizing our processing systems and capitalizing on best practices among our dealerships;
- standardizing our benefit plans; and
- negotiating additional contracts with certain of our vendors on a national rather than regional basis.

For example, in order to reduce our expenses, we recently completed a corporate and regional restructuring plan, which included the relocation of our corporate offices and the reorganization of our retail network. We moved our corporate headquarters to Duluth, Georgia, and closed our corporate offices in New York, New York and Stamford, Connecticut, at the end of March 2009. In addition, during 2009, we eliminated our regional management structure. Finally, we continue to expand our store-level productivity initiatives, focus on managing our cost structure, improve inventory management and select technology investments to enhance our productivity. For a further discussion of the cost-savings resulting from our restructuring and productivity initiatives, please see the discussion in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report.

Focus on Higher Margin Products and Services

While new vehicle sales are critical to drawing customers to our dealerships, parts and service, used vehicle retail sales, and finance and insurance generally provide significantly higher profit margins and account for the majority of our profitability. As a result, 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 has flexibility to respond effectively to local market conditions, including market-specific advertising and management of inventory mix, each pursues an integrated strategy, as directed from our centralized management team at our corporate office, to enhance profitability and stimulate organic growth.

Local Management of Dealership Operations

We believe that local management of dealership operations enables our retail network to provide market-specific responses to sales, customer service and inventory requirements. Our dealerships are operated as distinct profit centers in which the general managers are responsible for the operations, personnel and financial performance of their dealerships as well as other day-to-day operations. We believe our general managers familiarity with their markets enables them to effectively run day-to-day operations, market to customers and recruit new employees. The general manager of each dealership is supported, in most cases, by a new vehicle sales manager, a used vehicle sales manager, a F&I manager, and a parts and service manager. Our dealership management teams typically 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 and strengthen our talented management pool. This management structure is complemented by support from the corporate office through centralized technology and financial controls.

We also believe the application of professional management practices such as the implementation of policies and procedures to streamline processes, create efficiencies and share best practices among our dealership operations provides us with a competitive advantage over many independent dealerships. Notwithstanding the foregoing, we continue to regularly examine our operations in order to identify areas for improvement and disseminate best practices throughout our retail network.

Centralized Administrative and Strategic Functions

Our corporate headquarters is located in Duluth, Georgia. The corporate office is responsible for the capital structure of the business and its expansion and operating strategy. The implementation of our operational strategy rests with each dealership management team based on the policies and procedures established and promulgated by the corporate office. With respect to our growth strategy, the corporate office management team evaluates opportunities for acquisition or to enter new markets as such opportunities become available that we believe will allow us to meet our return threshold. In addition, we continuously evaluate the financial and operating results of our dealerships, as well as each dealership s geographical location and from time to time, we may seek to sell certain of our dealerships to raise capital or to refine our dealership portfolio.

Furthermore, we employ professional management practices in all aspects of our operations. Our dealership operations are complemented by centralized technology and strategic and financial controls, as well as shared market intelligence throughout the organization. Corporate and dealership management utilize centralized management information systems to monitor each dealership s sales, profitability and inventory on a regular basis. In addition, we have centralized our information technology, payroll and benefits administration from which we expect to experience cost synergies.

Beginning in late 2007, we began a migration to a single dealer management system (DMS), DealerTrack s Arkona dealer management system. We believe a single DMS will create a more efficient retail operation that will result in a better experience for our customers. As of December 31, 2009, approximately 67% of our dealerships have been converted to the Arkona dealer management system.

We consolidate financial, accounting and operational data received from our dealerships through customized financial products. Our information technology approach enables us to integrate and aggregate the information from existing dealerships and, when necessary, a new acquisition. By creating a connection over our private network between the dealer management system and our corporate financial products, management can view the financial, accounting and operational data of any specific dealership. These financial products allow us to review operating and financial data at a variety of levels. For example, from our headquarters, management can review the performance of any specific department (*e.g.*, parts and services) at any particular dealership. This system also allows us to more efficiently compile and monitor our consolidated financial results.

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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 have designed our dealership service business to meet the needs of our customers and establish relationships that we believe will result in both repeat business and additional business through customer referrals. Furthermore, we provide our dealership managers with appropriate incentives to employ more efficient selling approaches, engage in extensive follow-up to develop long-term relationships with customers and extensively train our sales staff to meet customer needs.

We continually evaluate opportunities, and implement appropriate new technologies, to improve the buying experience for our customers, and believe that our ability to share best practices across our multi-jurisdictional platform gives us an advantage over independent dealerships. For example, our customer relations management tool facilitates communications with our customers before, during and after the sale. Additionally, we have implemented a web-based used vehicle inventory management system that allows us to optimize our local market inventory mix and pricing, enabling us to offer a better selection of highly desirable, lower cost used vehicles. As discussed above, we have invested in innovative computer technologies and developed product menus to help streamline the purchase process and create efficiencies in our customers purchasing experience of our finance, insurance and warranty products. All of our stores have access to these tools to drive the performance of our employees and enhance customer service.

In addition, our service and repair operations are an integral part of our overall approach to customer service, providing an opportunity to foster ongoing relationships and improve customer loyalty. We continue to train our technicians and service advisors to ensure that our customers continue to receive excellent service. We intend to invest in the human capital necessary to ensure that this aspect of our business continues to expand.

Marketing

Our advertising and marketing efforts are focused at the local market level, with the aim of building our business with a broad base of repeat, referral and new customers. Traditionally, we have spent the majority of our advertising dollars on television advertising, but we are experiencing a continued shift toward Internet-based advertising, including lead generation. Recognizing the fact that customers are using interactive tools to make buying decisions, we are investing in the development of our e-commerce strategy by:

- focusing on the development of our brands online;
- performing research to better understand the online consumer and their decision to visit one site versus another; and
- reinvesting our marketing dollars toward online marketing.

Radio, print, direct mail and the yellow pages make up the remaining factions of our advertising spend. In addition, we also use electronic mail to assist our marketing efforts and to stay in contact with our customers.

The automotive retail industry has traditionally used locally produced, largely non-professional materials for advertising, often developed under the direction of each dealership s general manager. However, we have chosen to create common marketing materials for our brand names using professional advertising agencies. Our total company advertising expense from continuing operations was $27.4 million for the year ended December 31, 2009, which translates into an average of $262 per retail vehicle sold. In addition, manufacturers direct advertising spending in support of their brands has historically been a significant component of the total amount spent on new car advertising in the United States.

Competition

In new vehicle sales, our dealerships compete with other franchised dealerships, primarily in their regions. We do not have any cost advantage in purchasing new vehicles from the manufacturers. Instead, we rely on our advertising and merchandising, sales expertise, service reputation, strong local brand names and location of our dealerships to assist in the sale of new vehicles. Our used vehicle operations compete with other franchised dealers, large used car retail consolidators, independent used car dealers, Internet-based vehicle brokers and private parties for supply and resale of used vehicles.

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

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

In addition, given our desire to hire experienced, talented and successful individuals, 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. As a result, we also compete with franchised dealers and other large automotive retailers for talented personnel.

Dealer and Framework Agreements

Each of our dealerships operates pursuant to a dealer agreement between the dealership and the manufacturer (or in some cases the distributor) of each brand of new vehicles sold and/or serviced at the dealership. A 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 or otherwise. Most dealer agreements impose requirements on substantially all aspects of the dealer s operations. For example, most of our dealer agreements contain provisions and standards related to, among other things, the following:

- inventories of new vehicles and manufacturer replacement parts;
- maintenance of minimum net working capital requirements, and in some cases, minimum net worth requirements;
- achievement of certain sales and customer satisfaction targets;
- advertising and marketing practices;
- facilities and signs;
- products offered to customers;
- dealership management;
- personnel training;
- information systems;
- geographic market; 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 to those described above. Such agreements also define other standards and limitations, including:

- company-wide performance criteria;
- capitalization requirements;
- limitations on changes in our ownership or management;

- limitations on the number of a particular manufacturer s franchises owned by us;
- restrictions or prohibitions on our ability to pledge the stock of certain of our subsidiaries; and
- conditions for consent to proposed acquisitions, including sales and customer satisfaction criteria, as well as limitations on the total local, regional and national market share percentage that would be represented by a particular manufacturer s franchises owned by us after giving effect to a proposed acquisition.

Some dealer agreements and framework agreements grant the manufacturer the right to purchase its dealerships from us under certain circumstances, including upon the occurrence of an extraordinary corporate transaction without the manufacturer s prior consent or a material breach of the framework agreement. Some of our dealer agreements and framework agreements also give the manufacturer a right of first refusal if we propose to sell any dealership representing the manufacturer s brands to a third party. These agreements may also attempt to limit the protections available under applicable state laws and require us to resolve disputes through binding arbitration.

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

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

While our dealer agreements may be terminated or not renewed for any of the reasons listed above, it may be possible to negotiate a waiver of termination or non-renewal with the manufacturer. Notwithstanding that, however, no assurances can be provided that upon the termination or attempted termination, or nonrenewal of any agreement, that we will be able to enter into new agreements, or waivers to any agreement, on acceptable terms, in a timely manner, or at all.

Regulations

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

- advertising;

motor vehicle and retail installment sales practices;

leasing;

sales of finance, insurance and vehicle protection products;

consumer credit and deceptive trade practices;

consumer protection;

- consumer privacy;
- money laundering;
- environmental matters;
- land use and zoning; and
- health and safety and employment practices.

We actively make efforts to assure we are in compliance with the laws and related regulations that affect our business.

In certain instances, we are entitled to benefit from the protection of applicable state laws which limit a manufacturer s ability to terminate or refuse to renew a franchise agreement, provide dealers with certain rights with respect to the addition of dealerships within proscribed geographic areas, and protect dealers against manufacturers unreasonably withholding consent to proposed changes in ownership of dealerships. However, our protection may be limited in some cases under our existing framework agreements with manufacturers, and the laws with respect to these activities may be changed at any time in the future.

Environmental Matters

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

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

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

Further, the Federal Clean Water Act and comparable state statutes prohibit discharges of pollutants into regulated waters without the necessary permits, require containment of potential discharges of oil or hazardous substances and require preparation of spill contingency plans. We are not aware of any non-compliance with the wastewater discharge requirements, requirements for the containment of potential discharges and spill contingency planning or other environmental laws applicable to our operations.

Environmental laws and regulations are very complex and it has become difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. From time to time we experience incidents and encounter conditions that will not be in compliance with environmental laws and regulations. However, none of our dealerships has been subject to any material environmental liabilities in the past, nor do we know of any fact or condition that would result in any material environmental liabilities being incurred in the future. Nevertheless, environmental laws and regulations and their interpretation and enforcement change frequently and we believe that the trend of more expansive and stricter environmental legislation and regulations is likely to continue. As a result, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures by us, or that such expenditures would not be material. Our operations are subject to substantial changes in laws and regulations and related claims and proceedings, any of which could adversely affect our business, financial condition and results of operations.

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Employees

As of December 31, 2009, we employed approximately 6,600 people. We believe our relationship with our employees is favorable. We do not have employees that are represented by a labor union; however, 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 that are outside of our control.

Insurance

Because of the vehicle inventory and the nature of the automotive retail business, automobile retail dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes multiple umbrella policies with a total per occurrence and aggregate limit of $100.0 million. We are self insured for certain employee medical claims and maintain stop loss insurance for individual claims. We have large deductible insurance programs in place for workers compensation, property and general liability claims.

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. Any of these risks, or the occurrence of any of the events described in these risk factors, could materially adversely affect our business, financial condition or results of operations. In addition, other risks or uncertainties not presently known to us or that we currently do not deem material could arise, any of which could also materially adversely affect us.

We have significant debt, and the ability to incur additional debt, which may limit our flexibility to manage our business. Furthermore, if we are unable to generate sufficient cash, our ability to service our debt may be materially adversely affected.

We have substantial debt service obligations. As of December 31, 2009, we had total debt of $547.2 million, excluding (i) floor plan notes payable, (ii) the effects of our terminated fair value hedge on our 8% Senior Subordinated Notes due 2014 (the 8% Notes) and (iii) the unamortized discount on our 3% Convertible Notes due 2012 (the 3% Notes) on our Consolidated Balance Sheet. In addition, we and our subsidiaries have the ability to obtain additional debt from time to time to finance acquisitions, real property purchases, capital expenditures or for other purposes, subject to the restrictions contained in our BofA Revolving Credit Facility, our JPMorgan Used Vehicle Floor Plan Facility and the indentures governing our 8% Notes and our 7.625% Senior Subordinated Notes due 2017 (the 7.625% Notes), as well as certain other agreements. We will continue to have substantial debt service obligations, consisting of required cash payments of principal and interest, for the foreseeable future.

Our significant indebtedness could have important consequences to us, including the following:

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

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

- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to certain risks of interest rate fluctuations; and

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

As a result of the foregoing and other potential limitations, our indebtedness obligations may limit our ability to take strategic actions that would otherwise enable us to manage our business, in a manner in which we otherwise would, absent such limitations, which could materially adversely affect our business, financial condition and results of operations.

Under various agreements to which we are a party, we are required to maintain compliance with certain financial and other covenants. Our failure to comply with certain covenants in our debt, mortgage and lease agreements could adversely affect our ability to access our revolving credit facilities and adversely affect our ability to conduct our business.

We have operating and financial restrictions and covenants in certain of our leases and in our debt instruments, including our revolving credit facilities with Bank of America, N.A. and JPMorgan Chase Bank, N.A., the indentures under our 8% Notes and our 7.625% Notes and the mortgage agreements or guarantees for mortgages held with Wachovia Bank, National Association, Wachovia Financial Services, Inc., and certain of our other mortgage obligations. These restrictions and covenants limit, among other things, our ability to incur certain additional debt, to create certain liens or other encumbrances, and to make certain payments (including dividends and repurchases of our shares and investments).

Our revolving credit facilities, mortgages and/or guarantees related to such mortgages, and certain of our lease agreements, require us to maintain compliance with certain financial ratios. As a result of, among other things, the significant changes in our business due to national and global economic uncertainties which began in 2008, in July 2009, we eliminated the total leverage ratio covenants in our revolving credit facilities with Bank of America, N.A. and JPMorgan Chase Bank, N.A., and the mortgage agreements and guarantees for mortgages held with Wachovia Bank, National Association and Wachovia Financial Services, Inc. In connection with eliminating these covenants, we agreed to, among other things, significant additional limitations on our ability to incur certain new indebtedness as described in more detail elsewhere in this annual report on Form 10-K. In addition, we agreed to reduce the total credit availability under our BofA Revolving Credit Facility from $175.0 million to $150.0 million. The additional limitations on new indebtedness, the reduction in total credit availability and the financial covenants contained in our debt agreements could have a material adverse effect on our liquidity and operations if we require additional funds to conduct our business, including funds for working capital, capital expenditures, acquisitions or other corporate purposes.

Under the terms of these debt instruments, at our option after April 30, 2010 and assuming we are then in compliance with all applicable requirements therein, we may elect to be governed by the original total leverage ratio covenants, in which case the limitations on additional indebtedness will no longer be applicable. However, we cannot give any assurance that we will be able to comply with these total leverage ratio covenants at any time in the future. Our failure to satisfy these total leverage ratio covenants would prohibit us from electing to be governed by the original covenants and removing the limitations on additional indebtedness.

We are currently in compliance with all applicable financial and other covenants. However, our failure to satisfy any of these covenants in the future would constitute a default under the relevant debt agreement, which would (i) entitle the lenders under such agreement to terminate our ability to borrow under the relevant agreement and accelerate our obligations to repay outstanding borrowings; (ii) require us to apply our available cash to repay these borrowings and/or (iii) prevent us from making debt service payments on our 8% Notes, our 7.625% Notes, and our 3% Senior Subordinated Convertible Notes due 2012 (the 3% Notes). In many cases, a default under one of our debt agreements could trigger cross default provisions in one or more of our other debt and lease agreements.

If we are unable to comply with applicable financial or other covenants, we may be required to seek waivers or modifications of our covenants from our lenders, or we may need to undertake a transaction designed to generate proceeds sufficient to repay such debt. Obtaining such waivers or modifications often requires the payment to the bank lenders of significant fees and requires significant time and attention of management. In light of continued uncertain and challenging conditions in the automotive industry and the conditions in the credit markets generally, we cannot give any assurance that we would be able to successfully take any necessary actions at times, or on terms acceptable to us.

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

Our failure to comply with any applicable covenants could have a materially adverse effect on our business, financial condition or results of operations.

Further contraction of the financial markets and asset valuations could negatively impact our business, results of operations, financial condition or liquidity.

In the recent past, global financial markets and economic conditions have been disruptive and volatile, and continue to be uncertain. These issues, along with significant write-offs in the financial services sector, the re-pricing of certain credit risks and continued weak economic conditions in certain industries and sectors have made it difficult to obtain funding.

We currently maintain revolving credit facilities with Bank of America, N.A., JPMorgan Chase Bank, N.A., and a syndicate of other banks under those credit facilities, and we have hedge transactions in place with Wells Fargo, N.A., Wachovia Financial Services, Inc., Goldman Sachs & Co. and Deutsche Bank AG, London Branch. If any of these financial institutions that have extended credit commitments to us or have entered into hedge or similar transactions with us are further adversely affected by the current uncertain conditions in the U.S. and international capital markets, they may become unable or unwilling to fund borrowings under their credit commitments to us or otherwise fulfill their obligations under the relevant agreements.

Furthermore, the cost of obtaining money from the credit markets generally has increased in connection with the uncertain financial markets, as many lenders and institutional investors have increased interest rates, enacted more stringent lending standards, refused to refinance existing debt and reduced and, in some cases, ceased to provide funding to borrowers. Our inability to access necessary or desirable funding, or to enter into certain related transactions, when and at costs deemed appropriate by us could have a negative impact on our business, financial condition and liquidity.

If the retail environment continues to be challenging and our dealerships are unable to generate sufficient cash, our liquidity position may be materially adversely affected.

For the last two years, the automotive retail industry has experienced an unprecedented challenging environment, and we expect only a modest recovery to the automotive industry in 2010. The seasonally adjusted annual rate (SAAR) of new vehicle sales in the U.S., which was over 16.0 million from 1999 to 2007, decreased to approximately 13.2 million in 2008 and 10.4 million in 2009. Our operations have been and could continue to be adversely affected by these unfavorable economic conditions. We also expect continued difficulty for consumers in securing vehicle financing as unemployment remains high and volatility remains in the financial markets.

If we are unable to generate sufficient operating cash flow, we may need to enter into certain extraordinary transactions in order to generate sufficient cash to sustain our operations, which may include, but not be limited to selling certain of our dealerships or other assets and borrowing under our existing credit facilities. In the current economic environment, there can be no assurance that, if necessary, we will be able to enter into any such transactions in a timely manner and on reasonable terms, if at all. Furthermore, in the event we are required to sell dealership assets to enhance our liquidity, the sale of a material portion of such assets could have an adverse effect on our revenue stream, the size of our operations and certain corporate efficiencies. If we are unable to generate sufficient operating cash flow or enter into any such transactions in a timely manner, our liquidity may be materially adversely affected.

Although we currently have borrowing availability under our credit facilities to finance our operations, our lenders may be unable or unwilling to fund borrowings under their credit commitments to us if these lenders face bankruptcy, failure, collapse or sale. The inability to draw cash under our credit facilities due to any of these, or any similar event, facing any one of our lenders would have a material adverse effect on our liquidity and operations.

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

We generally finance our purchases of new vehicle inventory and have the ability to finance the purchase of used vehicle inventory using floor plan credit facilities under which we are charged interest at variable rates. In addition, we have the ability to borrow funds under our various credit facilities at variable interest rates. Therefore, our interest expense from variable rate debt will rise with increases in interest rates. In addition, a significant rise in interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because most of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues. Given our debt composition as of December 31, 2009, each one percent increase in market interest rates would increase our total annual interest expense, including floor plan interest, by $4.7 million. When considered in connection with reduced expected sales as and if interest rates increase, any such increase could materially adversely affect our business, financial condition and results of operations.

Recent vehicle manufacturer bankruptcies and other financial difficulties could have a material adverse effect on our financial condition and results of operations.

Chrysler LLC (Chrysler) and General Motors Corporation (GM) (together, the Reorganized Manufacturers) each emerged from protection under Chapter 11 of Title 11 of the U.S. Bankruptcy Code in June 2009. In connection with these reorganizations, Chrysler terminated the franchise agreement for one of our four Chrysler dealerships and GM notified us that it would not renew the franchise agreements for two of our six GM dealerships when they expire in November 2010. We closed those two GM dealerships in the third quarter of 2009.

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We have experienced, or may experience, a number of effects on our remaining Chrysler and GM dealership operations, including the following as a result of the above actions taken by the Reorganized Manufacturers:

- a failure of the Reorganized Manufacturers to supply our dealerships with an adequate number of vehicles;
- a failure of the Reorganized Manufacturers to produce desirable vehicles or a delay in the introduction of new or competitive makes or models;
- a disruption in delivery or availability of parts by the Reorganized Manufacturers;
- a reduction or discontinuance by the Reorganized Manufacturers of incentives, warranties and similar programs intended to promote and support new vehicle sales;
- a deterioration of the reputation of the Reorganized Manufacturers products and related decrease in consumer demand for such products; and
- a disruption in the availability of financing for certain of our new vehicle inventory or consumer credit for the purchase or lease of vehicles or negative changes in the terms of such financing.

Continued operational losses by these, or other vehicle manufacturers, or other similar reorganizations by the Reorganized Manufacturers or other vehicle manufacturers resulting in the occurrence or reoccurrence of any one or more of the above-mentioned events, could have a material adverse effect on our sales volumes and profitability. In addition, such losses or reorganizations could lead to the impairment of one or more of our franchise rights, inventory, fixed assets and other related assets, which in turn could have a material adverse effect on our financial condition and results of operations. Such losses or reorganizations could also eliminate or reduce the Reorganized Manufacturers contractual, statutory and common law indemnification obligations to our dealerships. Such elimination or reduction of indemnification obligations could increase our risk particularly in products liability actions by consumers.

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

Our ability to successfully market vehicles to the public depends to a great extent on aspects of our manufacturers operations. Vehicle manufacturers have been, and continue to be, adversely affected by the recent U.S. and global recession. There has been a significant decline in vehicle sales, and other factors, such as rising interest rates and the tightening of the credit markets, have contributed to a difficult retail environment. In addition, conditions which negatively affect vehicle manufacturers in any of the following areas could have an adverse effect on their respective revenues and profitability:

- financial condition;
- marketing efforts;
- reputation for quality;
- manufacturer and other product defects, including recalls;

management;

disruption in manufacturing, importation and distribution; and

labor relations.

Adverse conditions that materially adversely affect vehicle manufacturers and impact their ability to profitably design, market, produce or distribute new vehicles, could in turn materially adversely affect our ability to sell vehicles produced by that manufacturer, obtain or finance our desired new vehicle inventories, our ability to access or benefit from manufacturer financial assistance programs, our ability to collect in full or on a timely basis any amounts due therefrom, and/or our ability to obtain other goods and services provided by the impacted manufacturer. Our business, results of operations, financial condition, cash flows, and prospects could be materially adversely affected as a result of any event that has a material adverse effect on the vehicle manufacturers or distributors.

In addition, if a vehicle manufacturer seeks protection from creditors in bankruptcy, among other things, (i) the manufacturer could seek to terminate or reject all or certain of our franchises, (ii) if the manufacturer is successful in terminating all or certain of our franchises, we may not receive adequate compensation for them, (iii) our cost to obtain financing for our new vehicle inventory may increase or no longer be available from such manufacturer s captive finance subsidiary, (iv) consumer demand for such manufacturer s products could be materially adversely affected, especially if costs related to improving such manufacturer s poor financial condition are imputed to the price of its products, (v) there may be a significant disruption in the availability of consumer credit to purchase or lease vehicles or negative changes in the terms of such financing, which may negatively impact our sales, and (vi) there may be a reduction in the value of receivables and inventory associated with that manufacturer. The occurrence of any one or more of the above-mentioned events could have a material adverse effect on our business and results of operations.

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

Each of our dealerships operates under the terms of a dealer agreement with the manufacturer (or manufacturer-authorized distributor) of each new vehicle brand it carries and/or is authorized to service, and we operate under additional framework agreements for some vehicle manufacturers, which contain additional requirements that govern the particular vehicle manufacturer s franchises. Our dealerships may obtain new vehicles from manufacturers, service vehicles, sell new vehicles and display vehicle manufacturers trademarks only to the extent permitted under these agreements. As a result of the terms of our dealer, framework and related agreements and our dependence on the rights, granted by the manufacturers, the manufacturers have the right to exercise a great deal of control over our day-to-day operations, and the terms of these agreements govern key aspects of our operations, acquisition strategy and capital spending.

Our dealer agreements may be terminated or not renewed by manufacturers for a number of reasons, and many of the manufacturers have the right to direct us to divest our dealerships if there is a default under the franchise agreement, an unapproved change of control, or certain other unapproved events. Although we currently have certain dealer agreements that will expire during 2010, and we expect that these agreements will be renewed, there can be no assurances that we will be able to renew these agreements on a timely basis or that we will be able to obtain renewals on acceptable terms. Most of our dealer agreements also provide the manufacturer with a right of first refusal to purchase any of the manufacturer s franchises we seek to sell. Our results of operations may be materially and adversely affected to the extent that our rights become compromised or our operations are restricted due to the terms of our dealer agreements or if we lose franchises representing a significant percentage of our revenues.

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

Certain of our agreements with manufacturers require us to meet specified financial ratios. Our failure to comply with such ratios gives the manufacturer certain rights, including the right to reject proposed acquisitions, and may give them the right to repurchase their franchises from us. Our inability to acquire additional dealerships or the requirement that we sell one or more of our dealerships at any time could inhibit the growth of our business, and could have a material adverse effect on our business, financial condition and results of operations.

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

Many manufacturers attempt to measure customers satisfaction with their experience in our sales and service departments through rating systems that are generally known in the automotive retailing industry as consumer satisfaction indices (CSI). The use of CSI ratings by manufacturers is in addition to their right to monitor the financial and sales performance of our dealerships. At the time we acquire a dealership or enter into a new dealer or framework agreement, manufacturers will often establish sales or performance criteria for that dealership. In accordance with the terms of these agreements, these criteria have been modified by various manufacturers from time to time in the past, and we cannot assure you that they will not be further modified or replaced by different criteria in the future. Some of our dealerships have had difficulty from time to time meeting these criteria in the past. We cannot assure you that any of our dealerships will be able to comply with these criteria in the future.

In accordance with the terms of an applicable framework agreement, a manufacturer may use these criteria as factors in evaluating any application we may make for acquisitions of additional dealerships. 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 criteria. This would impede our ability to execute acquisitions and limit our ability to grow. In addition, we receive payments and incentives from certain manufacturers based, in part, on our CSI ratings, and future payments may be materially reduced or eliminated if our CSI ratings do not meet stated criteria.

Manufacturers actions in connection with any proposed acquisitions or divestitures may limit our future growth and impact our business, financial condition or results of operations.

We are generally required to obtain manufacturer consent before we can acquire any additional dealerships selling such manufacturer s automobiles. In addition, many of our dealer and framework agreements require that we meet certain CSI rating and sales performance criteria as a condition to additional dealership acquisitions. We cannot assure you that we will be able to meet these

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performance criteria at any applicable time or that manufacturers will consent to future acquisitions, which may prevent us from being able to take advantage of market opportunities, and may limit our ability to expand our business. The process of applying for and obtaining manufacturer consents can take a significant amount of time, generally 60 to 90 days or more. Delays in consummating acquisitions caused by this process may negatively affect our ability to acquire dealerships that we believe will produce acquisition synergies and integrate well into our overall 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 to fund, causing us to divert our financial resources away 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 otherwise would acquire thereby having an adverse effect on our ability to grow through acquisitions.

Likewise, from time to time, we may determine that it is in our best interest to sell one or more of our dealerships. Parties that are interested in acquiring any dealership may also be required to obtain the consent of the manufacturer. The refusal by the manufacturer to approve a potential buyer may delay the sale of that dealership, and would require us to find another potential buyer or wait until the buyer is able to meet the requirements of the manufacturer. A delay in the sale of a dealership could have a negative impact on our profitability and an adverse effect on our business, financial condition or results of operations.

Additionally, many vehicle manufacturers place limits on the total number of franchises that any group of affiliated dealerships may own. Certain manufacturers place limits on the number of franchises or share of total brand vehicle sales that may be maintained by an affiliated dealership group on a national, regional or local basis, as well as limits on store ownership in contiguous markets. If we reach any of these limits, we may be prevented from making further acquisitions, which could negatively affect our future growth.

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

Applicable state laws generally provide that an automobile 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 laws allow dealers to file protests or petitions or allow them to attempt to comply with the manufacturer s criteria within a notice period to avoid the termination or non-renewal. Though unsuccessful to date, manufacturers lobbying efforts may lead to the repeal or revision of applicable state laws. Our framework agreements with certain manufacturers contain provisions that, among other things, attempt to limit the protections available to dealers under applicable state laws. If these 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 these state laws, it may also be more difficult for us to renew our dealer agreements upon expiration. Changes in laws that provide manufacturers the opportunity to terminate our dealer agreements could materially adversely affect our business, financial condition and results of operations. Furthermore, if a manufacturer seeks protection from creditors in bankruptcy, courts have held that the federal bankruptcy laws may supersede the state laws that protect automotive retailers resulting in either the termination, non-renewal or rejection of franchises by such manufacturers.

Our dealerships profitability depends in large part upon customer demand for the particular vehicle lines they carry.

The profitability 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 light vehicle sales. New light vehicle sales also tend to lead to sales of higher-margin products and services such as finance and insurance products and parts and services. Although we have sought to limit our dependence on any one vehicle brand, we have focused our new vehicle sales operations on mid-line import and luxury brands. Our current brand mix is weighted 85% towards luxury and mid-line import brands, with the remaining 15% consisting of domestic and value brands. For the year ended December 31, 2009, brands representing 5% or more of our revenues from new light vehicle sales were as follows:

Brand	% of Total New Light Vehicle Revenues
Honda	25%
Nissan	12%
Toyota	10%
BMW	9%
Mercedes-Benz	8%

Ford	7%
Lexus	6%

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

We depend on our ability to obtain a desirable mix of popular new vehicles from manufacturers. Typically, popular vehicles produce the highest profit margins but are the most difficult to obtain from manufacturers. Manufacturers generally allocate their vehicles among their franchised dealerships based on the sales history of each dealership, and in some instances on the level of capital expenditures associated with such dealerships. If our dealerships experience prolonged periods of sales declines, those manufacturers may cut back their allotments of popular vehicles to our dealerships and, as a result, our new vehicle sales and profits may decline.

If vehicle manufacturers reduce or discontinue sales incentive, warranties or other promotional programs, our results of operations, cash flows and financial condition may be adversely affected.

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

- customer rebates on new vehicles;
- dealer incentives on new vehicles;
- special financing or leasing terms;
- warranties on new and used vehicles; and
- sponsorship of used vehicle sales by authorized new vehicle dealers.

Manufacturers often make many changes to their incentive programs during each year. Any reduction or discontinuation of key manufacturers incentive programs may reduce our sales volume which, in turn, could have a material adverse affect on our results of operations, cash flows and financial condition.

Manufacturers restrictions regarding a change in our stock ownership may result in the termination or forced sale of our franchises, which may have a number of impacts on us, including adversely impacting our business, financial condition and results of operations, or even deterring an acquisition of us.

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 the applicable manufacturer s consent. Our agreements with some manufacturers provide that, under certain circumstances, we may lose the franchise (either through termination or forced sale) if a person or entity acquires an ownership interest in us above a specified level or if a person or entity acquires the right to vote a specified percentage of our common stock without the approval of the applicable manufacturer. Triggers of these clauses are often based upon actions by our stockholders and 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.

A continued decline in consumer demand, due to general economic conditions, changes in preferences, or otherwise, will adversely affect us.

Our business is heavily dependent on consumer demand and preferences. Further, 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 levels of discretionary personal income, credit availability and interest rates. We have experienced difficult economic conditions in the U.S. and globally over the last two years and we expect only a modest improvement in the economy during 2010. As evidence of this, the SAAR of new vehicle sales in the U.S. decreased to 10.4 million in 2009, compared to 13.2 million in U.S. industry-wide vehicle sales for the full-year of 2008. The current economic climate in the U.S. continues to have a significant impact on our retail business, particularly sales of new and used automobiles, especially as unemployment rates remain high and housing prices remain unstable. In addition, fuel prices have been unstable and have reached historically high levels in the recent past. Significant increases in gasoline prices could cause a reduction in automobile purchases and a further shift in buying patterns from luxury or SUV models (which typically provide higher profit margins to retailers) to smaller, more economical vehicles (which typically have lower profit margins). A continued shift in preferences by consumers for smaller, more economic vehicles may have an adverse effect on our revenues and results of operations.

While a decline in demand for new vehicles in some instances creates additional demand for parts and services due to the aging of and increased wear and tear on existing vehicles, in difficult economic conditions, people often delay service and repairs on their vehicles. Continued delays on the service and repairs of vehicles due to general economic conditions or otherwise could have a further adverse effect on our parts and service business, which has traditionally produced higher profit margins for our business, and thus could also have a material adverse effect on our revenues and results of operations.

Our sales of vehicles, our results of operations and financial condition have been and may continue to be adversely affected by depressed levels of available consumer financing.

The majority of vehicle purchase transactions are financed, particularly used vehicle transactions. Since the beginning of the global recession in December 2007, consumers have experienced a decline in the availability of credit due to a number of factors, including an overall tightening of the lending markets. In addition, manufacturers have also decreased the availability of leases or terminated leasing programs altogether. The reduced availability of credit and the increase in the cost to consumers for such credit has resulted in a decline in our vehicle sales. A continued reduction in credit availability, or continued high costs thereof, could result in a decline in our vehicle sales that could have a material adverse effect on our business, financial condition and results of operations.

Sub-prime lenders have historically provided financing to those buyers who, for a number of reasons, do not have access to traditional financing, including those buyers who have a poor credit history or lack the down payment necessary to purchase a vehicle. Sub-prime lenders have become more stringent with their credit standards, which has made it more difficult for consumers needing sub-prime financing to obtain credit. Furthermore, the sub-prime lenders may continue to apply higher standards in the future. If the current depressed levels of availability of credit in the sub-prime lending market continue, the ability of these consumers to purchase vehicles could be limited, resulting in a decline in our used vehicle sales. Retail sales of used vehicles generally have higher gross margins than new vehicles. A decline in our used vehicle sales could have a material adverse effect on our revenues and an adverse effect on our profitability.

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

Our overall corporate results are also subject to local economic, competitive and other conditions prevailing in the various geographic markets in which we operate. Our dealerships currently are located in the Atlanta, Austin, Chapel Hill, Charlotte, Charlottesville, Dallas-Fort Worth, Fayetteville, Fort Pierce, Fresno, Greensboro, Greenville, Houston, Jackson, Jacksonville, Little Rock, Los Angeles, Orlando, Princeton, Richmond, St. Louis and Tampa markets. If economic conditions remain at current levels, consumer spending remains low or competition for services offered by automotive retailers remains significant in any of these markets, or any of these factors becomes exacerbated, our results of operations, revenues and profitability could be adversely affected.

Our business is seasonal, and events occurring during seasons that revenues are typically higher may disproportionately affect our results of operations and financial condition.

The automobile industry is subject to seasonal variations in revenues. Demand for vehicles 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 occur during the second or third quarters that weaken automotive sales, such as severe weather in the geographic areas in which our dealerships operate, war, high fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year will be disproportionately adversely affected.

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

A portion of our new vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the U.S. As a result, our operations are subject to customary risks of importing merchandise, including import duties, exchange rates, trade restrictions, work stoppages and general political and socio-economic conditions in other countries. The U.S. 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. Relative weakness of the U.S. dollar against foreign currencies in the future may result in an increase in costs to us and in the retail price of such vehicles or parts, which could discourage consumers from purchasing such vehicles and adversely impact our profitability.

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

We believe that the automobile retailing industry is a mature industry whose sales are significantly impacted by the prevailing economic climate, both nationally and in local markets. Accordingly, we believe that our future growth depends in part on our ability to manage expansion, control costs in our operations and acquire and integrate acquired dealerships into our organization. When acquiring other dealerships, we face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

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

We may not adequately anticipate all the demands that our growth will impose on our personnel, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. Moreover, our failure to retain qualified management personnel at any acquired dealership may increase the risks 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.

There is competition to acquire automotive dealerships, and we may not be able to grow our business through acquisitions if attractive targets are not available or if the market drives prices to the point where an acceptable rate of return is not achievable.

We believe that the U.S. automotive retailing market is fragmented and offers many potential acquisition candidates. However, we often compete with several other national, regional and local dealer groups, and other strategic and financial buyers, some of which may have greater financial resources, in evaluating potential acquisition candidates. Competition for attractive acquisition targets may result in fewer acquisition opportunities for us, and increased acquisition costs. We may have to forego acquisition opportunities to the extent that we cannot negotiate such acquisitions on acceptable terms.

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

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

- franchised automobile dealerships in our markets that sell the same or similar new and used vehicles;

- privately negotiated sales of used vehicles;
- other used vehicle retailers;
- Internet-based used vehicle brokers that sell used vehicles to consumers;
- service center chain stores; and
- independent service and repair shops.

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

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Property loss, business interruptions or other uninsured liabilities at some of our dealerships could impact our financial condition and results of operations.

The automotive retail business is subject to substantial risk of property loss due to the significant concentration of property at dealership locations, including vehicles and parts. We have historically experienced business interruptions from time to time at several of our dealerships due to adverse weather conditions or other extraordinary events, such as hurricanes in Florida and tornadoes and hail storms in Texas. Other potential liabilities arising out of our operations may involve claims by employees, customers or third parties for personal injury or property damage and potential fines and penalties in connection with alleged violations of regulatory requirements. To the extent we experience future events such as these, or others, our results of operations, financial condition or cash flows may be materially adversely impacted.

We rely on the management information systems at our dealerships, which are licensed from third parties and are used in all aspects of our sales and service efforts, as well as in the preparation of our consolidating financial and operating data. To the extent these systems become unavailable to us for any reason, or if our relationship deteriorates with third-party providers, our business could be significantly disrupted which could materially adversely affect our results of operations, financial condition and cash flow.

While we maintain insurance to protect against a number of losses, this insurance coverage often contains significant deductibles which we must pay prior to obtaining insurance coverage. In addition, we choose to self-insure for a portion of our potential liabilities, meaning we do not carry insurance from a third party for such liabilities, and are wholly responsible for any related losses. Furthermore, the laws of some states prohibit insurance against certain types of liabilities, and so we self-insure for those liabilities.

In certain instances, our insurance may not fully cover a loss depending on the applicable deductible or the magnitude and nature of the claim. Additionally, changes in the cost of insurance or the availability of insurance in the future could substantially increase our costs to maintain our current level of coverage or could cause us to reduce our insurance coverage and increase our self-insured risks. To the extent we incur significant additional costs for insurance, suffer losses that are not covered by in-force insurance or suffer losses for which we are self-insured, our financial condition and results of operations could be materially adversely impacted.

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

We are, and expect to continue to be, subject to a wide range of federal, state and local laws and regulations, including local licensing requirements. These laws regulate the conduct of our business, including:

- motor vehicle and retail installment sales practices;
- leasing;
- sales of finance, insurance and vehicle protection products;
- consumer credit;
- deceptive trade practices;
- consumer protection;
- consumer privacy;

money laundering;

advertising;

land use and zoning; and

health and safety and employment practices.

Environmental laws and regulations govern, among other things, discharges into the air and water, storage of petroleum substances and chemicals, the handling and disposal of wastes and remediation of contamination arising from spills and releases. In addition, we may also have liability in connection with materials that were sent to third-party recycling, treatment and/or disposal facilities under federal and state statutes. These federal and state statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and expect to continue to incur capital and operating expenditures and other costs in complying with such federal and state statutes. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such potential liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able or willing to satisfy them. Failure to comply with applicable laws and regulations, or significant additional expenditures required to maintain compliance therewith, may have a material adverse effect on our business, results of operations, financial condition, cash flows, and prospects.

If we or our employees at the individual dealerships violate or are alleged to violate laws and regulations applicable to them or protecting consumers generally, we could be subject to individual claims or consumer class actions, administrative, civil or criminal actions investigations or actions and adverse publicity. Such actions could expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchises to conduct dealership operations. Some jurisdictions regulate finance fees and administrative or document fees that may be charged in connection with vehicle sales, which could restrict our ability to generate revenue from these activities.

Furthermore, the enactment of new laws and regulations that materially impair or restrict our sales, finance and insurance, or other operations could have a material adverse effect on our business, results of operations, financial condition, cash flows, and prospects. For example, in recent years, private plaintiffs and state attorneys general in the U.S. have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. These activities have led many lenders to limit the amounts that may be charged to customers as fee income for these activities. If these or similar activities were to significantly restrict our ability to generate revenue from arranging financing for our customers, we could be adversely affected.

Likewise, employees and former employees are protected by a variety of employment laws and regulations. Allegations of a violation could subject us to individual claims or consumer class actions, administrative investigations or adverse publicity. Such actions could expose us to substantial monetary damages and legal defense costs, injunctive relief and civil fines and penalties.

We are involved in various legal proceedings in the ordinary course of our business, including litigation with employees and with customers regarding our products and services, and expect to continue to be subject to claims related to our existing business and any new business. A significant judgment against us, the loss of a significant license or permit or the imposition of a significant fine could have a material adverse effect on our business, financial condition and future prospects. We further expect that, from time to time, new laws and regulations, particularly in the labor, employment, environmental and consumer protection areas will be enacted, and compliance with such laws, or penalties for failure to comply, could significantly increase our costs.

Healthcare reform legislation could adversely affect our future profitability and financial condition.

Rising healthcare costs and interest in universal healthcare coverage in the U.S. have resulted in government and private sector initiatives proposing healthcare reforms. Recently, President Obama and members of Congress have proposed significant reforms to the U.S. healthcare system. We cannot predict what healthcare initiatives, if any, will be implemented at the federal or state level, or the effect any future legislation or regulation will have on us. However, an expansion in government s role in the U.S. healthcare industry could result in significant costs to us, which could in turn adversely affect our future profitability and financial condition.

Governmental regulation pertaining to fuel economy (CAFE) standards may affect a manufacturer s ability to produce cost effective vehicles, which would impact our sales.

The Energy Policy Conservation Act, enacted into law by Congress in 1975, added Title V, Improving Automotive Efficiency, to the Motor Vehicle Information and Cost Savings Act and established Corporate Average Fuel Economy (CAFE) standards for passenger cars and light trucks. CAFE is the sales weighted average fuel economy, expressed in miles per gallon (mpg) of a manufacturer s fleet of passenger cars or light trucks with a gross vehicle weight rating of 8,500 pounds or less, manufactured for sale in the U.S., for any given model year.

The primary goal of CAFE was to substantially increase passenger car fuel efficiency. Congress has continuously increased the standards since 1974 and, since mid-year 1990, the passenger car standard was increased to 27.5 miles per gallon, a level at which it has remained through 2009. Passenger car fuel economy is now required to rise to an industry average of 35 miles per gallon by 2020. Likewise, significant changes to light truck CAFE standards have been established over the years. The standard is expected to be increased to about 24.1 miles per gallon by 2011.

The penalty for a manufacturer s failure to meet the CAFE standards is currently $5.50 per tenth of a mile per gallon for each tenth under the target volume times the total volume of those vehicles manufactured for a given model year.

Failure of a manufacturer to develop passenger vehicles and light trucks that meet CAFE standards could subject the manufacturer to substantial penalties, increase the cost of vehicles sold to us, and adversely affect our ability to market and sell vehicles to meet consumer needs and desires. Furthermore, Congress may continue to increase CAFE standards in the future and such additional legislation may have a further adverse impact on the manufacturers and our business operations.

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.

The loss of key personnel may adversely affect our business.

Our success depends to a significant degree upon the continued contributions of our management team. Manufacturer dealer or framework agreements may require the prior approval of the applicable manufacturer before any change is made in dealership general managers or other management positions. The loss of the services of one or more of these key employees may materially impair the profitability of our operations, or may result in a violation of an applicable dealer or framework agreement.

In addition, we may need to hire additional managers or other key personnel from time to time. In some instances, potential acquisitions are more viable to us if we are able to retain experienced managers or obtain replacement managers should the owner or manager of an acquired dealership not continue to manage the business. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers may adversely affect the ability of our dealerships to conduct their operations in accordance with the standards set by us or the manufacturers.

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters, which is located at 2905 Premiere Parkway, NW, Suite 300, Duluth, Georgia. In addition, as of December 31, 2009, we had 106 franchises situated in 81 dealership locations throughout 11 states. As of December 31, 2009, we leased 46 of these locations and owned the remaining locations. We have three locations in North Carolina, one location in Mississippi and one location in Missouri where we lease the underlying land but own the building facilities on that land. These locations are included in the leased column of the table below. In addition, we operate 25 collision repair centers. We lease 13 of these collision repair centers and own the remaining repair center locations.

Dealership Group	Dealerships		Collision Repair Centers	
	Owned	Leased	Owned	Leased
Coggin Automotive Group	11	4(a) (b)	5	2
Courtesy Autogroup		9		2
Crown Automotive Company	7	9	1	1
David McDavid Auto Group	5	2	2	3
Gray-Daniels Auto Family	1	5		1
Nalley Automotive Group	5	10	3	2
California Dealerships		2(b)		
Northpoint Auto Group	2	4	1	1
Plaza Motor Company	4	1		1
Total	35	46	12	13

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

(b) Includes one pending divestiture as of December 31, 2009.

Item 3. Legal Proceedings

From time to time, we and our dealerships are named in claims, including class action claims, involving the manufacture and sale or lease of motor vehicles. The source of such claims include, but are not limited to, the charging of administrative fees, the operation of dealerships, contractual disputes and other matters arising in the ordinary course of our business. With respect to certain of these claims, the manufacturers of motor vehicles or the sellers of dealerships that we have acquired have agreed, pursuant to various agreements to indemnify us for any related losses we may suffer. We do not expect that any potential liability from any known claims will materially affect our financial condition, liquidity, results of operations or financial statement disclosures. However, the outcome of any of these, or any future, matters cannot be predicted with certainty, and unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, liquidity, results of operations or financial statement disclosures.

Item 4. [Reserved]

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PART II

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

Our common stock is traded on the New York Stock Exchange (the NYSE) under the symbol ABG . Quarterly information concerning (i) our high and low closing sales price per share of our common stock as reported by the NYSE and (ii) the cash dividends that we paid to our stockholders, in 2009 and 2008, is as follows:

	High	Low	Dividend (per share)
Fiscal Year Ended December 31, 2008			
First Quarter	$ 15.62	$ 12.19	$ 0.225
Second Quarter	17.39	12.85	0.225
Third Quarter	13.71	9.91	0.225
Fourth Quarter	10.92	2.00	
Fiscal Year Ended December 31, 2009			
First Quarter	$ 5.23	$ 2.01	$
Second Quarter	11.94	4.74	
Third Quarter	14.86	8.99	
Fourth Quarter	14.58	9.63	

On February 26, 2010, the last reported sale price of our common stock on the NYSE was $11.63 per share, and there were approximately 91 record holders of our common stock.

The repurchase of stock and payment of dividends are subject to certain limitations under the terms of our 8% Notes, 7.625% Notes, BofA Revolving Credit Facility and our JPMorgan Used Vehicle Floor Plan Facility. Such limits are calculated by adding 50% of cumulative net income or subtracting 100% of cumulative net losses (each as defined, the Cumulative Net Income Basket); however, under our most restrictive covenant we may spend $15.0 million in addition to amounts provided by the Cumulative Net Income Basket to repurchase common stock or pay dividends. As of December 31, 2009, our ability to repurchase common stock or pay dividends was limited to $2.3 million under our most restrictive covenant. Notwithstanding any of the limitations mentioned above, we may spend up to $2.0 million per year to repurchase common stock.

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PERFORMANCE GRAPH

The following graph furnished by the Company shows the value as of December 31, 2009, of a $100 investment in the Company s common stock made on December 31, 2004 (with dividends reinvested), as compared with similar investments based on (i) the value of the S & P 500 Index (with dividends reinvested) and (ii) the value of a market-weighted Peer Group Index composed of the common stock of AutoNation, Inc., Sonic Automotive, Inc., Group 1 Automotive, Inc., Penske Automotive Group, Inc. and Lithia Motors, Inc., in each case on a total return basis assuming reinvestment of dividends. The market-weighted Peer Group Index values were calculated from the beginning of the performance period. The historical stock performance shown below is not necessarily indicative of future expected performance.

The foregoing graph is not, and shall not be deemed to be, filed as part of the Company s annual report on Form 10-K. Such graph should not be deemed filed or incorporated by reference into any filing of the Company under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent specifically incorporated by reference therein by the Company.

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Item 6. Selected Financial Data

The accompanying income (loss) statement data for the years ended December 31, 2008, 2007, 2006, and 2005 have been reclassified to reflect the status of our discontinued operations as of December 31, 2009. The following information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s consolidated financial statements and the notes thereto, included elsewhere in this annual report on Form 10-K.

		For the Years Ended December 31,			
Income (Loss) Statement Data:	**2009**	**2008**	**2007**	**2006**	**2005**
		(in millions, except per share data)			
Revenues:					
New vehicle	$ 2,014.0	$ 2,585.8	$ 3,085.9	$ 3,119.9	$ 2,971.7
Used vehicle	923.7	1,033.5	1,300.9	1,276.4	1,170.2
Parts and service	622.1	653.0	622.0	590.5	549.3
Finance and insurance, net	90.8	130.5	146.1	139.3	133.8
Total revenues	3,650.6	4,402.8	5,154.9	5,126.1	4,825.0
Cost of sales	3,037.6	3,682.2	4,355.4	4,346.1	4,101.1
Gross profit	613.0	720.6	799.5	780.0	723.9
Selling, general and administrative expenses	494.7	581.5	614.3	595.3	562.2
Depreciation and amortization	23.5	22.3	19.6	18.2	17.8
Impairment expenses		528.7			
Other operating (income) expense, net	(1.5)	1.3	1.0	(1.4)	0.6
Income (loss) from operations	96.3	(413.2)	164.6	167.9	143.3
Other income (expense):					
Floor plan interest expense	(18.0)	(28.9)	(37.8)	(35.8)	(24.3)
Other interest expense	(38.2)	(40.0)	(38.8)	(43.9)	(40.5)
Convertible debt discount amortization	(1.8)	(3.0)	(2.4)		
Interest income	0.2	1.5	4.3	5.1	1.0
Gain (loss) on extinguishment of long-term debt, net	0.1	26.2	(18.5)	(1.1)	
Total other expense, net	(57.7)	(44.2)	(93.2)	(75.7)	(63.8)
Income (loss) before income taxes	38.6	(457.4)	71.4	92.2	79.5
Income tax expense (benefit)	14.4	(134.0)	25.5	34.7	29.8
Income (loss) from continuing operations	24.2	(323.4)	45.9	57.5	49.7
Discontinued operations, net of tax	(10.8)	(20.3)	3.6	3.2	11.4
Net income (loss)	$ 13.4	$ (343.7)	$ 49.5	$ 60.7	$ 61.1
Income (loss) from continuing operations per common share:					
Basic	$ 0.76	$ (10.20)	$ 1.41	$ 1.73	$ 1.52
Diluted	$ 0.74	$ (10.20)	$ 1.38	$ 1.69	$ 1.51
Cash dividends declared per common share	$	$ 0.68	$ 0.85	$ 0.40	$

As of December 31,

Balance Sheet Data:	2009	2008	2007	2006	2005
			(in millions)		
Working capital	$ 216.8	$ 165.2	$ 320.7	$ 412.0	$ 347.0
Inventories(a)	506.7	689.5	782.8	780.1	728.7
Total assets(b)	1,400.9	1,650.8	2,009.1	2,030.8	1,930.8
Floor plan notes payable(c)	441.6	633.4	683.8	704.7	631.2
Total debt(b) (c)	537.8	610.7	458.6	455.9	496.9
Total shareholders equity(b)	243.6	226.6	593.9	611.8	547.8

(a) Includes amounts classified as assets held for sale on our consolidated balance sheets.
(b) Amounts in 2008 and 2007 have been adjusted to reflect the impact of the adoption of a new accounting standard.
(c) Includes amounts classified as liabilities associated with assets held for sale on our consolidated balance sheets.

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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 106 franchises (81 dealership locations) in 21 metropolitan markets within 11 states as of December 31, 2009. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. As of December 31, 2009, we offered 37 domestic and foreign brands of new vehicles, including 7 heavy truck brands. Our current brand mix is weighted 85% towards luxury and mid-line import brands, with the remaining 15% consisting of domestic and value brands. We also operate 25 collision repair centers that serve customers in our local markets.

Our retail network is made up of the following locally-branded dealership groups:

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

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers (new light vehicle retail) and commercial customers (fleet), and the sale of new heavy trucks (heavy trucks) (the terms new light vehicle retail, fleet and heavy trucks being collectivel referred to as new); (ii) the sale of used vehicles to individual retail customers (used retail) and to other dealers at auction (wholesale) (the terms used retail and wholesale being collectively referred to as used); (iii) maintenance and collision repair services and the sale of automotive parts (collectively referred to as parts and service); and (iv) the arrangement of vehicle financing and the sale of a number of aftermarket products, such as insurance, warranty and service contracts (collectively referred to as F&I). We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and F&I based on dealership generated F&I gross profit per vehicle sold. We assess the organic growth of our revenue and gross profit by comparing the year-to-year results of stores that we have operated for at least twelve full months (same store).

Our organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, our strong brand mix and the production of attractive products by automotive manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices, product availability and unemployment. We believe that the impact on our business by any future negative trends in new vehicle sales will be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure and (iii) our advantageous brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. However, the current economic slowdown has resulted in reduced vehicle sales across all brands.

Our gross profit margin varies with our revenue mix. The sale of new vehicles generally results in lower gross profit margin than used vehicle sales and sales of parts and service. As a result, when used vehicle and parts and service revenue increases as a percentage of total revenue, we expect our overall gross profit margin to increase. We continue to focus on expense control, although such efforts may not keep pace with lower gross profit in the event that our sales volumes continue to decline or margins come under further pressure.

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

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. We tend to generate more revenue and operating income in the second and third quarters than in the first and fourth quarters of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

The automotive retail market declined significantly in 2008, particularly in the fourth quarter, reflecting the impact of weak economic conditions in the U.S. and globally, including turmoil in the credit markets, broad declines in the equity markets, consumer confidence, rising unemployment and continued weakness in the housing market. The effects of these conditions continued through 2009, as the seasonally adjusted annual rate (SAAR) of new vehicle sales in the U.S., which was over 16.0 million from 1999 to 2007, decreased to approximately 13.2 million in 2008 and 10.4 million in 2009. During the past two years, more stringent lending standards for automotive financing and certain manufacturers decisions to reduce support of customer leasing programs have limited some customers ability to purchase or otherwise acquire vehicles.

In the third quarter of 2009, the federal government s Car Allowance Rebate System (CARS) program, otherwise known as Cash for Clunkers, provided consumers a rebate of between $3,500 and $4,500 if they traded in an eligible vehicle in connection with the purchase of a more fuel efficient new vehicle. The U.S. Department of Transportation estimated that this program led to the sale of nearly 700,000 new vehicles during July and August 2009, and the U.S. new vehicle retail SAAR reached 14.1 million in August 2009. We sold approximately 3,300 new vehicles as part of the CARS program, and we believe the attention that this program created increased traffic at our stores and led to additional new and used vehicle sales that were not part of the CARS program. In September 2009, after the expiration of the Cash for Clunkers program, the U.S. new vehicle SAAR was 9.2 million.

Our heavy truck business continued to be adversely impacted by the unfavorable economic conditions, particularly in the home building and construction markets. For example, Class 8 truck sales in the United States have declined approximately 40% over the last two years. In the fourth quarter of 2009, our new heavy truck revenues declined 33% compared to the prior period and, on a pre-tax basis, our heavy truck business lost $1.6 million in the fourth quarter, driven primarily by inventory losses. Our heavy truck business generated a pre-tax loss of $1.8 million in 2009, compared to a $3.5 million pre-tax profit in 2008.

We expect the U.S. automotive retail market will experience a modest recovery in 2010, as we believe that the majority of automotive manufacturers have stabilized production levels in response to the economic slowdown and will focus on using a combination of vehicle pricing and financing incentive programs to increase demand in 2010, although no assurance can be provided in this regard. Additionally, we anticipate that mid-line import brands, which comprised approximately 49% of our light vehicle revenues in 2009, will continue to increase their share of the U.S. market, and that luxury brands, which comprised approximately 36% of our light vehicle revenues in 2009, will maintain a strong presence in the market.

MANAGEMENT S RESPONSE TO THE CURRENT ECONOMIC ENVIRONMENT

In response to the weakening U.S. automotive retail environment, we took a number of actions designed to reduce our overhead and more closely align the expense structure of our dealerships to current business levels. These actions, which were initiated during the third quarter of 2008 and continued through 2009, included the relocation of our corporate offices, the elimination of our regional management structure and the implementation of store-level productivity initiatives. We completed the relocation of our corporate headquarters to Duluth, Georgia, during the first quarter of 2009. This relocation has delivered annualized pre-tax cost savings of approximately $3.5 million in 2009, resulting principally from staffing reductions, and we believe potential rent savings could increase future annualized savings to approximately $4.5 million. Beginning in the third quarter of 2009, we began to recognize virtually all of the approximately $10.0 million of the anticipated annualized rent and personnel savings related to the elimination of the regional management structure. During 2009, we incurred pre-tax costs of approximately $4.1 million associated with our restructuring plans. We expect to receive the full recurring cost-saving benefits of our relocation and restructuring beginning in 2010. Our restructuring plans, store-level productivity initiatives and variable cost structure reduced same store operating expense by $88.0 million (15%) in 2009 as compared to 2008.

Since the beginning of the fourth quarter of 2008, we have eliminated our dividend payments, significantly reduced our capital expenditure plans, generated $12.9 million in net proceeds from the sale of assets and paid down $84.0 million (13%) of our non-floor plan debt, excluding repayments of amounts outstanding under our revolving credit facilities. During 2009, we increased our threshold for acquisition targets and, for the foreseeable future, expect that we will consider targeting potential acquisitions to the extent we expect them to meet our current return on investment thresholds. Also during this period, we have focused on improving our working capital by (i) increasing our floor plan notes payable related to our loaner vehicles and new vehicles obtained from third-party dealerships, (ii) continuing to lower our new and used inventory balances and (iii) improving our collection of contracts-in-transit and accounts receivable. By the end of 2009, we completed the centralization of our payroll processing.

We are also currently engaged in numerous additional store-level productivity initiatives, including (i) the transition to one common dealership management system and (ii) the consolidation of certain dealership accounting functions. We believe that our current liquidity position, our operating cash flow and plans for adhering to a disciplined capital spending budget will enable us to support our operations as well as the initiatives mentioned above.

We are subject to a number of financial covenants in our various debt and lease agreements. In 2009, we modified certain of those covenants in a manner which in turn reduced the level of cash flow from operations necessary to remain in compliance with those covenants. In connection therewith, we agreed to (i) a reduction in total credit commitments, (ii) additional restrictions on new indebtedness and (iii) an increase in the interest rates on outstanding borrowings. See Liquidity and Capital Resources section below for further discussion of our debt agreements and the credit agreement amendments.

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RESULTS OF OPERATIONS

Year Ended December 31, 2009, Compared to the Year Ended December 31, 2008

	For the Years Ended December 31,			
	2009	2008	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 2,014.0	$ 2,585.8	$ (571.8)	(22%)
Used vehicle	923.7	1,033.5	(109.8)	(11%)
Parts and service	622.1	653.0	(30.9)	(5%)
Finance and insurance, net	90.8	130.5	(39.7)	(30%)
Total revenues	3,650.6	4,402.8	(752.2)	(17%)
GROSS PROFIT:				
New vehicle	136.4	173.8	(37.4)	(22%)
Used vehicle	75.9	86.8	(10.9)	(13%)
Parts and service	309.9	329.5	(19.6)	(6%)
Finance and insurance, net	90.8	130.5	(39.7)	(30%)
Total gross profit	613.0	720.6	(107.6)	(15%)
OPERATING EXPENSES:				
Selling, general and administrative	494.7	581.5	(86.8)	(15%)
Depreciation and amortization	23.5	22.3	1.2	5%
Impairment expenses		528.7	(528.7)	(100%)
Other operating (income) expense, net	(1.5)	1.3	(2.8)	(215%)
Income (loss) from operations	96.3	(413.2)	509.5	123%
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(18.0)	(28.9)	(10.9)	(38%)
Other interest expense	(38.2)	(40.0)	(1.8)	(5%)
Convertible debt discount amortization	(1.8)	(3.0)	(1.2)	(40%)
Interest income	0.2	1.5	(1.3)	(87%)
Gain on extinguishment of long-term debt	0.1	26.2	(26.1)	(100%)
Total other expense, net	(57.7)	(44.2)	(13.5)	(31%)
Income (loss) before income taxes	38.6	(457.4)	496.0	108%
INCOME TAX EXPENSE (BENEFIT)	14.4	(134.0)	148.4	111%
INCOME (LOSS) FROM CONTINUING OPERATIONS	24.2	(323.4)	347.6	107%
DISCONTINUED OPERATIONS, net of tax	(10.8)	(20.3)	9.5	47%
NET INCOME (LOSS)	$ 13.4	$ (343.7)	$ 357.1	104%
Income (loss) from continuing operations per common share Diluted	$ 0.74	$ (10.20)	$ 10.94	107%
Net income (loss) per common share Diluted	$ 0.41	$ (10.84)	$ 11.25	104%

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	For the Years Ended December 31,	
	2009	2008
REVENUE MIX PERCENTAGES:		
New light vehicles	51.3%	54.4%
New heavy trucks	3.9%	4.3%
Used retail light vehicles	19.8%	18.1%
Used retail heavy trucks	0.4%	0.2%
Used light vehicle wholesale	5.0%	5.1%
Used heavy truck wholesale	0.1%	0.1%
Parts and service light vehicle	15.3%	13.4%
Parts and service heavy truck	1.7%	1.4%
Finance and insurance, net light vehicle	2.5%	3.0%
Finance and insurance, net heavy truck	%	%
Total revenue	100.0%	100.0%
GROSS PROFIT MIX PERCENTAGES:		
New light vehicles	21.5%	23.1%
New heavy trucks	0.7%	1.1%
Used retail light vehicles	13.1%	12.5%
Used retail heavy trucks	(0.4%)	%
Used light vehicle wholesale	(0.1%)	(0.4%)
Used heavy truck wholesale	(0.2%)	(0.1%)
Parts and service light vehicle	47.5%	43.0%
Parts and service heavy truck	3.1%	2.7%
Finance and insurance, net light vehicle	14.8%	18.1%
Finance and insurance, net heavy truck	%	%
Total gross profit	100.0%	100.0%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	80.7%	80.7%

Net income (loss) and income (loss) from continuing operations increased $357.1 million and $347.6 million, respectively, during 2009, as compared to 2008, primarily as a result of impairment expenses during 2008 totaling $383.0 million, net of tax. Our loss from discontinued operations decreased $9.5 million, net of tax, during 2009 as compared to 2008, primarily related to lower impairment expenses in 2009 as compared to 2008. We incurred impairment expenses of $3.4 million, net of tax, and rent acceleration expense on idle facilities of $2.5 million, net of tax, during 2009, and $14.4 million, net of tax, of impairment expenses during 2008, relating to real estate and equipment associated with dealerships sold or closed prior to, or pending disposition as of, December 31, 2009.

The $347.6 million increase in income (loss) from continuing operations was primarily a result of impairment expenses in 2008 totaling $368.6 million, net of tax. We experienced declines in gross profit across all four of our business lines in 2009, and $27.8 million of lower gains from the repurchases of a portion of our senior subordinated notes. These decreases in income (loss) from continuing operations were partially offset by (i) an $86.8 million (15%) decrease in SG&A expense and (ii) a $10.9 million (38%) decrease in floor plan interest expense, as a result of lower inventory and lower short-term interest rates, each in 2009.

The $752.2 million (17%) decrease in total revenue was primarily a result of a $571.8 million (22%) decrease in new vehicle revenue and a $109.8 million (11%) decrease in used vehicle revenue. The decrease in new vehicle revenue includes a $528.0 million (22%) decrease in same store light vehicle revenue and a $49.8 million (26%) decrease in heavy truck revenue, partially offset by $6.0 million in revenue derived from dealership acquisitions. The decrease in used vehicle revenue includes a $74.9 million (9%) decrease in same store light vehicle retail revenue and $40.7 million (18%) decrease in same store light vehicle wholesale revenue, partially offset by a $6.5 million (90%) increase in heavy truck used retail revenue and a $2.7 million increase in used vehicle revenue derived from dealership acquisitions.

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The $107.6 million (15%) decrease in total gross profit was a result of a $37.4 million (22%) decrease in new vehicle gross profit, a $10.9 million (13%) decrease in used vehicle gross profit, a $19.6 million (6%) decrease in parts and service gross profit and a $39.7 million (30%) decrease in F&I gross profit. Our total gross profit margin increased 40 basis points to 16.8%, principally as a result of a mix shift to our higher margin parts and service business, and our total light vehicle gross profit margin increased 50 basis points to 17.3%.

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New Vehicle

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
	(In millions)			
Revenue:				
New vehicle revenue same store(1)				
Luxury	$ 678.0	$ 892.4	$ (214.4)	(24%)
Mid-line import	917.5	1,178.8	(261.3)	(22%)
Mid-line domestic	252.0	303.6	(51.6)	(17%)
Value	19.2	19.9	(0.7)	(4%)
Total new light vehicle revenue same store(1)	1,866.7	2,394.7	(528.0)	(22%)
Heavy truck	141.3	191.1	(49.8)	(26%)
Total new vehicle revenue same store(1)	2,008.0	2,585.8	(577.8)	(22%)
New retail revenue acquisitions	6.0			
Total vehicle revenue, as reported	$ 2,014.0	$ 2,585.8	$ (571.8)	(22%)
Gross profit:				
New vehicle gross profit same store(1)				
Luxury	$ 54.6	$ 65.8	$ (11.2)	(17%)
Mid-line import	58.8	78.1	(19.3)	(25%)
Mid-line domestic	17.3	21.3	(4.0)	(19%)
Value	0.9	1.0	(0.1)	(10%)
Total new light vehicle gross profit same store(1)	131.6	166.2	(34.6)	(21%)
Heavy truck	4.5	7.6	(3.1)	(41%)
Total new vehicle gross profit same store(1)	136.1	173.8	(37.7)	(22%)
New vehicle gross profit acquisitions	0.3			
Total new vehicle gross profit, as reported	$ 136.4	$ 173.8	$ (37.4)	(22%)

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
New retail units:				
New vehicle retail units same store(1)				
Luxury	14,400	19,015	(4,615)	(24%)
Mid-line import	37,586	47,438	(9,852)	(21%)
Mid-line domestic	7,388	9,522	(2,134)	(22%)
Value	929	997	(68)	(7%)
Total new light vehicle retail units same store(1)	60,303	76,972	(16,669)	(22%)
Fleet vehicles	1,785	3,086	(1,301)	(42%)
Total new light vehicle units same store(1)	62,088	80,058	(17,970)	(22%)
Heavy truck	2,279	2,885	(606)	(21%)

Total new vehicle units same store(1)	64,367	82,943	(18,576)	(22%)
Total new vehicle units acquisitions	251			
New vehicle units actual	64,618	82,943	(18,325)	(22%)
Total new light vehicle units same store(1)	62,088	80,058	(17,970)	(22%)
Total new light vehicle units acquisitions	251			
Total new light vehicle units	62,339	80,058	(17,719)	(22%)

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New Vehicle Metrics

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
Revenue per new light vehicle sold same store(1)	$ 30,065	$ 29,912	$ 153	1%
Revenue per new heavy truck sold	$ 62,001	$ 66,239	$ (4,238)	(6%)
Revenue per new vehicle sold same store(1)	$ 31,196	$ 31,176	$ 20	%
Gross profit per new light vehicle sold same store(1)	$ 2,120	$ 2,076	$ 44	2%
Gross profit per new heavy truck sold	$ 1,975	$ 2,634	$ (659)	(25%)
Gross profit per new vehicle sold same store(1)	$ 2,114	$ 2,095	$ 19	1%
New light vehicle gross margin same store(1)	7.0%	6.9%	0.1%	1%
New heavy truck gross margin	3.2%	4.0%	(0.8%)	(20%)
New vehicle gross margin same store(1)	6.8%	6.7%	0.1%	1%

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

The $571.8 million (22%) decrease in new vehicle revenue was primarily a result of a $528.0 million (22%) decrease in same store light vehicle revenue due to a 22% decrease in same store light vehicle retail unit sales and a 42% decrease in same store fleet unit sales. These decreases were partially offset by $6.0 million of revenue derived from acquisitions. The decrease in new vehicle revenue was driven by low consumer confidence, the overall economic environment and the turmoil in the financial markets, which led to more stringent lending standards for manufacturer captive and bank financing, including decreasing loan-to-value ratios and increasing credit score requirements for consumers. Unit volumes declined across each of our brand segments, consistent with overall U.S. vehicle sales. This was partially offset by the sale of approximately 3,300 new vehicles in connection with the Cash for Clunkers program. We believe the attention that this program created increased traffic at our stores and led to additional new and used vehicle sales that were not part of the Cash for Clunkers program.

New vehicle SAAR, which was 13.2 million for the full year of 2008, decreased to 10.4 million during 2009; however, new vehicle SAAR showed improvement from September 2009 when the SAAR was 9.2 million after the expiration of the Cash for Clunkers program to 10.9 million for the fourth quarter. We expect a modest recovery of overall U.S. vehicle sales in 2010, as luxury brands maintain current sales levels and mid-line import brands continue to gain market share.

The $37.4 million (22%) decrease in new vehicle gross profit was due to a $34.6 million (21%) decrease in same store light vehicle gross profit, resulting from a 22% decrease in same store light vehicle retail unit sales. Additionally, we experienced an increased year-over-year decline in gross profit from our mid-line import brands primarily as a result of incentive programs in 2008. These decreases were partially offset by $0.3 million of gross profit derived from acquisitions and a 10 basis point increase in same store gross margin. The unit sales decrease reflects a competitive marketplace with less overall sales due to the overall weak economic environment and more stringent lending standards.

Our heavy truck business continued to be adversely impacted by the unfavorable economic conditions, particularly in the home building and construction markets. For example, Class 8 truck sales in the United States have declined approximately 40% over the last two years. In the fourth quarter of 2009, our new heavy truck revenues declined 33% compared to the prior period and, on a pre-tax basis, our heavy truck business lost $1.6 million in the fourth quarter, driven primarily by inventory losses. Our heavy truck business generated a pre-tax loss of $1.8

million in 2009, compared to a $3.5 million pre-tax profit in 2008.

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Used Vehicle

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
Used vehicle retail revenues same store(1)				
Light vehicles	$ 721.1	$ 796.0	$ (74.9)	(9%)
Heavy trucks	13.7	7.2	6.5	90%
Total used vehicle retail revenues same store(1)	734.8	803.2	(68.4)	(9%)
Used vehicle retail revenues acquisitions	2.0			
Total used vehicle retail revenues	736.8	803.2	(66.4)	(8%)
Used vehicle wholesale revenues same store(1)				
Light vehicles	184.8	225.5	(40.7)	(18%)
Heavy trucks	1.4	4.8	(3.4)	(71%)
Total used vehicle wholesale revenues same store(1)	186.2	230.3	(44.1)	(19%)
Used vehicle wholesale revenues acquisitions	0.7			
Total used vehicle wholesale revenues	186.9	230.3	(43.4)	(19%)
Used vehicle revenue, as reported	$ 923.7	$ 1,033.5	$ (109.8)	(11%)
Gross profit:				
Used vehicle retail gross profit same store(1)				
Light vehicles	$ 80.1	$ 90.3	$ (10.2)	(11%)
Heavy trucks	(2.6)	(0.1)	(2.5)	NM
Total used vehicle retail gross profit same store(1)	77.5	$ 90.2	(12.7)	(14%)
Used vehicle retail gross profit acquisitions	0.3			
Total used vehicle retail gross profit	77.8	90.2	(12.4)	(14%)
Wholesale gross profit same store(1)				
Light vehicles	(0.6)	(3.0)	2.4	(80%)
Heavy trucks	(1.3)	(0.4)	(0.9)	225%
Total used vehicle wholesale gross profit same store(1)	(1.9)	(3.4)	1.5	(44%)
Used vehicle wholesale gross profit acquisitions				
Used vehicle wholesale gross profit	(1.9)	(3.4)	1.5	(44%)
Used vehicle gross profit, as reported	$ 75.9	$ 86.8	$ (10.9)	(13%)
Used vehicle retail units same store(1)				
Light vehicles	39,423	44,570	(5,147)	(12%)
Heavy trucks	416	188	228	121%
Used vehicle retail units same store(1)	39,839	44,758	(4,919)	(11%)
Used vehicle retail units acquisitions	133			

Used vehicle retail units actual	39,972	44,758	(4,786)	(11%)

Used Vehicle Metrics

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
Revenue per used light vehicle retailed same store(1)	$ 18,291	$ 17,860	$ 431	2%
Revenue per used heavy truck retailed	$ 32,933	$ 38,298	$ (5,365)	(14%)
Revenue per used vehicle retailed same store(1)	$ 18,444	$ 17,945	$ 499	3%
Gross profit per used light vehicle retailed same store(1)	$ 2,032	$ 2,026	$ 6	%
Gross profit per used heavy truck retailed	$ (6,250)	$ (532)	$ (5,718)	NM
Gross profit per used vehicle retailed same store(1)	$ 1,945	$ 2,015	$ (70)	(3%)
Used light vehicle retail gross margin same store(1)	11.1%	11.3%	(0.2%)	(2%)
Used heavy truck retail gross margin	(19.0%)	(1.4%)	(17.6%)	NM
Used vehicle retail gross margin same store(1)	10.5%	11.2%	(0.7%)	(6%)

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

The $109.8 million (11%) decrease in used vehicle revenue includes a $74.9 million (9%) decrease in same store light vehicle retail revenue and a $40.7 million (18%) decrease in same store light vehicle wholesale revenue, partially offset by $2.7 million derived from dealership acquisitions. The $10.9 million (13%) decrease in used vehicle gross profit was primarily a result of a $10.2 million (11%) decrease in same store light vehicle retail gross profit and a $3.4 million decrease in used vehicle gross profit, including wholesale gross profit, within our heavy truck business, partially offset by a $2.4 million increase in same store light vehicle wholesale gross profit. The decrease in used light vehicle retail revenue and gross profit was driven by unit volume declines that reflected (i) a weak retail environment and (ii) a more stringent lending environment, which in turn resulted in lower sales to sub-prime customers. Light vehicle used retail revenue per vehicle retailed (PVR) increased, with light vehicle retail gross profit PVR remaining relatively flat. The increase in used light vehicle revenue PVR reflected a shift in the used vehicle market, from lower priced models previously appealing to sub-prime customers to higher priced models and Certified Pre-Owned (CPO) vehicles. The decrease in used vehicle wholesale revenue was a result of lower new retail and used retail unit sales, which resulted in fewer vehicles from trade-ins available to sell at auction.

Our heavy truck business continued to be adversely impacted by the unfavorable economic conditions, particularly in the home building and construction markets. For example, Class 8 truck sales in the United States have declined approximately 40% over the last two years. In the fourth quarter of 2009, on a pre-tax basis, our heavy truck business lost $1.6 million in the fourth quarter, driven primarily by inventory losses. Our heavy truck business generated a pre-tax loss of $1.8 million in 2009, compared to a $3.5 million pre-tax profit in 2008.

We believe our used vehicle inventory is closely aligned with consumer demand, with approximately 36 days of supply in our inventory as of December 31, 2009, as compared to approximately 35 days sales in our inventory as of December 31, 2008. We expect that maintaining our current level of used vehicle inventory, based on days supply, will help mitigate the impact of the continued challenging economic environment on our used vehicle performance. In addition, we continue to focus on aligning our used vehicle inventory to meet consumer demands by offering CPO vehicles, traditional used vehicles and lower value vehicles obtained through trade-ins.

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Parts and Service

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
	(Dollars in millions)			
Revenue:				
Parts and service revenues same store(1)				
Light vehicles	$ 558.2	$ 590.8	$ (32.6)	(6%)
Heavy trucks	61.6	62.2	(0.6)	(1%)
Total parts and service revenue same store(1)	619.8	653.0	(33.2)	(5%)
Parts and service revenues acquisitions	2.3			
Parts and service revenue, as reported	$ 622.1	$ 653.0	$ (30.9)	(5%)
Gross profit:				
Parts and service gross profit same store(1)				
Light vehicles	$ 289.8	$ 309.8	$ (20.0)	(6%)
Heavy trucks	19.1	19.7	(0.6)	(3%)
Total parts and service gross profit same store(1)	308.9	329.5	(20.6)	(6%)
Parts and service gross profit acquisitions	1.0			
Parts and service gross profit, as reported	$ 309.9	$ 329.5	$ (19.6)	(6%)
Light vehicle parts and service gross margin same store(1)	51.9%	52.4%	(0.5%)	(1%)
Heavy truck parts and service gross margin	31.0%	31.7%	(0.7%)	(2%)
Parts and service gross margin same store(1)	49.8%	50.5%	(0.7%)	(1%)

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

The $30.9 million (5%) decrease in parts and service revenues and $19.6 million (6%) decrease in parts and service gross profit were due to a decrease in customer pay business as well as a decrease in warranty business. We believe customers are delaying maintenance visits and large repair work as they reduce non-essential spending during the current economic environment. In addition, we believe the decrease in our warranty business reflects improvements in the quality of vehicles produced in recent years. Furthermore, the significant decline in U.S. vehicle sales over the past two years may have an adverse impact on our parts and service business for the next several years.

Same store customer pay parts and service revenue and gross profit decreased $21.8 million (6%) and $18.0 million (7%), respectively. Revenue and gross profit from our warranty business decreased $5.8 million (5%) and $2.0 million (4%), respectively, on a same store basis. Revenue and gross profit from our wholesale parts business decreased $5.6 million (4%) and $0.6 million (2%), respectively, on a same store basis.

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

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Finance and Insurance, net

	For the Years Ended December 31, 2009	2008	Increase (Decrease)	% Change
	(In millions, except for per vehicle data)			
Dealership generated F&I, net same store(1)				
Light vehicles	$ 90.8	$ 123.6	$ (32.8)	(27%)
Heavy trucks	0.2	0.3	(0.1)	(33%)
Dealership generated F&I same store(1)	91.0	123.9	(32.9)	(27%)
Dealership generated F&I acquisitions	0.3			
Dealership generated F&I, net	91.3	123.9	(32.6)	(26%)
Corporate generated F&I	(0.5)	6.6	(7.1)	(108%)
Finance and insurance, net as reported	$ 90.8	$ 130.5	$ (39.7)	(30%)
Dealership generated light vehicle F&I per vehicle sold same store(1) (2)	$ 894	$ 992	$ (98)	(10%)
Dealership generated F&I per vehicle sold same store(1) (2)	$ 873	$ 970	$ (97)	(10%)
Light vehicle F&I per vehicle sold same store(1)	$ 890	$ 1,045	$ (155)	(15%)
Heavy truck F&I per vehicle sold	$ 74	$ 98	$ (24)	(24%)
F&I per vehicle sold same store(1)	$ 868	$ 1,022	$ (154)	(15%)

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

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

We evaluate our dealership generated F&I performance on a per vehicle sold basis by dividing dealership generated F&I gross profit by the number of vehicles sold during the period. We also evaluate F&I gross profit from our portfolio of consumer loans, as well as any gains related to the sale of our remaining interest in certain contracts (collectively, Corporate generated F&I). Beginning in 2009, we discontinued issuing new consumer loans for the purchase of used vehicles and began managing the wind-down of the existing portfolio, which totaled $8.0 million as of December 31, 2009. F&I decreased $39.7 million (30%) during 2009 as compared to 2008, due to (i) an 18% decrease in same store unit sales, (ii) a 10% decrease in same store dealership generated F&I per vehicle sold, (iii) losses from the wind down of our consumer loan portfolio and (iv) a decrease of $4.7 million resulting from a corporate generated F&I gain related to the sale of our remaining interest in a pool of maintenance contracts in 2008. These decreases in F&I were partially offset by $0.3 million derived from dealership acquisitions.

The decrease in dealership generated F&I per vehicle sold was primarily attributable to lower financing commissions due to more stringent lending standards, which included lower loan to value ratios, which limit our opportunity to offer customers our full array of finance and insurance products. In addition, we believe that customers continue to be very concerned about their monthly payment amount in light of the difficult current economic environment. We expect to continue to mitigate these decreases by (a) improving our F&I results at our lower-performing stores and (b) continuing to refine and enhance the menu of products we offer our customers.

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Selling, General and Administrative

	For the Years Ended December 31, 2009	% of Gross Profit	2008	% of Gross Profit	Increase (Decrease)	% of Gross Profit Increase (Decrease)
	(Dollars in millions)					
Personnel costs	$ 237.4	38.8%	$ 273.6	38.0%	$ (36.2)	0.8%
Sales compensation	57.4	9.4%	73.6	10.2%	(16.2)	(0.8%)
Share-based compensation	2.8	0.5%	1.9	0.3%	0.9	0.2%
Outside services	49.1	8.0%	56.1	7.8%	(7.0)	0.2%
Advertising	27.3	4.5%	40.4	5.6%	(13.1)	(1.1%)
Rent	40.4	6.6%	45.5	6.3%	(5.1)	0.3%
Utilities	16.1	2.6%	17.1	2.4%	(1.0)	0.2%
Insurance	14.3	2.3%	13.0	1.8%	1.3	0.5%
Other	48.7	8.1%	60.3	8.3%	(11.6)	(0.2%)
Selling, general and administrative same store(1)	493.5	80.8%	581.5	80.7%	(88.0)	0.1%
Acquisitions	1.2					
Selling, general and administrative actual	$ 494.7	80.7%	$ 581.5	80.7%	$ (86.8)	%
Gross Profit same store(1)	$ 611.1		$ 720.6			
Gross Profit actual	$ 613.0		$ 720.6			

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

Same store SG&A expense as a percentage of gross profit was 80.8% for 2009, as compared to 80.7% for 2008. The 10 basis point increase was primarily a result of the de-leveraging impact on our cost structure from the decline in vehicle sales volumes, including an 80 basis point increase in personnel costs and a 50 basis point increase in insurance costs associated with our large deductible insurance programs for workers compensation, property and general liability claims. These items were substantially offset by (i) a 110 basis point reduction in advertising expense due to our focus on managing advertising spend in the current depressed retail environment and (ii) an 80 basis point decrease in sales compensation expense due to our restructuring of variable compensation plans.

During the third quarter of 2008, we initiated a phased restructuring plan, which included the relocation of our corporate offices, the elimination of our regional management structure and the implementation of store-level productivity initiatives. We completed the relocation of our corporate headquarters to Duluth, Georgia, during the first quarter of 2009. This relocation has delivered annualized pre-tax cost savings of approximately $3.5 million in 2009, resulting principally from staffing reductions, and we believe potential rent savings could increase future annualized savings to approximately $4.5 million. Beginning in the third quarter of 2009, we began to recognize virtually all of the approximately $10.0 million of the anticipated annualized rent and personnel savings related to the elimination of the regional management structure. During 2009, we incurred pre-tax costs of approximately $4.1 million associated with our restructuring plans. We expect to receive the full recurring cost-saving benefits of our relocation and restructuring beginning in 2010. Our restructuring plans, store-level productivity initiatives and variable cost structure reduced same store operating expense by $88.0 million (15%) in 2009 as compared to 2008.

We are also currently engaged in numerous store-level productivity initiatives, including (i) the transition to one common dealership management system, and (ii) the consolidation of certain dealership accounting functions.

During 2009 and 2008, we incurred $1.9 million and $1.0 million, respectively, of costs associated with transitioning our dealerships to DealerTrack s Arkona dealer management system, which are included in outside services expense above.

Depreciation and Amortization

The $1.2 million (5%) increase in depreciation and amortization expense was a result of property and equipment acquired during 2009 and 2008, including the purchase of $207.9 million of previously leased property during the second quarter of 2008.

Impairment Expenses

During the fourth quarter of 2009, we compared the carrying value of our assets held for sale to estimates of fair values determined with the assistance of third-party desktop appraisals and real estate brokers and, as a result, recorded a $5.5 million non-cash impairment of certain property and equipment. The impact of this impairment is included in Discontinued Operations for 2009 (see Discontinued Operations below).

During the fourth quarter of 2008, we experienced a sustained decline in our market capitalization and a significant decline in total revenue due to overall retail industry conditions driven by declining consumer confidence, more stringent lending standards, rising gas prices, changes in consumer demand and falling home prices. Our stock price decreased 60% from $11.52 per share as of September 30, 2008, to $4.57 per share as of December 31, 2008, which significantly reduced our total market capitalization. In addition, our total revenues decreased approximately 30% during the fourth quarter of 2008 as compared to the fourth quarter of 2007. During 2008, we recognized impairment expenses from continuing operations totaling $528.7 million, which includes (i) a $491.7 million impairment of all of our goodwill, (ii) a $30.9 million impairment of franchise rights and other intangible assets and (iii) a $6.1 million impairment of certain property and equipment (for further discussion of our asset impairment expenses, please refer to Note 9 of our consolidated financial statements).

Other Operating (Income) Expense

Other operating (income) expense includes gains and losses from the sale of property and equipment, income derived from sub-lease arrangements and other non-core operating items. Other non-core operating items during 2008 include executive separation benefits expense of $1.7 million related to the separation from the Company of our former chief financial officer.

Floor Plan Interest Expense

The $10.9 million (38%) decrease in floor plan interest expense was attributable to a lower average balance of new vehicle inventory and the lower short-term interest rate environment.

Other Interest Expense

The $1.8 million (5%) decrease in other interest expense was primarily attributable to lower average indebtedness outstanding as a result of the repurchase of $59.8 million of senior subordinated notes in the fourth quarter of 2008 and the repayment of $8.0 million of mortgage notes payable in the third quarter of 2009.

During 2009 and 2008, we recognized $1.8 million and $3.0 million of convertible debt amortization associated with our 3% Senior Subordinated Convertible Notes due 2012 (the 3% Notes). Since a portion of our 3% Notes will be settled in cash upon conversion, we separately account for the liability and equity components in a manner that reflects our nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The excess of the principal amount of the liability component over its initial fair value is amortized to interest cost using the effective interest method. We expect that convertible debt amortization will total approximately $1.7 million in 2010.

Gain on Extinguishment of Long-Term Debt

During 2009, we recognized a $0.1 million net gain on the extinguishment of long-term debt. Included in the $0.1 million net gain was a $0.9 million gain on the repurchase of $7.3 million of our 3% Notes for $6.4 million, partially offset by (i) a $0.7 million pro-rata write-off of the unamortized discount associated with the repurchased 3% Notes and (ii) a $0.1 million pro-rata write-off of debt issuance costs.

During 2008, we recognized a $26.2 million net gain on the extinguishment of long-term debt. Included in the $26.2 million net gain was a $35.8 million gain on the repurchase of $59.8 million of our senior subordinated notes for $24.0 million, partially offset by (i) a $6.5 million pro-rata write-off of the unamortized discount associated with the repurchased 3% Notes and (ii) a $1.4 million pro-rata write-off of debt issuance costs. In addition, we recognized a $1.7 million loss as a result of our decision to terminate our credit facility with JPMorgan Chase Bank N.A. in September 2008, which represents the unamortized debt issuance costs associated with such facility.

Interest Income

The $1.3 million (87%) decrease in interest income is primarily a result of lower interest rates during 2009 as compared to 2008.

Income Tax Expense (Benefit)

The $148.4 million increase in income tax expense was primarily a result of the recognition of $528.7 million of impairment expenses from continuing operations in 2008. Our effective tax rate increased from 29.3% for the 2008 period to 37.3% for the 2009 period. The 800 basis point increase is primarily a result of excess book goodwill over tax goodwill for which we will not receive a tax benefit, the impact of losses on our

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corporate owned life insurance policies for which we will not received a tax benefit, partially offset by the reversal of deferred tax asset valuation allowances that we now expect to realize. Our effective tax rate is highly dependant on the level of income before income taxes and permanent differences between book and tax income. As a result, it is difficult to project our effective tax rate. Excluding the impact of permanent differences between book and tax income and based upon our current expectation of 2009 income before income taxes, we expect our effective income tax rate will be between 38% and 40% in 2010.

Discontinued Operations

During 2009, we sold four franchises (three dealership locations) and closed six franchises (three dealership locations), and as of December 31, 2009, there were two franchises (two dealership locations) pending disposition. The $10.8 million, net of tax, net loss from discontinued operations for 2009 is a result of (i) $7.3 million, net of tax, of net operating losses of franchises sold or pending disposition as of December 31, 2009, including rent expense of idle facilities and legal expenses of franchises sold prior to December 31, 2009, (ii) $3.4 million, net of tax, of impairment expenses related to abandoned real estate from discontinued operations and (iii) $2.5 million, net of tax, of rent accelerations on abandoned properties, partially offset by a $2.4 million, net of tax, net gain on the sale of dealerships.

The $20.3 million, net of tax, net loss from discontinued operations during 2008, includes (i) $14.4 million, net of tax, of impairment expenses related to discontinued operations, (ii) $5.6 million of net operating losses of franchises sold or pending disposition as of December 31, 2009, including rent expense of idle facilities and miscellaneous legal expenses of franchises sold prior to December 31, 2009 and (iii) a $0.3 million, net of tax, loss on the sale of five franchises (four dealership locations).

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

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RESULTS OF OPERATIONS

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

	For the Years Ended December 31,			
	2008	2007	Increase (Decrease)	% Change
	(In millions, except per share data)			
REVENUES:				
New vehicle	$ 2,585.8	$ 3,085.9	$ (500.1)	(16%)
Used vehicle	1,033.5	1,300.9	(267.4)	(21%)
Parts and service	653.0	622.0	31.0	5%
Finance and insurance, net	130.5	146.1	(15.6)	(11%)
Total revenues	4,402.8	5,154.9	(752.1)	(15%)
GROSS PROFIT:				
New vehicle	173.8	221.7	(47.9)	(22%)
Used vehicle	86.8	112.7	(25.9)	(23%)
Parts and service	329.5	319.0	10.5	3%
Finance and insurance, net	130.5	146.1	(15.6)	(11%)
Total gross profit	720.6	799.5	(78.9)	(10%)
OPERATING EXPENSES:				
Selling, general and administrative	581.5	614.3	(32.8)	(5%)
Depreciation and amortization	22.3	19.6	2.7	14%
Impairment expenses	528.7		528.7	NM
Other operating expense, net	1.3	1.0	0.3	30%
(Loss) income from operations	(413.2)	164.6	(577.8)	NM
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(28.9)	(37.8)	(8.9)	(24%)
Other interest expense	(40.0)	(38.8)	1.2	3%
Convertible debt discount amortization	(3.0)	(2.4)	0.6	25%
Interest income	1.5	4.3	(2.8)	(65%)
Gain (loss) on extinguishment of long-term debt	26.2	(18.5)	44.7	NM
Total other expense, net	(44.2)	(93.2)	(49.0)	(53%)
(Loss) income before income taxes	(457.4)	71.4	(528.8)	NM
INCOME TAX (BENEFIT)EXPENSE	(134.0)	25.5	(159.5)	NM
(LOSS) INCOME FROM CONTINUING OPERATIONS	(323.4)	45.9	(369.3)	NM
DISCONTINUED OPERATIONS, net of tax	(20.3)	3.6	(23.9)	NM
NET (LOSS) INCOME	$ (343.7)	$ 49.5	$ (393.2)	NM
(Loss) income from continuing operations per common share Diluted	$ (10.20)	$ 1.38	$ (11.58)	NM
Net (loss) income per common share Diluted	$ (10.84)	$ 1.49	$ (12.33)	NM

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	For the Years Ended December 31, 2008	2007
REVENUE MIX PERCENTAGES:		
New light vehicles	54.4%	55.7%
New heavy trucks	4.3%	4.2%
Used retail light vehicles	18.1%	18.8%
Used retail heavy trucks	0.2%	0.3%
Used light vehicle wholesale	5.1%	6.0%
Used heavy truck wholesale	0.1%	0.1%
Parts and service light vehicle	13.4%	10.9%
Parts and service heavy truck	1.4%	1.2%
Finance and insurance, net light vehicle	3.0%	2.8%
Finance and insurance, net heavy truck	%	%
Total revenue	100.0%	100.0%
GROSS PROFIT MIX PERCENTAGES:		
New light vehicles	23.1%	26.4%
New heavy trucks	1.1%	1.3%
Used retail light vehicles	12.5%	14.3%
Used retail heavy trucks	%	%
Used light vehicle wholesale	(0.4%)	(0.2%)
Used heavy truck wholesale	(0.1%)	%
Parts and service light vehicle	43.0%	37.4%
Parts and service heavy truck	2.7%	2.5%
Finance and insurance, net light vehicle	18.1%	18.2%
Finance and insurance, net heavy truck	%	0.1%
Total gross profit	100.0%	100.0%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	80.7%	76.8%

Net (loss) income and (loss) income from continuing operations decreased $393.2 million and $369.3 million, respectively, during 2008, as compared to 2007, primarily as a result of impairment expenses during 2008 totaling $383.0 million, net of tax. Discontinued operations decreased $23.9 million, net of tax, during 2008 as compared to 2007, primarily related to $14.4 million of impairment expenses, net of tax, during 2008 associated with dealerships sold prior to, or pending disposition as of, December 31, 2009.

The $369.3 million decrease in (loss) income from continuing operations was primarily a result of impairment expenses in 2008 totaling $368.6 million, net of tax. New and used vehicle gross profit decreased $47.9 million (22%) and $25.9 million (23%), respectively, and F&I gross profit decreased $15.6 million (11%), all primarily as a result of lower unit sales volumes. The decrease in new vehicle, used vehicle and F&I gross profit had a de-leveraging impact on our SG&A expense as a percentage of gross profit, which increased 390 basis points from 2007 to 80.7%. These decreases in (loss) income from continuing operations were partially offset by (i) a $44.7 million favorable variance relating to debt extinguishments, including a $26.2 million net gain during 2008 and an $18.5 million loss in 2007, from the repurchases of our senior subordinated notes, and (ii) an $8.9 million (24%) decrease in floor plan interest expense, as a result of lower inventory and lower short-term interest rates.

The $752.1 million (15%) decrease in total revenue was primarily a result of a $500.1 million (16%) decrease in new vehicle revenue and a $267.4 million (21%) decrease in used vehicle revenue. The decrease in new vehicle revenue includes a $604.2 million (21%) decrease in same store light vehicle revenue, a $25.3 million (12%) decrease in heavy truck revenue, partially offset by $129.4 million derived from dealership acquisitions. The decrease in used vehicle revenue includes a $212.4 million (22%) decrease in same store retail revenue and $98.6 million (31%) decrease in same store wholesale revenue, partially offset by a $43.6 million increase in used vehicle revenue derived from dealership acquisitions.

The $78.9 million (10%) decrease in total gross profit was primarily a result of a $47.9 million (22%) decrease in new vehicle gross profit, a $25.9 million (23%) decrease in used vehicle gross profit and a $15.6 million (11%) decrease in F&I gross profit. Our total gross profit margin increased 90 basis points to 16.4%, principally as a result of a mix shift to our higher margin parts and service business, and our total light vehicle gross profit margin increased 100 basis points to 16.8%.

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New Vehicle

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
	(In millions)			
Revenue:				
New vehicle revenue same store(1)				
Luxury	$ 848.2	$ 1,079.7	$ (231.5)	(21%)
Mid-line import	1,093.6	1,335.7	(242.1)	(18%)
Mid-line domestic	303.6	418.5	(114.9)	(27%)
Value	19.9	35.6	(15.7)	(44%)
Total new light vehicle revenue same store(1)	2,265.3	2,869.5	(604.2)	(21%)
Heavy truck	191.1	216.4	(25.3)	(12%)
Total new vehicle revenue same store(1)	2,456.4	3,085.9	(629.5)	(20%)
New vehicle revenue acquisitions	129.4			
Total new vehicle revenue, as reported	$ 2,585.8	$ 3,085.9	$ (500.1)	(16%)
Gross profit:				
New vehicle gross profit same store(1)				
Luxury	$ 62.0	$ 85.7	$ (23.7)	(28%)
Mid-line import	72.0	94.4	(22.4)	(24%)
Mid-line domestic	20.9	29.5	(8.6)	(29%)
Value	1.0	1.8	(0.8)	(44%)
Total new light vehicle gross profit same store(1)	155.9	211.4	(55.5)	(26%)
Heavy truck	7.6	10.3	(2.7)	(26%)
Total new vehicle gross profit same store(1)	163.5	221.7	(58.2)	(26%)
New vehicle gross profit acquisitions	10.3			
Total new vehicle gross profit, as reported	$ 173.8	$ 221.7	$ (47.9)	(22%)

	For the Years Ended December 31, 2008	2007	Increase (Decrease)	% Change
New retail units:				
New vehicle retail units same store(1)				
Luxury	18,101	22,796	(4,695)	(21%)
Mid-line import	44,027	52,226	(8,199)	(16%)
Mid-line domestic	9,522	12,732	(3,210)	(25%)
Value	997	1,785	(788)	(44%)
Total new light vehicle retail units same store(1)	72,647	89,539	(16,892)	(19%)
Fleet vehicles	2,985	6,061	(3,076)	(51%)
Total new light vehicle units same store(1)	75,632	95,600	(19,968)	(21%)
Heavy truck	2,885	3,625	(740)	(20%)

Total new vehicle units same store(1)	78,517	99,225	(20,708)	(21%)
Total new vehicle units acquisitions	4,426			
New vehicle units actual	82,943	99,225	(16,282)	(16%)
Total new light vehicle units same store(1)	75,632	95,600	(19,968)	(21%)
Total new light vehicle units acquisitions	4,426			
Total new light vehicle units	80,058	95,600	(15,542)	(16%)