ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
October 22, 2014
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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, 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 (State or other jurisdiction of incorporation or organization)	01-0609375 (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 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.

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

	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

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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,	
	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

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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

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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

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

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 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

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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

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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.

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	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

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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

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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

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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.

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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.

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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