ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
October 22, 2014
Table of Contents

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, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | x | Accelerated Filer | o |
| Non-Accelerated Filer | o | Smaller Reporting Company | o |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of October 21, 2014 was 29,769,231.

Table of Contents

ASBURY AUTOMOTIVE GROUP, INC.
INDEX


| | | Page |
|---|---|---|
| PART I—Financial Information | | |
| Item 1. | Condensed Consolidated Financial Statements (unaudited) | |
| | Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 | 1 |
| | Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2014 and 2013 | 2 |
| | Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013 | 3 |
| | Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013 | 4 |
| | Notes to Condensed Consolidated Financial Statements | 5 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 37 |
| Item 4. | Controls and Procedures | 37 |
| | PART II—Other Information | |
| Item 1. | Legal Proceedings | 38 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 38 |
| Item 4. | Mine Safety Disclosures | 39 |
| Item 6. | Exhibits | 40 |
| | Signatures | 41 |
| | Index to Exhibits | 42 |

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value and share data)
(Unaudited)

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $11.1 | $5.4 |
| Contracts-in-transit | 111.8 | 140.9 |
| Accounts receivable (net of allowance of $1.2 and $1.0, respectively) | 87.9 | 95.7 |
| Inventories | 784.6 | 767.7 |
| Deferred income taxes | 8.4 | 9.4 |
| Assets held for sale | 7.5 | 9.1 |
| Other current assets | 79.9 | 80.4 |
| Total current assets | 1,091.2 | 1,108.6 |
| PROPERTY AND EQUIPMENT, net | 700.1 | 651.5 |
| GOODWILL | 61.9 | 54.5 |
| DEFERRED INCOME TAXES, net of current portion | 11.8 | 13.1 |
| OTHER LONG-TERM ASSETS | 60.5 | 60.9 |
| Total assets | $1,925.5 | $1,888.6 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Floor plan notes payable—trade | $71.3 | $74.7 |
| Floor plan notes payable—non-trade | 485.8 | 534.8 |
| Current maturities of long-term debt | 13.5 | 11.1 |
| Accounts payable and accrued liabilities | 216.7 | 213.6 |
| Total current liabilities | 787.3 | 834.2 |
| LONG-TERM DEBT | 592.1 | 543.3 |
| OTHER LONG-TERM LIABILITIES | 22.2 | 20.5 |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding | — | — |
| Common stock, $.01 par value, 90,000,000 shares authorized; 40,300,007 and 40,095,557 shares issued, including shares held in treasury, respectively | 0.4 | 0.4 |
| Additional paid-in capital | 520.5 | 510.5 |
| Retained earnings | 263.3 | 163.5 |
| Treasury stock, at cost; 10,530,776 and 9,330,443 shares, respectively | (259.5) | (184.0) |
| Accumulated other comprehensive (loss) income | (0.8) | 0.2 |
| Total shareholders' equity | 523.9 | 490.6 |
| Total liabilities and shareholders' equity | $1,925.5 | $1,888.6 |

See accompanying Notes to Condensed Consolidated Financial Statements

1

Table of Contents

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, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES: | | | | |
| New vehicle | $821.3 | $759.9 | $2,378.8 | $2,167.9 |
| Used vehicle | 457.0 | 421.7 | 1,319.2 | 1,183.5 |
| Parts and service | 168.3 | 154.0 | 495.9 | 455.5 |
| Finance and insurance, net | 59.0 | 54.7 | 170.8 | 154.1 |
| Total revenues | 1,505.6 | 1,390.3 | 4,364.7 | 3,961.0 |
| COST OF SALES: | | | | |
| New vehicle | 772.1 | 713.4 | 2,232.4 | 2,035.6 |
| Used vehicle | 425.8 | 391.2 | 1,220.6 | 1,090.8 |
| Parts and service | 63.1 | 60.4 | 189.1 | 180.7 |
| Total cost of sales | 1,261.0 | 1,165.0 | 3,642.1 | 3,307.1 |
| GROSS PROFIT | 244.6 | 225.3 | 722.6 | 653.9 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 171.5 | 159.2 | 500.5 | 460.8 |
| Depreciation and amortization | 6.7 | 6.2 | 19.4 | 18.0 |
| Other operating expense, net | 0.3 | 1.9 | 0.2 | 7.1 |
| Income from operations | 66.1 | 58.0 | 202.5 | 168.0 |
| OTHER EXPENSES: | | | | |
| Floor plan interest expense | (3.0) | (2.9) | (9.3) | (9.1) |
| Other interest expense, net | (9.6) | (11.1) | (28.2) | (29.8) |
| Swap interest expense | (0.5) | (0.1) | (1.5) | (2.2) |
| Loss on extinguishment of long-term debt | — | (6.8) | — | (6.8) |
| Total other expenses, net | (13.1) | (20.9) | (39.0) | (47.9) |
| Income before income taxes | 53.0 | 37.1 | 163.5 | 120.1 |
| INCOME TAX EXPENSE | 20.6 | 14.3 | 63.4 | 46.2 |
| INCOME FROM CONTINUING OPERATIONS | 32.4 | 22.8 | 100.1 | 73.9 |
| DISCONTINUED OPERATIONS, net of tax | 0.1 | (0.1) | (0.3) | 8.3 |
| NET INCOME | $32.5 | $22.7 | $99.8 | $82.2 |
| EARNINGS PER COMMON SHARE: | | | | |
| Basic— | | | | |
| Continuing operations | $1.09 | $0.74 | $3.31 | $2.40 |
| Discontinued operations | — | — | (0.01) | 0.27 |
| Net income | $1.09 | $0.74 | $3.30 | $2.67 |
| Diluted— | | | | |
| Continuing operations | $1.08 | $0.73 | $3.29 | $2.38 |
| Discontinued operations | — | — | (0.01) | 0.26 |
| Net income | $1.08 | $0.73 | $3.28 | $2.64 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | | | |
| Basic | 29.8 | 30.7 | 30.2 | 30.8 |

| | | | | |
|---|---|---|---|---|
| Restricted stock | 0.1 | 0.2 | 0.1 | 0.2 |
| Performance share units | 0.1 | 0.2 | 0.1 | 0.1 |
| Diluted | 30.0 | 31.1 | 30.4 | 31.1 |

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $32.5 | $22.7 | $99.8 | $82.2 |
| Other comprehensive income (loss) — net of tax: | | | | |
| Change in fair value of cash flow swaps | 0.1 | — | (1.7) | 0.2 |
| Amortization of terminated cash flow swaps | — | 0.1 | — | 2.0 |
| Income tax (expense) benefit associated with cash flow swaps | — | (0.1) | 0.7 | (0.9) |
| Comprehensive income | $32.6 | $22.7 | $98.8 | $83.5 |

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net income | $99.8 | $82.2 |
| Adjustments to reconcile net income to net cash provided by operating activities— | | |
| Depreciation and amortization | 19.4 | 18.0 |
| Stock-based compensation | 6.7 | 6.9 |
| Deferred income taxes | 3.1 | 7.1 |
| Loss on extinguishment of debt | — | 6.8 |
| Loaner vehicle amortization | 9.9 | 7.3 |
| Excess tax benefit on share-based arrangements | (3.4) | (2.3) |
| Lease termination charges | 0.1 | 5.5 |
| Loss on disposal of fixed assets | 1.0 | 2.3 |
| Gain on sale of assets, net | — | (14.6) |
| Other adjustments, net | 1.1 | 2.9 |
| Changes in operating assets and liabilities, net of acquisitions and divestitures— | | |
| Contracts-in-transit | 29.1 | 28.7 |
| Accounts receivable | 5.1 | 6.7 |
| Proceeds from the sale of accounts receivable | 2.5 | 10.9 |
| Inventories | 47.4 | (28.5) |
| Other current assets | (62.7) | (65.1) |
| Floor plan notes payable—trade | (3.4) | 8.3 |
| Accounts payable and accrued liabilities | 2.7 | (10.9) |
| Proceeds from deferred compensation plan termination | — | 7.8 |
| Distribution of deferred compensation plan assets to participants | — | (7.8) |
| Other long-term assets and liabilities, net | 0.2 | 2.8 |
| Net cash provided by operating activities | 158.6 | 75.0 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Capital expenditures—excluding real estate | (43.9) | (29.4) |
| Capital expenditures—capitalized interest | (0.7) | (0.9) |
| Purchases of real estate | (11.5) | (10.7) |
| Purchases of previously leased real estate | (5.0) | (32.8) |
| Acquisitions | (21.9) | (61.8) |
| Proceeds from the sale of assets | — | 33.9 |
| Net cash used in investing activities | (83.0) | (101.7) |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Floor plan borrowings—non-trade | 2,564.6 | 2,344.6 |
| Floor plan borrowings—non-trade acquisitions | 6.5 | 11.3 |
| Floor plan repayments—non-trade | (2,620.1) | (2,350.8) |
| Floor plan repayments—non-trade divestitures | — | (5.4) |
| Proceeds from borrowings | 59.8 | 200.9 |
| Repayments of borrowings | (7.9) | (150.4) |
| Payment of debt issuance costs | (0.7) | (6.0) |
| | (75.5) | (24.9) |

| | | |
|---|---|---|
| Repurchases of common stock, including those associated with net share settlement of employee share-based awards | | |
| Excess tax benefit on share-based arrangements | 3.4 | 2.3 |
| Proceeds from the exercise of stock options | — | 0.2 |
| Net cash (used in) provided by financing activities | (69.9) | 21.8 |
| Net increase (decrease) in cash and cash equivalents | 5.7 | (4.9) |
| CASH AND CASH EQUIVALENTS, beginning of period | 5.4 | 6.2 |
| CASH AND CASH EQUIVALENTS, end of period | $11.1 | $1.3 |

See Note 9 for supplemental cash flow information
See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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 81 dealership locations (102 franchises) in 18 metropolitan markets within 10 states as of September 30, 2014. 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 September 30, 2014, we offered 29 domestic and foreign brands of new vehicles. Our current new vehicle revenue brand mix consists of 48% mid-line import, 38% luxury, and 14% domestic brands. We also operate 24 collision repair centers that serve customers in our local markets.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

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

In addition, we own and operate two stand-alone used vehicle stores under the “Q auto” brand name in Florida.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation. In addition, certain reclassifications of amounts previously reported have been made to the accompanying Condensed Consolidated Financial Statements in order to conform to current presentation. These reclassifications had no effect on previously reported net income.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities

as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly and the effects of any revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying condensed consolidated financial statements include, but are not limited to, those relating to inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance products, certain assumptions related to intangible and long-lived assets, reserves for insurance programs, reserves for certain legal or similar proceedings relating to our business operations, realization of deferred tax assets and reserves for estimated tax liabilities.
In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements as of September 30, 2014, and for the three and nine months ended September 30, 2014 and 2013, have been included. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period, or any full

year period. Our 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, 2013.

Contracts-In-Transit

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

Revenue Recognition

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

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

Earnings per Common Share

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

Discontinued Operations

Certain amounts reflected in the accompanying Condensed Consolidated Balance Sheets have been classified as Assets Held for Sale, and from time to time any associated liabilities may be reflected on the consolidated balance sheets as Liabilities Associated with Assets Held for Sale, with such classification beginning on the date that the assets and any associated liabilities were first considered held for sale.

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

Amounts in the accompanying Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 have been reclassified to reflect the results of franchises sold or closed subsequent to September 30, 2013 as if we had classified those franchises as discontinued operations for all periods presented.

Statements of Cash Flows

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

manufacturer from which we purchased the related inventory, while the latter are payable to a lender

6

Table of Contents

not affiliated with the manufacturer from which we purchased the related inventory. Repayments of Floor Plan Notes Payable - Trade associated with divestitures are classified as an operating activity. Repayments of Floor Plan Notes Payable - Non-Trade associated with divestitures are classified as a financing activity.

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

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the “FASB”) issued an accounting standard that raises the threshold for disposals to qualify as discontinued operations and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The standard revised the definition of a discontinued operation to cover only asset disposals that are considered to be a strategic shift with a major impact on an entity's operations and finances, such as the disposal of a major geographic area or a significant line of business. Application of the standard, which is to be applied prospectively, is required for fiscal years beginning on or after December 15, 2014, and for interim periods within that year. We currently plan to adopt the standard in January 2015. Based on our initial assessment of the standard, we expect that any potential future disposals of our dealerships will not be reported as discontinued operations and that the results of operations of any such disposed dealerships, including revenues, costs and any gains or losses on disposal, will be classified as continuing operations within our Consolidated Statements of Income for all periods presented through the date of disposition. Our initial assessment is based on our current understanding of the standard and any potential future transactions will need to be evaluated, both individually and in the aggregate, to assess the impact of the standard.

In May 2014, the FASB issued their new standard on revenue recognition. The new standard will supersede existing revenue recognition guidance and apply to all entities that enter into contracts to provide goods or services to customers. The guidance also addresses the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as real estate, property and equipment. The new standard will become effective beginning with the first quarter of 2017 and can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of adoption. We are currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

3. ACQUISITIONS

Results of acquired dealerships are included in our accompanying Condensed Consolidated Statements of Income commencing on the date of acquisition. Our acquisitions are accounted for using the acquisition method of accounting, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Goodwill is an asset representing operational synergies and future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

In January 2014, we acquired the assets of one franchise in our existing market of Greenville, South Carolina for an aggregate purchase price of $4.6 million. Upon acquisition, this franchise was integrated with one of our existing dealership locations in Greenville. We financed this acquisition with $4.1 million of cash and $0.5 million of floor plan borrowings for the purchase of the related new vehicle inventory.

In June 2014, we acquired the assets of one franchise (one dealership location) in our existing market of Orlando, Florida for an aggregate purchase price of $17.3 million. We financed this acquisition with $11.3 million of cash and $6.0 million of floor plan borrowings for the purchase of the related new vehicle inventory.

Below is the allocation of purchase price for the acquisitions completed during the nine months ended September 30, 2014. The $8.6 million of goodwill and manufacturer franchise rights associated with our acquisitions will be deductible for federal and state income taxes ratably over a 15 year period.

Table of Contents

| | As of September 30, 2014 |
|---|---|
| | (In millions) |
| Inventory | $7.3 |
| Real estate | 5.5 |
| Property and equipment | 0.5 |
| Goodwill | 7.3 |
| Manufacturer franchise rights | 1.3 |
| Total purchase price | $21.9 |

4. INVENTORIES

Inventories consisted of the following:

| | As of September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions) | |
| New vehicles | $611.7 | $ 605.2 |
| Used vehicles | 130.4 | 121.8 |
| Parts and accessories | 42.5 | 40.7 |
| Total inventories | $784.6 | $ 767.7 |

The lower of cost or market reserves reduced total inventory cost by $5.8 million and $6.0 million as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014 and December 31, 2013, certain automobile manufacturer incentives reduced new vehicle inventory cost by $6.7 million and $7.4 million, respectively, and reduced new vehicle cost of sales from continuing operations for the nine months ended September 30, 2014 and September 30, 2013 by $22.5 million and $20.4 million, respectively.

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 are actively marketing to sell and the related mortgage notes payable, if applicable.

Real estate not currently used in our operations that we are actively marketing to sell totaled $7.5 million and $9.1 million as of September 30, 2014 and December 31, 2013, respectively. There were no liabilities associated with our real estate assets held for sale as of September 30, 2014 or December 31, 2013.

A summary of assets held for sale is as follows:

| | As of September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions) | |
| Assets: | | |
| Property and equipment, net | $7.5 | $9.1 |
| Total assets | $7.5 | $9.1 |

Table of Contents

## 6. LONG-TERM DEBT

Long-term debt consists of the following:

| | As of September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions) | |
| 8.375% Senior Subordinated Notes due 2020 | $300.0 | $300.0 |
| Mortgage notes payable bearing interest at fixed and variable rates | 221.2 | 166.5 |
| Real estate credit agreement | 72.4 | 75.0 |
| Capital lease obligations | 3.6 | 3.7 |
| | 597.2 | 545.2 |
| Add: unamortized premium on 8.375% Senior Subordinated Notes due 2020 | 8.4 | 9.2 |
| Long-term debt, including current portion | 605.6 | 554.4 |
| Less: current portion (a) | (13.5) | (11.1) |
| Long-term debt | $592.1 | $543.3 |

(a) Includes $1.1 million of unamortized premium on our 8.375% Senior Subordinated Notes as of September 30, 2014 and December 31, 2013.

During the nine months ended September 30, 2014, we entered into seven fixed rate mortgage notes payable which are collateralized by the related real estate at seven of our owned dealership locations. The initial principal amount of the mortgage notes payable was $59.8 million. All seven mortgages were financed by a captive finance company affiliated with one of our manufacturing partners. In connection with our entrance into these mortgage notes payable, we paid approximately $0.7 million in debt issuance costs, which were capitalized and are being amortized to Other Interest Expense over the terms of the related mortgage notes payable.

Asbury Automotive Group, Inc. is a holding company with no independent assets or operations. For all periods presented, our 8.375% Senior Subordinated Notes due 2020 (the “8.375% Notes”) have been fully and unconditionally guaranteed, on a joint and several basis, by substantially all of our subsidiaries. Any subsidiaries which have not guaranteed such notes are “minor” (as defined in Rule 3-10(h) of Regulation S-X). As of September 30, 2014, there were no significant restrictions on the ability of our subsidiaries to distribute cash to us or our guarantor subsidiaries.

## 7. FINANCIAL INSTRUMENTS AND FAIR VALUE

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

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

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

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

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more

9

Table of Contents

judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

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

Financial instruments consist primarily of cash and cash equivalents, contracts-in-transit, accounts receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, subordinated long-term debt, mortgage notes payable and interest rate swap agreements. The carrying values of our financial instruments, with the exception of subordinated long-term debt, approximate fair value due to (i) their short-term nature, (ii) recently completed market transactions or (iii) existence of variable interest rates, which approximate market rates. The fair value of our subordinated long-term debt is based on reported market prices which reflect Level 2 inputs. A summary of the carrying values and fair values of our 8.375% Notes is as follows:

| | As of September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In millions) | |
| Carrying Value: | | |
| 8.375% Senior Subordinated Notes due 2020 | $308.4 | $309.2 |
| Total carrying value | $308.4 | $309.2 |
| | | |
| Fair Value: | | |
| 8.375% Senior Subordinated Notes due 2020 | $322.5 | $336.8 |
| Total fair value | $322.5 | $336.8 |

In November 2013, we entered into an interest rate swap agreement with a notional principal amount of $75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows through maturity in September 2023. The notional value of this swap was $72.4 million as of September 30, 2014 and is reducing over its remaining term to $38.7 million at maturity.

We are also party to an interest rate swap agreement that had a notional principal amount of $17.5 million as of September 30, 2014. This swap is designed to provide a hedge against changes in variable interest rate cash flows through maturity in October 2015. The notional value of this swap is reducing over the remaining term to $16.1 million at maturity.

Both of our interest rate swaps qualify for cash flow hedge accounting treatment and do not, and will not, contain any ineffectiveness.

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

| For the Three Months Ended September 30, | Derivative in Cash Flow Hedging Relationships | Results Recognized in AOCI (Effective Portion) | Location of Results Reclassified from AOCI to Earnings | Amount Reclassified from AOCI to Earnings–Active Swaps | Amount Reclassified from AOCI to Earnings–Terminated Swaps | Ineffective Results Recognized in Earnings | Locatio Ineffect |
|---|---|---|---|---|---|---|---|
| 2014 | Interest rate swaps | $(0.4) | Swap interest expense | $(0.5) | $— | $— | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2013 | Interest rate swaps | $(0.1) | Swap interest expense | $— | $(0.1) | $— | N/A |

10

Table of Contents

| For the Nine Months Ended September 30, | Derivative in Cash Flow Hedging Relationships | Results Recognized in AOCI (Effective Portion) | Location of Results Reclassified from AOCI to Earnings | Amount Reclassified from AOCI to Earnings–Active Swaps | Amount Reclassified from AOCI to Earnings–Terminated Swaps | Ineffective Results Recognized in Earnings | Locatio Ineffect |
|---|---|---|---|---|---|---|---|
| 2014 | Interest rate swaps | $(3.2) | Swap interest expense | $(1.5) | $— | $— | N/A |
| 2013 | Interest rate swaps | $(0.1) | Swap interest expense | $(0.2) | $(2.0) | $— | N/A |

On the basis of yield curve conditions as of September 30, 2014 and including assumptions about future changes in fair value, we anticipate that the amount expected to be reclassified out of AOCI into earnings in the next 12 calendar months will be a loss of $1.8 million.

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

| Information about amounts reclassified out of AOCI | (In millions) |
|---|---|
| Accumulated other comprehensive income — December 31, 2013 | $0.2 |
| Change in fair value of cash flow swaps | (1.7) |
| Income tax impact associated with cash flow swaps | 0.7 |
| Accumulated other comprehensive loss — September 30, 2014 | $(0.8) |

Market Risk Disclosures as of September 30, 2014:

Instruments entered into for trading purposes—None

Instruments entered into for hedging purposes (in millions)—

| Type of Derivative | Notional Size | Underlying Rate | Expiration | Fair Value |
|---|---|---|---|---|
| Interest Rate Swap* | $72.4 | 1 month LIBOR | September 2023 | $(1.2) |
| Interest Rate Swap* | $17.5 | 1 month LIBOR | October 2015 | $(0.2) |

* The total fair value of our swaps is a $1.4 million net liability, of which $1.8 million is included in Accounts Payable and $0.4 million is included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheet.

Market Risk Disclosures as of December 31, 2013:

Instruments entered into for trading purposes—None

Instruments entered into for hedging purposes (in millions)—

| Type of Derivative | Notional Size | Underlying Rate | Expiration | Fair Value |
|---|---|---|---|---|
| Interest Rate Swap* | $75.0 | 1 month LIBOR | September 2023 | $0.7 |
| Interest Rate Swap* | $18.4 | 1 month LIBOR | October 2015 | $(0.4) |

* The total fair value of our swaps is a $0.3 million net asset, of which $1.9 million is included in Accounts Payable and Accrued Liabilities, $0.1 million is included in Other Long-Term Liabilities and $2.3 million is included in Other Long-Term Assets on the accompanying Condensed Consolidated Balance Sheet.

Table of Contents

8. DISCONTINUED OPERATIONS AND DIVESTITURES

As of September 30, 2014, there were no franchises pending disposition. Operating expenses in the table below include rent and other expenses of idle facilities previously associated with businesses sold or closed prior to September 30, 2014.

The following tables provide further information regarding our discontinued operations as of September 30, 2014, and includes the results of businesses sold prior to September 30, 2014:

| | For the Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (In millions) | |
| Revenues | $— | $— |
| Cost of sales | — | — |
| Gross profit | — | — |
| Operating expenses | 0.1 | 0.2 |
| Impairment expenses | — | — |
| Loss from operations | (0.1) | (0.2) |
| Other income, net | 0.2 | — |
| Gain on disposition | — | — |
| Loss before income taxes | 0.1 | (0.2) |
| Income tax benefit | — | 0.1 |
| Discontinued operations, net of tax | $0.1 | $(0.1) |

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (In millions, except franchise data) | |
| Franchises: | | |
| Mid-line import | — | 1 |
| Total | — | 1 |
| Revenues | $— | $3.8 |
| Cost of sales | — | 3.4 |
| Gross profit | — | 0.4 |
| Operating expenses | 0.7 | 1.5 |
| Loss from operations | (0.7) | (1.1) |
| Other income, net | 0.2 | — |
| Gain on disposition | — | 14.6 |
| (Loss) income before income taxes | (0.5) | 13.5 |
| Income tax benefit (expense) | 0.2 | (5.2) |
| Discontinued operations, net of tax | $(0.3) | $8.3 |

9. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2014 and 2013, we made interest payments, including amounts capitalized, totaling $31.7 million and $34.1 million, respectively. Included in these interest payments are $9.6 million and $8.6 million, of floor plan interest payments for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents

During the nine months ended September 30, 2014 and 2013, we made income tax payments, net of refunds received, totaling $48.7 million and $46.9 million, respectively.
During the nine months ended September 30, 2014 and 2013, we sold $2.6 million and $11.1 million, respectively, of trade receivables at a discount of $0.1 million and $0.2 million, respectively.
During the nine months ended September 30, 2014 and 2013, we transferred $56.9 million and $46.3 million, respectively, of loaner vehicles from Other Current Assets to Inventory on our Condensed Consolidated Balance Sheets.

## 10. COMMITMENTS AND CONTINGENCIES

Our dealerships are party to dealer and framework agreements with applicable vehicle manufacturers. In accordance with these agreements, each dealership has certain rights and is subject to restrictions typical in the industry. The ability of these manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a materially negative impact on our operating results.
In some instances, manufacturers may have the right, and may direct us, to implement costly capital improvements to dealerships as a condition to entering into, renewing or extending franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to use our financial resources on capital projects that we might not have planned for or otherwise determined to undertake.
From time to time, we and our dealerships are or may become involved in various claims relating to, and arising out of, our business and our operations. These claims may involve, but not be limited to, financial and other audits by vehicle manufacturers, lenders and certain federal, state and local government authorities, which have historically related primarily to (a) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (b) compliance with lender rules and covenants and (c) payments made to government authorities relating to federal, state and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings and other dispute resolution processes. Such claims, including class actions, could relate to, but may not be limited to, the practice of charging administrative fees and other fees and commissions, employment-related matters, truth-in-lending and other dealer assisted financing obligations, contractual disputes, actions brought by governmental authorities and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.
We believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable. Based on our review of the various types of claims currently known to us, there is no indication of material reasonably possible losses in excess of amounts accrued in the aggregate. We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity or results of operations.
A significant portion of our business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages and general political and socio-economic conditions in foreign countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices.
Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state and local requirements. No assurances can be provided, however, that future laws or

regulations, or changes in existing laws or regulations, would not require us to expend significant resources in order to comply therewith.

We had $10.7 million of letters of credit outstanding as of September 30, 2014, which are required by certain of our insurance providers. In addition, as of September 30, 2014, we maintained a $5.0 million surety bond line in the ordinary course of our business. Our letters of credit and surety bond line are considered to be off balance sheet arrangements.

Our other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

Table of Contents

11. SUBSEQUENT EVENTS

In October 2014, we entered into a fixed rate mortgage note payable which was collateralized by the related real estate at one of our owned dealership locations. The total initial principal amount of the mortgage note payable was $13.4 million.

Subsequent to September 30, 2014, our floor plan facility with Ford terminated in accordance with its terms on the maturity date thereof. At that time, all amounts outstanding thereunder were repaid with an equivalent amount of additional borrowings under our senior secured new vehicle revolving floor plan facility.

In October 2014, our Board of Directors approved an additional increase in our stock repurchase authorization, bringing our ability to repurchase common stock up to a total of $200.0 million as of October 15, 2014. Our board-approved authority to repurchase common stock has no stated expiration date and any associated repurchases may be completed in open market, or privately negotiated, transactions from time to time. Any repurchases will be subject to applicable limitations in our debt or other financing agreements as may be in existence from time to time.

Pursuant to the indenture governing our 8.375% Notes (the “Indenture”) and the agreements governing our senior secured credit facilities (the “Credit Agreement”), our ability to repurchase shares of our common stock and pay cash dividends is limited by our required compliance with certain financial covenants and restrictions. As of September 30, 2014, the financial covenants and restrictions contained in the Credit Agreement were more restrictive than those contained in the Indenture, and limited our ability to repurchase shares of our common stock and pay cash dividends to a total of $92.8 million.

In October 2014, we amended the Credit Agreement, effectively increasing our ability to repurchase shares of our common stock and pay cash dividends by approximately $83.6 million as of the amendment date. After giving effect to the amendment, our calculated ability to repurchase shares of our common stock and pay cash dividends as of September 30, 2014 would have been $176.4 million.

Under the Indenture, as of September 30, 2014, our capacity to repurchase our common stock remains at $116.5 million. Accordingly, the limitations contained in the Indenture are now the most restrictive.

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

### Forward-Looking Information

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

- our ability to execute our business strategy;
- the seasonally adjusted annual rate (“SAAR”) of new vehicle sales in the U.S.;
- our ability to further improve our operating cash flows, and the availability of capital and liquidity;
- our estimated future capital expenditures;
- the duration of the economic recovery process and its impact on our revenues and expenses;
- our parts and service revenue due to, among other things, improvements in manufacturing quality;

- the variable nature of significant components of our cost structure;
- our ability to limit our exposure to regional economic downturns due to our geographic diversity and brand mix;
- manufacturers' willingness to continue to use incentive programs to drive demand for their product offerings;
- our ability to leverage our common systems, infrastructure and processes in a cost-efficient manner;
- our capital allocation strategy, including acquisitions and divestitures, stock repurchases and capital expenditures;
- the continued availability of financing, including floor plan financing for inventory;

- the ability of consumers to secure vehicle financing, including at favorable rates;
- the growth of mid-line import and luxury brands over the long-term;
- our ability to mitigate any future negative trends in new vehicle sales; and
- our ability to increase our net income as a result of the foregoing and other factors.

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

- our ability to execute our balanced automotive retailing and service business strategy;
- the level of SAAR;
- changes in the mix, and total number, of vehicles we are able to sell;
- changes in general economic and business conditions, including changes in consumer confidence levels, interest rates, consumer credit availability and employment levels;
- changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements and environmental laws;
- changes in the price of oil and gasoline;
- the timing and extent of any manufacturer recalls;
- our ability to generate sufficient cash flows, maintain our liquidity and obtain any necessary additional funds for working capital, capital expenditures, acquisitions, stock repurchases, debt maturity repayments and other corporate purposes, if necessary or desirable;
- our continued ability to comply with applicable covenants in various of our financing and lease agreements, or to obtain waivers of these covenants as necessary;
- our relationships with, and the reputation and financial health and viability of, the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver and market their vehicles successfully;
- significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages or other occurrences that are outside of our control;
- adverse results from litigation or other similar proceedings involving us;
- our relationships with, and the financial stability of, our lenders and lessors;
- our ability to execute our initiatives and other strategies;
- high levels of competition in our industry, which may create pricing and margin pressures on our products and services;

- our ability to renew, and enter into new, framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;

- our ability to attract and to retain key personnel;

- our ability to leverage gains from our dealership portfolio; and

- any disruptions in the financial markets, which may impact our ability to access capital.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth in the discussion and analysis below and under Item 1A entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statements.

Table of Contents

OVERVIEW

We are one of the largest automotive retailers in the United States, operating 81 dealership locations (102 franchises) in 18 metropolitan markets within 10 states as of September 30, 2014. 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 September 30, 2014, we offered 29 domestic and foreign brands of new vehicles. Our current new vehicle revenue brand mix consists of 48% mid-line, 38% luxury, and 14% domestic brands. We also operate 24 collision repair centers that serve customers in our local markets.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

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

In addition, we own and operate two stand-alone used vehicle stores under the “Q auto” brand name in Florida.

Our revenues are derived primarily from: (i) the sale of new vehicles to individual retail customers (“new vehicle retail”) and commercial customers (“fleet”) (the terms “new vehicle retail” and “fleet” being together referred to as “new”); (ii) the sale of used vehicles to individual retail customers (“used retail”) and to other dealers at auction (“wholesale”) (the terms “used retail” and “wholesale” being together referred to as “used”); (iii) maintenance and collision repair services and the sale of automotive parts (together referred to as “parts and service”); and (iv) the arrangement of vehicle financing and the sale of a number of aftermarket products, such as insurance and service contracts (collectively referred to as “F&I”).

We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and F&I based on dealership generated F&I gross profit per vehicle sold. We assess the organic growth of our revenue and gross profit by comparing the year-to-year results of stores that we have operated for at least twelve full months (“same store”).

Our organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix and the production of desirable vehicles by automobile manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices and employment levels. We believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure and (iii) our brand mix. Historically, our brand mix has been less affected by market volatility than the U.S. automobile industry as a whole. We believe that our new vehicle revenue brand mix, which included approximately 49% of revenue from mid-line import brands and 37% of revenue from luxury brands in the third quarter of 2014, is well positioned for growth over the long term.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated more revenue and operating income in the second and third quarters than in the first

and fourth quarters of the calendar year. Generally, the seasonal variations in our results of operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

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

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

Table of Contents

profit and all other SG&A expenses in the aggregate as a percentage of total gross profit, with the exception of advertising expense, which we evaluate on a per vehicle retailed ("PVR") basis.

The United States automotive retail market showed continued year-over-year improvement through the third quarter of 2014, with new vehicle SAAR increasing to 16.8 million during the third quarter of 2014 as compared to 15.7 million during the third quarter of 2013. We continued to benefit from improving economic conditions in 2014, which we attribute to continued increases in consumer confidence, the continued availability of credit at terms favorable to consumers resulting primarily from the current low interest rate environment, gradually improving unemployment levels, and the increasing age of the U.S. automotive fleet. We believe that the overall economic recovery will continue to be fragile, and may be subject to change based on consumer confidence, interest rates, unemployment levels and other macro-economic factors as the long-term prospects for, and the timing of, a return to a consistently strong economy continue to be difficult to predict.

As of September 30, 2014, we had total available liquidity of $376.6 million, which consisted of cash and cash equivalents of $11.1 million, $122.0 million of availability under our floor plan offset account, and borrowing availability of $164.3 million and $79.2 million under our revolving credit facility and our used vehicle revolving floor plan facility, respectively. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.

Table of Contents

RESULTS OF OPERATIONS

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

| | For the Three Months Ended September 30, | | Increase (Decrease) | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| | (Dollars in millions, except per share data) | | | |
| REVENUES: | | | | |
| New vehicle | $821.3 | $759.9 | 61.4 | 8 % |
| Used vehicle | 457.0 | 421.7 | 35.3 | 8 % |
| Parts and service | 168.3 | 154.0 | 14.3 | 9 % |
| Finance and insurance, net | 59.0 | 54.7 | 4.3 | 8 % |
| Total revenues | 1,505.6 | 1,390.3 | 115.3 | 8 % |
| GROSS PROFIT: | | | | |
| New vehicle | 49.2 | 46.5 | 2.7 | 6 % |
| Used vehicle | 31.2 | 30.5 | 0.7 | 2 % |
| Parts and service | 105.2 | 93.6 | 11.6 | 12 % |
| Finance and insurance, net | 59.0 | 54.7 | 4.3 | 8 % |
| Total gross profit | 244.6 | 225.3 | 19.3 | 9 % |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 171.5 | 159.2 | 12.3 | 8 % |
| Depreciation and amortization | 6.7 | 6.2 | 0.5 | 8 % |
| Other operating expense, net | 0.3 | 1.9 | (1.6) | (84)% |
| Income from operations | 66.1 | 58.0 | 8.1 | 14 % |
| OTHER EXPENSES: | | | | |
| Floor plan interest expense | (3.0) | (2.9) | 0.1 | 3 % |
| Other interest expense, net | (9.6) | (11.1) | (1.5) | (14)% |
| Swap interest expense | (0.5) | (0.1) | 0.4 | 400 % |
| Loss on extinguishment of long-term debt | — | (6.8) | (6.8) | (100)% |
| Total other expense, net | (13.1) | (20.9) | (7.8) | (37)% |
| Income before income taxes | 53.0 | 37.1 | 15.9 | 43 % |
| INCOME TAX EXPENSE | 20.6 | 14.3 | 6.3 | 44 % |
| INCOME FROM CONTINUING OPERATIONS | 32.4 | 22.8 | 9.6 | 42 % |
| DISCONTINUED OPERATIONS, net of tax | 0.1 | (0.1) | 0.2 | 200 % |
| NET INCOME | $32.5 | $22.7 | $9.8 | 43 % |
| Income from continuing operations per common share—Diluted | $1.08 | $0.73 | $0.35 | 48 % |
| Net income per common share—Diluted | $1.08 | $0.73 | $0.35 | 48 % |

Table of Contents

| | For the Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| REVENUE MIX PERCENTAGES: | | |
| New vehicles | 54.5 % | 54.7 % |
| Used retail vehicles | 26.6 % | 26.7 % |
| Used vehicle wholesale | 3.8 % | 3.6 % |
| Parts and service | 11.2 % | 11.1 % |
| Finance and insurance, net | 3.9 % | 3.9 % |
| Total revenue | 100.0 % | 100.0 % |
| GROSS PROFIT MIX PERCENTAGES: | | |
| New vehicles | 20.1 % | 20.6 % |
| Used retail vehicles | 13.4 % | 14.1 % |
| Used vehicle wholesale | (0.6 )% | (0.5 )% |
| Parts and service | 43.0 % | 41.5 % |
| Finance and insurance, net | 24.1 % | 24.3 % |
| Total gross profit | 100.0 % | 100.0 % |
| SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT | 70.1 % | 70.7 % |

Net income and income from continuing operations increased by $9.8 million (43%) and $9.6 million (42%), respectively, during the third quarter of 2014 as compared to the third quarter of 2013. The increase in income from continuing operations was primarily driven by (i) a $19.3 million (9%) increase in gross profit, (ii) a prior year quarter loss of $6.8 million on the redemption of our 7.625% Senior Subordinated Notes due 2017 (the "7.625% Notes"), (iii) prior year quarter real estate related charges of $2.1 million included in Other Operating Expense, net and (iv) a $1.5 million (14%) decrease in Other Interest Expense, net as a result of the redemption of our 7.625% Notes in the prior year quarter, all of which were partially offset by a $12.3 million (8%) increase in SG&A expenses.

Gross profit increased across all four of our business lines and was driven by (i) an $11.6 million (12%) increase in parts and service gross profit, (ii) a $4.3 million (8%) increase in F&I gross profit and (iii) a $2.7 million (6%) increase in new vehicle gross profit. Our total gross profit margin remained unchanged at 16.2% with a 170 basis point increase in our same store parts and service gross margin offset by a 30 basis point decrease in our same store used vehicle retail gross margin.

The $115.3 million (8%) increase in total revenue was primarily a result of (i) a $61.4 million (8%) increase in new vehicle revenue and (ii) a $35.3 million (8%) increase in used vehicle revenue.

Table of Contents

New Vehicle—

| | For the Three Months Ended September 30, 2014 | 2013 | Increase | % Change |
|---|---|---|---|---|
| | (Dollars in millions, except for per vehicle data) | | | |
| Revenue: | | | | |
| New vehicle revenue—same store(1) | | | | |
| Luxury | $298.0 | $282.8 | $15.2 | 5 % |
| Mid-line import | 403.5 | 377.5 | 26.0 | 7 % |
| Mid-line domestic | 112.1 | 99.6 | 12.5 | 13 % |
| Total new vehicle revenue—same store(1) | 813.6 | 759.9 | 53.7 | 7 % |
| New vehicle revenue—acquisitions and new stores | 7.7 | — | | |
| New vehicle revenue, as reported | $821.3 | $759.9 | $61.4 | 8 % |
| Gross profit: | | | | |
| New vehicle gross profit—same store(1) | | | | |
| Luxury | $21.2 | $20.6 | $0.6 | 3 % |
| Mid-line import | 20.6 | 19.5 | 1.1 | 6 % |
| Mid-line domestic | 6.7 | 6.4 | 0.3 | 5 % |
| Total new vehicle gross profit—same store(1) | 48.5 | 46.5 | 2.0 | 4 % |
| New vehicle gross profit—acquisitions and new stores | 0.7 | — | | |
| New vehicle gross profit, as reported | $49.2 | $46.5 | $2.7 | 6 % |

| | For the Three Months Ended September 30, 2014 | 2013 | Increase | % Change |
|---|---|---|---|---|
| New vehicle units: | | | | |
| New vehicle retail units—same store(1) | | | | |
| Luxury | 5,879 | 5,705 | 174 | 3 % |
| Mid-line import | 15,238 | 14,193 | 1,045 | 7 % |
| Mid-line domestic | 2,965 | 2,747 | 218 | 8 % |
| Total new vehicle retail units—same store(1) | 24,082 | 22,645 | 1,437 | 6 % |
| Fleet vehicles | 336 | 242 | 94 | 39 % |
| Total new vehicle units—same store(1) | 24,418 | 22,887 | 1,531 | 7 % |
| New vehicle units—acquisitions and new stores | 236 | — | | |
| New vehicle units—actual | 24,654 | 22,887 | 1,767 | 8 % |

New Vehicle Metrics—

| | For the Three Months Ended September 30, 2014 | 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Revenue per new vehicle sold—same store(1) | $33,320 | $33,202 | $118 | — % |
| Gross profit per new vehicle sold—same store(1) | $1,986 | $2,032 | $(46) | (2)% |
| New vehicle gross margin—same store(1) | 6.0 % | 6.1 % | (0.1)% | (2)% |

(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 $61.4 million (8%) increase in new vehicle revenue was primarily a result of a 7% increase in same store new vehicle unit sales, combined with $7.7 million derived from acquisitions. Same store revenues increased across each of our three brand categories, driven primarily by corresponding new vehicle unit sales increases.

20

Table of Contents

Total new vehicle gross profit increased by $2.7 million (6%), largely driven by a $1.1 million (6%) increase in same store gross profit from our mid-line import brands and a $0.6 million (3%) increase in same store gross profit from our luxury brands. Our new vehicle gross profit also included $0.7 million derived from acquisitions. Our same store gross profit per new vehicle sold decreased by $46 (2%) overall, largely driven by slight margin declines in our mid-line import and mid-line domestic brands, coupled with a shift in our sales mix towards these brands, which have lower margins than our luxury brands. Our margins in the near future are expected to be primarily dependent upon market-based forces of supply and demand

Same store unit volumes for our mid-line domestic and mid-line import brands increased by 8% and 7% respectively, driving the overall 7% increase in same store new vehicle unit sales and reflecting (i) an increase in sales of new and redesigned models, (ii) the continued availability of credit at terms favorable to our customers and (iii) an improvement in the availability of new vehicle inventory from which to choose. New vehicle SAAR increased by 7% to 16.8 million for the third quarter of 2014 as compared to 15.7 million in the third quarter of 2013.

Used Vehicle—

| | For the Three Months Ended September 30, | | Increase (Decrease) | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| | (Dollars in millions, except for per vehicle data) | | | |
| Revenue: | | | | |
| Used vehicle retail revenues—same store(1) | $391.0 | $371.2 | $19.8 | 5% |
| Used vehicle retail revenues—acquisitions and new stores | 8.6 | — | | |
| Total used vehicle retail revenues | 399.6 | 371.2 | 28.4 | 8% |
| Used vehicle wholesale revenues—same store(1) | 56.8 | 50.5 | 6.3 | 12% |
| Used vehicle wholesale revenues—acquisitions and new stores | 0.6 | — | | |
| Total used vehicle wholesale revenues | 57.4 | 50.5 | 6.9 | 14% |
| Used vehicle revenue, as reported | $457.0 | $421.7 | $35.3 | 8% |
| Gross profit: | | | | |
| Used vehicle retail gross profit—same store(1) | $31.9 | $31.6 | $0.3 | 1% |
| Used vehicle retail gross profit—acquisitions and new stores | 0.7 | — | | |
| Total used vehicle retail gross profit | 32.6 | 31.6 | 1.0 | 3% |
| Used vehicle wholesale gross profit—same store(1) | (1.2) | (1.1) | (0.1) | 9% |
| Used vehicle wholesale gross profit—acquisitions and new stores | (0.2) | — | | |
| Total used vehicle wholesale gross profit | (1.4) | (1.1) | (0.3) | 27% |
| Used vehicle gross profit, as reported | $31.2 | $30.5 | $0.7 | 2% |
| Used vehicle retail units: | | | | |
| Used vehicle retail units—same store(1) | 19,178 | 18,715 | 463 | 2% |
| Used vehicle retail units—acquisitions and new stores | 447 | — | | |
| Used vehicle retail units—actual | 19,625 | 18,715 | 910 | 5% |

Used Vehicle Metrics—

| | For the Three Months Ended September 30, | | Increase (Decrease) | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| Revenue per used vehicle retailed—same store(1) | $20,388 | $19,834 | $554 | 3% |
| Gross profit per used vehicle retailed—same store(1) | $1,663 | $1,688 | $(25) | (1)% |
| Used vehicle retail gross margin—same store(1) | 8.2% | 8.5% | (0.3)% | (4)% |

(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.

Table of Contents

The $35.3 million (8%) increase in used vehicle revenue was primarily the result of (i) a 3% increase in same store revenue per used vehicle retailed, (ii) a 2% increase in same store used vehicle retail unit sales, (iii) $9.2 million derived from acquisitions and other new stores and (iv) a $6.3 million (12%)increase in same store used vehicle wholesale revenue. The 2% increase in same store used vehicle retail unit sales reflects the continued availability of credit at terms favorable to customers and the ongoing impact of our "Asbury 1-2-1" program, a volume-driven initiative with a goal of retailing one used vehicle for every new vehicle retailed. This program is designed to drive not only used retail volume, but to increase revenues from associated parts and service reconditioning and F&I as well. The $6.3 million increase in same store used vehicle wholesale revenue was primarily the result of reducing our days supply of inventory during the third quarter of 2014.

The $1.0 million (3%) increase in used vehicle retail gross profit was driven primarily by our acquisitions and other new stores and a 2% increase in same store unit volumes, partially offset by a 1% decrease in gross profit per vehicle used vehicle retailed. Our used vehicle retail margins in the third quarter of 2014 were impacted by (i) margin pressures created by the general increase in the supply of used vehicles as a result of customer trade-ins and vehicles coming off lease, (ii) a declining price environment pressured by an increase in manufacturer new vehicle incentives, (iii) our focus on selling more used vehicles as retail units instead of wholesale units and (iv) our reduction of inventory levels moving into the fall selling season.

Our used vehicle inventory had approximately 35 days of supply in our inventory as of September 30, 2014 as compared to 41 days of supply as of June 30, 2014.

Parts and Service—

| | For the Three Months Ended September 30, | | Increase | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| | (Dollars in millions) | | | |
| Revenue: | | | | |
| Parts and service revenue—same store(1) | $167.6 | $154.0 | $13.6 | 9 % |
| Parts and service revenues—acquisitions and new stores | 0.7 | — | | |
| Parts and service revenue, as reported | $168.3 | $154.0 | $14.3 | 9 % |
| Gross profit: | | | | |
| Parts and service gross profit—same store(1) | | | | |
| Customer pay | $58.2 | $54.4 | $3.8 | 7 % |
| Reconditioning and preparation | 27.2 | 23.0 | 4.2 | 18 % |
| Warranty | 14.2 | 11.4 | 2.8 | 25 % |
| Wholesale parts | 5.1 | 4.8 | 0.3 | 6 % |
| Total parts and service gross profit—same store(1) | 104.7 | 93.6 | 11.1 | 12 % |
| Parts and service gross profit—acquisitions and new stores | 0.5 | — | | |
| Parts and service gross profit, as reported | $105.2 | $93.6 | $11.6 | 12 % |
| Parts and service gross margin—same store(1) | 62.5 % | 60.8 % | 1.7 % | 3 % |

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

The $14.3 million (9%) increase in parts and service revenue was primarily due to (i) a $7.9 million (7%) increase in same store customer pay revenue, (ii) a $4.2 million (18%) increase in same store warranty revenue and (iii) $0.7 million derived from acquisitions and other new stores. The 170 basis point increase in our same store parts and service gross margin was primarily the result of increases in our higher margin parts and service businesses, including an 18% increase in gross profit from reconditioning and preparation of vehicles, a 25% increase in gross profit from

warranty work and a 7% increase in our customer pay parts and service gross profit. The $4.2 million increase in reconditioning and preparation gross profit was primarily driven by a 2% increase in our same store used vehicle retail unit sales and a 7% increase in our same store new vehicle unit sales. Gross profit associated with warranty work increased by 2.8 million (25%), partially due to certain

Table of Contents

manufacturer recalls that occurred during the third quarter of 2014, as well as increased units in operation resulting from the steady increase in new vehicle sales in the United States over the past few years.

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

Finance and Insurance, net—

| | For the Three Months Ended September 30, 2014 | 2013 | Increase | % Change |
|---|---|---|---|---|
| | (Dollars in millions, except for per vehicle data) | | | |
| Finance and insurance, net—same store(1) | $58.3 | $54.7 | $3.6 | 7 % |
| Finance and insurance, net—acquisitions and new stores | 0.7 | — | | |
| Finance and insurance, net as reported | $59.0 | $54.7 | $4.3 | 8 % |
| Finance and insurance, net per vehicle sold—same store(1) | $1,337 | $1,315 | $22 | 2 % |

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

F&I increased by $4.3 million (8%) during the third quarter of 2014 as compared to third quarter of 2013, primarily due to (i) a 5% increase in same store retail unit sales and (ii) $0.7 million derived from acquisitions and other new stores. We continue to focus on improving the number of F&I contracts sold as a percentage of retail unit sales (also known as our F&I penetration rate), as well as improving the F&I results at our lower-performing stores through our F&I training programs, which include implementing a certification process and certain best practices initiatives.

Selling, General and Administrative Expense—

| | For the Three Months Ended September 30, 2014 | % of Gross Profit | 2013 | % of Gross Profit | Increase (Decrease) | % of Gross Profit (Decrease) Increase |
|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | |
| Personnel costs | $75.7 | 31.3 % | $72.7 | 32.3 % | $3.0 | (1.0 )% |
| Sales compensation | 25.7 | 10.6 % | 24.5 | 10.9 % | 1.2 | (0.3 )% |
| Share-based compensation | 2.4 | 1.0 % | 2.5 | 1.1 % | (0.1 ) | (0.1 )% |
| Outside services | 18.3 | 7.6 % | 16.0 | 7.1 % | 2.3 | 0.5 % |
| Advertising | 8.0 | 3.3 % | 8.6 | 3.8 % | (0.6 ) | (0.5 )% |
| Rent | 7.8 | 3.2 % | 8.1 | 3.6 % | (0.3 ) | (0.4 )% |
| Utilities | 4.4 | 1.8 % | 4.1 | 1.8 % | 0.3 | — % |
| Insurance | 3.7 | 1.5 % | 2.7 | 1.2 % | 1.0 | 0.3 % |
| Other | 22.4 | 9.2 % | 20.0 | 8.9 % | 2.4 | 0.3 % |
| Selling, general and administrative expense—same store(1) | 168.4 | 69.5 % | 159.2 | 70.7 % | 9.2 | (1.2 )% |
| Acquisitions and new stores | 3.1 | | — | | | |
| Selling, general and administrative—actual | $171.5 | 70.1 % | $159.2 | 70.7 % | $12.3 | (0.6 )% |
| Gross profit—same store(1) | $242.2 | | $225.3 | | | |
| Gross profit—actual | $244.6 | | $225.3 | | | |

23

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

Same store SG&A expense as a percentage of gross profit was 69.5% for the third quarter of 2014 as compared to 70.7% for the third quarter of 2013. The 120 basis point decrease was primarily attributable to (i) a 100 basis point decrease in personnel costs as a result of further leveraging our fixed cost structure, (ii) a 50 basis point decrease in advertising expense and (iii) a 40 basis point decrease in rent expense primarily as a result of our recent purchases of certain previously leased real estate.

We continue to be engaged in numerous productivity initiatives designed to further reduce our fixed cost structure and improve our profitability and are currently focused on fully leveraging our single dealer management system with our other technology platforms and centralizing additional back office processes. We also continuously evaluate opportunities to purchase real estate properties that we lease.

Depreciation and Amortization Expense —

The $0.5 million (8%) increase in depreciation and amortization expense during the third quarter of 2014 when compared to the third quarter of 2013 was primarily the result of (i) our purchase of certain previously leased real estate throughout 2013, (ii) additional fixed assets acquired in acquisitions and (iii) the completion of certain construction projects that resulted in newly depreciable assets placed into service during the past year.

Other Operating Expense, net —

Other Operating Expense, net includes gains and losses from the sale of property and equipment, income derived from lease arrangements and other non-core operating items. During the third quarter of 2013, we recognized a $2.1 million lease termination charge as a result of our purchase of certain previously leased real estate.

Loss on Extinguishment of long-term Debt —

During the third quarter of 2013, we recognized a $6.8 million loss on the redemption of all of the $143.2 million of our outstanding 7.625% Notes, consisting of (i) $3.6 million of premiums paid pursuant to the terms of the redemption notice, (ii) a $3.1 million write-off of unamortized debt issuance costs associated with the 7.625% Notes and (iii) $0.1 million of third-party costs associated with the redemption of the 7.625% Notes.

Swap Interest Expense —

We have historically entered into various derivative financial instruments, including fair value and cash flow interest rate swaps, which have been designed to provide hedges against changes in fair value of certain debt obligations and variable rate cash flows. Our earnings have been impacted by these interest rate swaps in the form of (i) amounts reclassified from AOCI to earnings for active swaps, (ii) amortization of amounts reclassified from AOCI to earnings for terminated cash flow swaps and (iii) amortization of terminated fair value swaps. The pre-tax impact on earnings related to our various derivative financial instruments during the third quarter of 2014 and 2013 was $0.5 million and $0.1 million, respectively. The $0.4 million increase in swap interest expense during the third quarter of 2014 when compared to the third quarter 2013 is primarily the result of an interest rate swap entered into during the fourth quarter of 2013.

Income Tax Expense —

The $6.3 million (44%) increase in income tax expense was primarily a result of the $15.9 million (43%) increase in income before income taxes in the third quarter of 2014 compared to the third quarter of 2013. Our effective tax rate increased 40 basis points from 38.5% in 2013 to 38.9% in the 2014. Our effective tax rate is highly dependent on our level of income before income taxes and permanent differences between book and tax income. As a result, it is difficult to project our overall effective tax rate for any given period. Based upon our current expectation of 2014 income before income taxes, we expect our effective income tax rate will be between 38% and 40% in 2014.

Discontinued Operations —

The $0.1 million, net of tax, net gain from discontinued operations for the third quarter of 2014 consists of $0.2 million in insurance recoveries offset by $0.1 million in rent and other expenses of idle facilities associated with franchises sold prior to September 30, 2014.

The $0.1 million, net of tax, net loss from discontinued operations in the third quarter of 2013 consists of net operating losses of franchises sold prior to September 30, 2013, including rent and other expenses of idle facilities.

Table of Contents

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

Table of Contents

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

| | For the Nine Months Ended September 30, 2014 | 2013 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| | (Dollars in millions, except per share data) | | | |
| REVENUES: | | | | |
| New vehicle | $2,378.8 | $2,167.9 | $210.9 | 10 % |
| Used vehicle | 1,319.2 | 1,183.5 | 135.7 | 11 % |
| Parts and service | 495.9 | 455.5 | 40.4 | 9 % |
| Finance and insurance, net | 170.8 | 154.1 | 16.7 | 11 % |
| Total revenues | 4,364.7 | 3,961.0 | 403.7 | 10 % |
| GROSS PROFIT: | | | | |
| New vehicle | 146.4 | 132.3 | 14.1 | 11 % |
| Used vehicle | 98.6 | 92.7 | 5.9 | 6 % |
| Parts and service | 306.8 | 274.8 | 32.0 | 12 % |
| Finance and insurance, net | 170.8 | 154.1 | 16.7 | 11 % |
| Total gross profit | 722.6 | 653.9 | 68.7 | 11 % |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 500.5 | 460.8 | 39.7 | 9 % |
| Depreciation and amortization | 19.4 | 18.0 | 1.4 | 8 % |
| Other operating expense, net | 0.2 | 7.1 | (6.9) | (97)% |
| Income from operations | 202.5 | 168.0 | 34.5 | 21 % |
| OTHER EXPENSES: | | | | |
| Floor plan interest expense | (9.3) | (9.1) | 0.2 | 2 % |
| Other interest expense, net | (28.2) | (29.8) | (1.6) | (5)% |
| Swap interest expense | (1.5) | (2.2) | (0.7) | (32)% |
| Loss on extinguishment of long-term debt | — | (6.8) | (6.8) | 100 % |
| Total other expense, net | (39.0) | (47.9) | (8.9) | (19)% |
| Income before income taxes | 163.5 | 120.1 | 43.4 | 36 % |
| INCOME TAX EXPENSE | 63.4 | 46.2 | 17.2 | 37 % |
| INCOME FROM CONTINUING OPERATIONS | 100.1 | 73.9 | 26.2 | 35 % |
| DISCONTINUED OPERATIONS, net of tax | (0.3) | 8.3 | (8.6) | (104)% |
| NET INCOME | $99.8 | $82.2 | $17.6 | 21 % |
| Income from continuing operations per common share—Diluted | $3.29 | $2.38 | $0.91 | 38 % |
| Net income per common share—Diluted | $3.28 | $2.64 | $0.64 | 24 % |

Table of Contents

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| REVENUE MIX PERCENTAGES: | | |
| New vehicles | 54.5 % | 54.7 % |
| Used retail vehicles | 26.6 % | 26.3 % |
| Used vehicle wholesale | 3.6 % | 3.6 % |
| Parts and service | 11.4 % | 11.5 % |
| Finance and insurance, net | 3.9 % | 3.9 % |
| Total revenue | 100.0 % | 100.0 % |
| GROSS PROFIT MIX PERCENTAGES: | | |
| New vehicles | 20.3 % | 20.2 % |
| Used retail vehicles | 13.7 % | 14.3 % |
| Used vehicle wholesale | (0.1 )% | (0.1 )% |
| Parts and service | 42.5 % | 42.0 % |
| Finance and insurance, net | 23.6 % | 23.6 % |
| Total gross profit | 100.0 % | 100.0 % |
| SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT | 69.3 % | 70.5 % |

Income from continuing operations increased by $26.2 million (35%) during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in income from continuing operations was primarily driven by a $68.7 million (11%) increase in gross profit, which was partially offset by a $39.7 million (9%) increase in SG&A expenses and a $17.2 million (37%) increase in income tax expense. Net income increased by $17.6 million (21%) during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Net income and income from continuing operations for the nine months ended September 30, 2013 were reduced by $4.5 million, net of tax, due to real estate related charges. On a pre-tax basis, these charges totaled $7.3 million and are included in Other Operating Expense, net. Net income for the nine months ended September 30, 2013 was positively impacted by the sale of one franchise (one dealership location), which resulted in an $8.9 million net-of-tax gain, which is included in discontinued operations, net.

Gross profit increased across all four of our business lines and was driven by (i) a $32.0 million (12%) increase in parts and service gross profit, (ii) a $16.7 million (11%) increase in F&I gross profit and (iii) a $14.1 million (11%) increase in new vehicle gross profit. Our total gross profit margin was 16.6% and 16.5% for the nine months ended September 30, 2014 and 2013, respectively.

The $403.7 million (10%) increase in total revenue was primarily a result of (i) a $210.9 million (10%) increase in new vehicle revenue and (ii) a $135.7 million (11%) increase in used vehicle revenue.

Table of Contents

New Vehicle—

| | For the Nine Months Ended September 30, | | Increase | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| | (Dollars in millions, except for per vehicle data) | | | |
| Revenue: | | | | |
| New vehicle revenue—same store(1) | | | | |
| Luxury | $873.4 | $783.5 | $89.9 | 11 % |
| Mid-line import | 1,119.5 | 1,079.8 | 39.7 | 4 % |
| Mid-line domestic | 337.2 | 304.6 | 32.6 | 11 % |
| Total new vehicle revenue—same store(1) | 2,330.1 | 2,167.9 | 162.2 | 7 % |
| New vehicle revenue—acquisitions and new stores | 48.7 | — | | |
| New vehicle revenue, as reported | $2,378.8 | $2,167.9 | $210.9 | 10 % |
| Gross profit: | | | | |
| New vehicle gross profit—same store(1) | | | | |
| Luxury | $63.2 | $56.3 | $6.9 | 12 % |
| Mid-line import | 59.5 | 56.2 | 3.3 | 6 % |
| Mid-line domestic | 20.9 | 19.8 | 1.1 | 6 % |
| Total new vehicle gross profit—same store(1) | 143.6 | 132.3 | 11.3 | 9 % |
| New vehicle gross profit—acquisitions and new stores | 2.8 | — | | |
| New vehicle gross profit, as reported | $146.4 | $132.3 | | |