ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
October 30, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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**
(Address of principal executive offices) **(Zip Code)**

(770) 418-8200

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of October 28, 2009 was 32,277,389 (net of 4,817,342 treasury shares).

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33.7	$ 91.6
Contracts-in-transit	39.6	63.8
Accounts receivable (net of allowance of $0.8 and $0.9, respectively)	82.0	82.2
Inventories	426.3	666.6
Deferred income taxes	8.8	10.9
Assets held for sale	64.2	50.4
Other current assets	46.0	54.2
Total current assets	700.6	1,019.7
PROPERTY AND EQUIPMENT, net	438.4	476.7
DEFERRED INCOME TAXES, net of current portion	87.3	100.0
OTHER LONG-TERM ASSETS	45.3	54.5
Total assets	$ 1,271.6	$ 1,650.9
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable trade	$ 244.0	$ 478.2
Floor plan notes payable non-trade	66.4	134.6
Current maturities of long-term debt	8.2	58.8
Accounts payable and accrued liabilities	131.8	151.3
Liabilities associated with assets held for sale	27.7	31.6
Total current liabilities	478.1	854.5
LONG-TERM DEBT	520.6	540.9
OTHER LONG-TERM LIABILITIES	31.9	28.9
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding		
Common stock, $.01 par value, 90,000,000 shares authorized; 37,094,731 and 36,711,885 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	455.5	453.5
Accumulated deficit	(134.0)	(147.2)
Treasury stock, at cost; 4,817,342 and 4,760,218 shares, respectively	(74.6)	(74.5)
Accumulated other comprehensive loss	(6.3)	(5.6)

Total stockholders equity	241.0	226.6
Total liabilities and stockholders equity	$ 1,271.6	$ 1,650.9

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
REVENUES:				
New vehicle	$ 560.5	$ 673.4	$ 1,495.4	$ 2,077.6
Used vehicle	243.4	248.8	679.8	825.1
Parts and service	152.8	165.3	467.3	495.3
Finance and insurance, net	26.3	31.9	68.9	104.2
Total revenues	983.0	1,119.4	2,711.4	3,502.2
COST OF SALES:				
New vehicle	520.4	626.5	1,395.2	1,936.7
Used vehicle	224.0	228.0	621.6	753.1
Parts and service	75.9	82.2	236.2	244.8
Total cost of sales	820.3	936.7	2,253.0	2,934.6
GROSS PROFIT	162.7	182.7	458.4	567.6
OPERATING EXPENSES:				
Selling, general and administrative	129.4	147.3	374.0	453.1
Depreciation and amortization	5.6	6.0	17.3	16.3
Other operating (income) expense, net	(0.2)	(0.1)	(1.0)	1.6
Income from operations	27.9	29.5	68.1	96.6
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(4.2)	(6.9)	(13.6)	(22.5)
Other interest expense	(9.4)	(10.8)	(28.0)	(28.9)
Convertible debt discount amortization	(0.5)	(0.8)	(1.4)	(2.4)
Interest income		0.1	0.1	1.4
Loss on extinguishment of long-term debt		(1.7)		(1.7)
Total other expense, net	(14.1)	(20.1)	(42.9)	(54.1)
Income before income taxes	13.8	9.4	25.2	42.5
INCOME TAX EXPENSE	4.3	2.5	8.5	15.2
INCOME FROM CONTINUING OPERATIONS	9.5	6.9	16.7	27.3
DISCONTINUED OPERATIONS, net of tax	(2.1)	(1.4)	(3.5)	(1.3)
NET INCOME	$ 7.4	$ 5.5	$ 13.2	$ 26.0
EARNINGS (LOSS) PER COMMON SHARE:				
Basic				
Continuing operations	$ 0.30	$ 0.22	$ 0.52	$ 0.86
Discontinued operations	(0.07)	(0.05)	(0.11)	(0.04)

Net income	$	0.23	$	0.17	$	0.41	$	0.82
Diluted								
Continuing operations	$	0.29	$	0.21	$	0.51	$	0.85
Discontinued operations		(0.07)		(0.04)		(0.11)		(0.05)
Net income	$	0.22	$	0.17	$	0.40	$	0.80
CASH DIVIDENDS DECLARED PER COMMON SHARE	$		$	0.23	$		$	0.68
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:								
Basic		32.0		31.7		31.9		31.8
Performance share units		0.1		0.2		0.1		0.3
Restricted stock		0.2		0.2		0.2		0.1
Stock options		0.8				0.8		0.1
Diluted		33.1		32.1		33.0		32.3

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	For the Nine Months Ended September 30,	
	2009	**2008**
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 13.2	$ 26.0
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	17.3	16.3
Stock-based compensation	1.6	1.2
Deferred income taxes	15.5	8.7
Loss on extinguishment of long-term debt		1.7
Loaner vehicle amortization	5.9	5.4
Other adjustments, net	8.7	10.3
Changes in operating assets and liabilities, net of acquisitions and divestitures		
Contracts-in-transit	24.2	52.9
Accounts receivable	(15.8)	18.4
Proceeds from the sale of accounts receivable	16.1	15.4
Inventories	267.3	117.3
Other current assets	(29.6)	(39.1)
Floor plan notes payable trade	(234.0)	258.0
Floor plan notes payable trade divestitures	(10.2)	(5.9)
Accounts payable and accrued liabilities	(21.1)	(31.0)
Other long-term assets and liabilities, net	0.6	3.0
Net cash provided by operating activities	59.7	458.6
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(6.1)	(60.1)
Construction reimbursements associated with sale-leaseback agreements		1.9
Acquisitions		(41.9)
Purchases of previously leased real estate		(207.9)
Proceeds from the sale of assets	25.3	26.1
Other investing activities	(0.6)	(0.2)
Net cash provided by (used in) investing activities	18.6	(282.1)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-trade	238.4	1,881.9
Floor plan borrowings acquisitions		7.6
Floor plan repayments non-trade	(303.7)	(2,259.4)
Floor plan repayments non-trade divestitures	(2.9)	(2.8)
Payments of dividends		(21.4)
Proceeds from borrowings	0.9	248.9
Repayments of borrowings	(67.7)	(59.9)
Payments of deferred finance fees	(2.2)	(2.4)
Purchase of treasury stock associated with net share settlement of employee share-based awards	(0.1)	(1.2)
Proceeds from the exercise of stock options	1.1	0.2

Net cash used in financing activities	(136.2)	(208.5)
Net decrease in cash and cash equivalents	(57.9)	(32.0)
CASH AND CASH EQUIVALENTS, beginning of period	91.6	53.4
CASH AND CASH EQUIVALENTS, end of period	$ 33.7	$ 21.4

See Note 10 for supplemental cash flow information

See accompanying Notes to Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 106 franchises (81dealership locations) in 21 metropolitan markets within 11 states as of September 30, 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. We offer 37 domestic and foreign brands of new vehicles, including 7 heavy truck brands. We also operate 25 collision repair centers that serve customers in our local markets.

During the first quarter of 2009, we completed the relocation of our corporate headquarters to Duluth, Georgia, and announced the elimination of our regional management structure. Our retail network is made up of the following locally-branded dealership groups: our Coggin dealerships, operating primarily in the Florida markets of Jacksonville, Fort Pierce and Orlando; our Courtesy dealerships operating in Tampa, Florida; our Crown dealerships operating in New Jersey, North Carolina, South Carolina and Virginia; our Nalley dealerships operating in Atlanta, Georgia; our McDavid dealerships operating throughout Texas; our North Point dealerships operating in Little Rock, Arkansas; our California dealerships operating in Los Angeles and Fresno; our Plaza dealerships operating in St. Louis, Missouri; and our Gray-Daniels dealerships operating in Jackson, Mississippi.

The automotive retail market declined significantly throughout 2008, reflecting the impact of weak economic conditions in the U.S. and globally, including turmoil in the debt markets, broad declines in the equity markets, low consumer confidence, rising unemployment and continued weakness in the housing market. The effects of these conditions have continued through the third quarter of 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 10.2 million for the first nine months of 2009. Tighter 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. While U.S. vehicle sales for all major vehicle manufacturers have declined during the recent difficult economic environment, U.S. domestic manufacturers have experienced a disproportionate amount of the decline in U.S. industry-wide vehicle sales over recent years.

These conditions were partially offset in the third quarter of 2009 by the federal government s Car Allowance Rebate System (CARS) program, otherwise known as Cash for Clunkers . This program 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. It is estimated by the U.S. Department of Transportation that this program led to the sale of nearly 700,000 new vehicles during July and August, and the U.S. new vehicle retail SAAR reached 14.1 million in August 2009. We sold approximately 3,300 new vehicles in connection with 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 CARS program, the U.S. new vehicle SAAR was 9.2 million. The federal government s CARS program may have accelerated future demand into the third quarter of 2009 and as a result sales volumes experienced during the quarter may not be sustainable in any future periods.

MANAGEMENT S RESPONSE TO THE CURRENT ECONOMIC ENVIRONMENT

Notwithstanding the improved financial results we experienced due to the CARS program, we expect the remainder of 2009 to continue to be a very challenging retail environment, which we believe will continue to negatively impact new vehicle revenue and the associated F&I revenue. In addition, the weak economic conditions have resulted in period-over-period parts and service sales declines. We expect the luxury and mid-line import brands, which comprised approximately 87% of our light vehicle revenue in the third quarter of 2009, will continue to increase their share of the U.S. market over the long-term. Excluding the impact of impairment expenses in 2008, we expect to experience lower net income in 2009 as compared to 2008, as a result of our expectations (i) of lower revenues and gross profit margins across all of our business lines in 2009, and (ii) that consumers will continue to experience difficulty securing vehicle financing.

In response to the weakening U.S. automotive retail environment in 2008 and our expectation for continued weakness in U.S. automotive sales in 2009, we took 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, include the relocation of our corporate offices, the elimination of our regional management structure and store-level productivity initiatives. The relocation of our corporate offices has delivered annualized cost savings resulting principally from staffing reductions, and expected rent savings would increase annualized savings. Beginning

in the third quarter of 2009, we began to recognize virtually all of the annualized rent and personnel savings related to the elimination of the regional management structure. We began to experience the benefit from our restructuring plans in January 2009, and we expect to begin to receive the full recurring benefit beginning in 2010. Our restructuring plans, store-level productivity initiatives and variable cost structure delivered $17.9 million in operating expense reduction during the third quarter of 2009, when compared to the prior-year quarter.

Since the beginning of the fourth quarter of 2008, we have temporarily suspended our strategy of growing our business through acquisitions, 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 $75 million (12%) of our non-floor plan debt. Also during this period, we have focused on improving our working capital by (i) increasing our floor plan notes payable related to loaner vehicles and new vehicles obtained from third-party dealerships, (ii) continuing to lower our inventory balances and (iii) improving our collection of contracts-in-transit and accounts receivable.

We are also currently engaged in additional store-level productivity initiatives, including (i) the transition to one common dealership management system, (ii) centralized processing of payroll and (iii) the consolidation of dealership accounting functions. We believe that our current liquidity position and plans for adhering to a disciplined capital spending budget will allow us to maintain operational growth, including the initiatives mentioned above, through our operating cash flow.

We are subject to a number of financial covenants in our various debt agreements. We have recently 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 the current depressed economic environment. 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. Refer to the Long-Term Debt footnote for further discussion of our debt agreements and the covenant amendments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation. In addition, certain immaterial amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Estimates and assumptions are reviewed quarterly and the effects of revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying condensed consolidated financial statements include, but are not limited to, inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance products, certain assumptions related to intangible and long-lived assets, reserves for insurance programs, reserves for certain legal proceedings, realization of deferred tax assets and reserves for estimated tax liabilities.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the unaudited interim condensed consolidated financial statements as of September 30, 2009, and for the three and nine months ended September 30, 2009 and 2008, have been included. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for a full year period. Our interim unaudited condensed consolidated financial statements should be read together with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

Certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008 have been classified as Assets Held for Sale and Liabilities Associated with Assets Held for Sale. In addition, the accompanying Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2008 have been reclassified to reflect the status of our discontinued operations as of September 30, 2009.

As of January 1, 2009, we adopted a new accounting standard and began separately accounting for the liability and equity components of our 3% Senior Subordinated Convertible Notes due 2012 (the 3% Notes) in a manner that reflected 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.

The adoption of this new standard, which required retrospective application, resulted in adjustments to Long-Term Debt, Equity and Interest Expense on the accompanying Condensed Consolidated Balance Sheets and Statements of Income related to our 3% Notes. We have determined that the value of our 3% Notes as of September 30, 2009 and December 31, 2008, was $56.0 million and $54.6 million, respectively, compared to $62.0 million of face value. These balances reflect the accretion of the value of the convertible feature of the debt, assuming a nonconvertible

debt borrowing rate of 7.6% at issuance. As of September 30, 2009 and December 31, 2008, the unamortized balance, which reduces the balance of our 3% Notes, was $6.0 million and $7.4 million, respectively. The remaining balance will be fully amortized by September 30, 2012. As a result, interest expense for the nine months ended September 30, 2009 and 2008 increased by $1.4 million and $2.4 million, respectively. Additionally, our accumulated deficit as of January 1, 2009, increased by $7.2 million, and our additional paid-in capital as of January 1, 2009, increased by $11.1 million.

Revenue Recognition

Revenue from the sale of new and used vehicles is recognized upon delivery, passage of title, signing of the sales contract and approval of financing. Revenue from the sale of parts and service is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a component of new vehicle cost of sales when earned, generally at the time the related vehicles are sold.

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

Earnings Per Share

Basic earnings per share is computed for all periods presented by dividing net income by our weighted-average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. There were no adjustments to the numerator necessary to compute diluted earnings per share. We have issued warrants that, upon exercise, may result in the issuance of between 2,443,526 and 4,887,052 shares of our common stock at an exercise price of $44.74 per share. In addition, our 3% Notes are convertible into our common stock at a current exercise price of $33.73 per share. The shares issuable upon exercise of warrants and 3% Notes could potentially dilute basic earnings per share in the future; however, these shares were not included in the computation of diluted earnings per share, because their inclusion would be anti-dilutive.

Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle (Non-trade), and all floor plan notes payable relating to pre-owned vehicles, are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer of a particular new vehicle (Trade) is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows.

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

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (FASB ASC) Topic 105, which created a single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, other than guidance issued by the U.S. Securities and Exchange Commission (SEC) and its staff. The standard is not intended to change U.S. generally accepted accounting principles (GAAP), but rather to remove specific references to accounting literature from filings with the SEC and focus on the effects of the literature on entities financial statements. We adopted this standard as of September 30, 2009.

3. ACQUISITIONS

During the nine months ended September 30, 2009, we did not acquire any dealerships. During the nine months ended September 30, 2008, we acquired one franchise (one dealership location), for an aggregate purchase price of $41.9 million. We financed this acquisition through the use of (i) $33.9 million of cash, (ii) $7.6 million of floor plan borrowings from our former committed credit facility with JPMorgan Chase Bank,

N.A. for the purchase of new vehicle inventory, and (iii) $0.4 million of loaner vehicle financing.

During the nine months ended September 30, 2009, we were awarded one Jeep franchise, which was added to our Chrysler/Dodge location in Greensboro, North Carolina. During the nine months ended September 30, 2008, we were awarded two

smart franchises, which were added to our Mercedes-Benz locations in St. Louis, Missouri and Tampa, Florida. We did not pay any amounts in connection with acquiring these three franchises.

4. INVENTORIES

Inventories consisted of the following:

	As of	
	September 30, 2009	December 31, 2008
	(In millions)	
New vehicles	$ 308.6	$ 562.2
Used vehicles	76.5	59.9
Parts and accessories	41.2	44.5
Total inventories	$ 426.3	$ 666.6

The lower of cost or market reserves reduced total inventory cost by $7.0 million and $5.6 million as of September 30, 2009 and December 31, 2008, respectively. In addition to the inventories shown above, we have $11.4 million and $22.9 million of inventory as of September 30, 2009 and December 31, 2008, respectively, classified as Assets Held for Sale on the accompanying Condensed Consolidated Balance Sheets as they are associated with franchises held for sale.

5. ASSETS AND LIABILITIES HELD FOR SALE

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

Assets associated with pending dispositions as of September 30, 2009 totaled $45.9 million, which included $22.4 million of real estate assets. Liabilities associated with pending dispositions totaled $27.7 million, including $17.1 million of mortgage notes payable, as of September 30, 2009. During the nine months ended September 30, 2009, we sold four franchises (three dealership locations). Assets associated with pending dispositions totaled $32.6 million as of December 31, 2008. Liabilities associated with pending dispositions totaled $20.6 million as of December 31, 2008.

Assets held for sale also includes real estate not currently used in our operations that we intend to sell totaling $18.3 million and $17.8 million as of September 30, 2009 and December 31, 2008, respectively. There were no liabilities associated with our real estate assets held for sale as of September 30, 2009. Liabilities associated with our real estate assets held for sale totaled $11.0 million as of December 31, 2008.

In July 2009, we repaid $8.0 million of mortgage notes payable that was related to Assets Held for Sale.

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

	As of	
	September 30, 2009	December 31, 2008
	(In millions)	
Assets:		
Inventories	$ 11.4	$ 22.9
Property and equipment, net	43.8	19.6
Manufacturer franchise rights	9.0	7.9

Total assets	64.2	50.4
Liabilities:		
Floor plan notes payable	10.6	20.6
Mortgage notes payable	17.1	8.0
Other		3.0
Total liabilities	27.7	31.6
Net assets held for sale	$ 36.5	$ 18.8

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6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	September 30, 2009	December 31, 2008
	(In millions)	
8% Senior Subordinated Notes due 2014 ($179.4 million face value, net of hedging activity of $4.8 million and $5.6 million, respectively)	$ 174.6	$ 173.8
7.625% Senior Subordinated Notes due 2017	143.2	143.2
3% Senior Subordinated Convertible Notes Due 2012 ($62.0 million face value, net of discounts of $6.0 million and $7.4 million, respectively)	56.0	54.6
Mortgage notes payable bearing interest at fixed and variable rates	154.9	177.5
Revolving credit facility		50.0
Other	0.1	0.6
	528.8	599.7
Less: current portion	(8.2)	(58.8)
Long-term debt	$ 520.6	$ 540.9

In May 2009, we amended our Master Loan Agreement with Wachovia Bank, National Association, a national banking association, and Wachovia Financial Services, Inc., a North Carolina corporation. The key components of this amendment are as follows:

The removal of the total leverage ratio financial covenant through the full term of the agreement;

Significant additional limitations on our ability to incur new indebtedness other than (i) permitted floorplan indebtedness, (ii) a one-time real estate loan in an amount not to exceed $12.0 million, (iii) certain refinancings, refunds, renewals or extensions of existing indebtedness and (iv) other customary permitted indebtedness;

At our option, after April 30, 2010, we may revert back to our original total leverage ratio financial covenant and remove the limitation related to any new indebtedness; and

A modification to the definition of (i) EBITDA, excluding gains or losses on the repurchase of debt, and (ii) Fixed Charges, excluding non-cash, non-floor plan interest expense and the cash portion of income taxes associated with gains on the repurchase of long-term debt.

In July 2009, we amended our revolving credit facility with Bank of America, as administrative agent, and a syndicate of commercial banks and commercial financing entities (the BofA Revolving Credit Facility), and our used vehicle floor plan facility with JPMorgan Chase Bank, N.A. and Bank of America (the JPMorgan Used Vehicle Floor Plan Facility). The amendments provide us with additional flexibility under each of the revolving credit facilities by:

Eliminating the total leverage ratio; and

Reducing the fixed charge coverage ratio from 1.20 to 1.00 to 1.10 to 1.00 for each of the four fiscal quarter periods ending on or prior to September 30, 2010.

The amendments also modify each of the credit facilities by:

Imposing significant additional limitations on our ability to incur new indebtedness other than (i) permitted floorplan indebtedness, (ii) real estate loans in an aggregate amount not to exceed $12.0 million, (iii) certain refinancings, refunds, renewals or extensions of existing indebtedness and (iv) other customary permitted indebtedness;

Effective for each four fiscal quarter period ending on or after March 31, 2010, modifying the definitions of (i) Consolidated EBITDA by excluding gains and losses and other expenses on repurchases of long-term debt, and (ii) Consolidated Fixed Charge Coverage Ratio by excluding from the calculation any taxes paid as a result of any gains on repurchases of long-term debt; and

Increasing the applicable interest rate margin from 1.5% to 2% and the undrawn commitment fee from 0.25% to 0.35% under the JPMorgan Used Vehicle Floor Plan Facility and increasing the fees and rates payable by us under the BofA Revolving Credit Facility in accordance with the revised pricing grid set forth below:

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Pricing Level	Utilization Rate	Commitment Fee	Letter of Credit Fee	Eurodollar Rate +	Base Rate +
1	Less than or equal to 25%	0.40%	2.75%	3.00%	2.00%
2	Less than or equal to 50% but greater than 25%	0.50%	3.25%	3.50%	2.50%
3	Greater than 50%	0.60%	3.75%	4.00%	3.00%

In addition, the amendment to our BofA Revolving Credit Facility modifies that facility by:

Reducing the EBITDA component of our borrowing base calculation;

Reducing the swing line credit availability from $25.0 million to $20.0 million and providing that the making of swing line loans is at the discretion of the swing line lender; and

Requiring us to reduce the total credit availability from $175.0 million to $150.0 million.

Pursuant to these amendments, at any time after April 30, 2010, we have the option upon thirty days written notice to the applicable administrative agent to reinstate the total leverage ratio and revert to the restrictions regarding additional debt set forth in the applicable revolving credit facility prior to the amendment.

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7. FINANCIAL INSTRUMENTS

Financial instruments consist primarily of cash, contracts-in-transit, accounts receivable, notes receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, long-term debt and interest rate swap agreements. The carrying amounts of our accounts receivable, notes receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable and interest rate swap agreements approximate fair value due either to length of maturity or existence of variable interest rates, which approximate market rates. The fair market value of our long-term debt is based on reported market value. A summary of the carrying values and fair market values of our 8% Senior Subordinated Notes due 2014 (the 8% Notes), 7.625% Senior Subordinated Notes due 2017 (the 7.625% Notes) and our 3% Notes are as follows:

	As of	
	September 30, 2009	December 31, 2008
	(In millions)	
Carrying Value:		
8% Senior Subordinated Notes due 2014 ($179.4 million face value, net of hedging activity of $4.8 million and $5.6 million, respectively)	$ 174.6	$ 173.8
7.625% Senior Subordinated Notes due 2017	143.2	143.2
3% Senior Subordinated Convertible Notes due 2012 ($62.0 million face value, net of discounts of $6.0 million and $7.4 million, respectively)	56.0	54.6
Total carrying value	$ 373.8	$ 371.6
Fair Market Value:		
8% Senior Subordinated Notes due 2014	$ 162.4	$ 85.2
7.625% Senior Subordinated Notes due 2017	125.3	64.4
3% Senior Subordinated Convertible Notes due 2012	44.8	23.3
Total fair market value	$ 332.5	$ 172.9

We have an interest rate swap with a current notional principal amount of $125.0 million. This swap was designed to provide a hedge against changes in interest rates on an equivalent amount of our variable rate floor plan notes payable through maturity in June 2013. This swap is collateralized by our assets on which we have not otherwise granted a first priority lien. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness.

In addition, we have an interest rate swap with a current notional principal amount of $12.4 million. This swap was designed to provide a hedge against changes in interest rates on an equivalent amount of our variable rate mortgage notes payable through maturity in June 2011. The notional value of this swap is reduced over its term. This interest rate swap qualifies for cash flow hedge accounting treatment and will contain minor ineffectiveness.

Information about the effect of derivative instruments on the accompanying Condensed Consolidated Statement of Income for the three months ended September 30, 2009 (in millions) is as follows:

Derivative in Cash Flow Hedging Relationships	Effective Results Recognized in OCI (Effective Portion)	Location of Results