ASBURY AUTOMOTIVE GROUP INC
Form 10-Q/A
March 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from to

Commission file number: 001-31262

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

Delaware	**01-0609375**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

622 Third Avenue, 37th Floor	
New York, New York	**10017**
(Address of principal executive offices)	(Zip Code)

(212) 885-2500
(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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of August 3, 2005, was 32,745,053 (net of 1,586,587 treasury shares).

EXPLANATORY NOTE

We are filing Amendment No. 1 to the Asbury Automotive Group, Inc. Quarterly Report on Form 10-Q for the three and six months ended June 30, 2005 to change the presentation of certain floor plan notes payable information. We finance substantially all of our new and at times a portion of our used vehicle inventories under revolving floor plan notes payable with various lenders. Consistent with industry practice, the Company previously reported all floor plan notes payable as a single line on our Consolidated Balance Sheets and all cash flow activity relating to floor plan notes payable in the operating activities section of our Consolidated Statement of Cash flows. In addition, we historically considered all borrowings and repayments of floor plan notes payable associated with inventory acquired through a dealership acquisition and inventory sold through a dealership divestiture, non-cash activities. Floor plan notes payable to a party unaffiliated with the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, have been restated as floor plan notes payable non-manufacturer affiliated on the Consolidated Balance Sheets, and the related non-manufacturer affiliated cash flows have been restated from operating activities to financing activities on the Consolidated Statements of Cash Flows with borrowings reflected separately from repayments. In addition, we have included floor plan notes payable activity associated with dealership acquisitions and divestitures in the Consolidated Statements of Cash Flows.

The changes in presentation have no effect on net income, earnings per share, stockholder s equity or our conclusion that our disclosure controls and procedures were effective as of June 30, 2005. However, because we are restating the financial statements included in our Form 10-Q, our financial statements include the effects of entities which became discontinued operations during the nine months ended September 30, 2005. In addition, we have made certain other immaterial reclassifications to conform to current presentation. All other information in this amendment is as of the date of the original filing and does not reflect any subsequent information or events occurring after the date of the original filing. Forward looking statements made reflect our expectations as of the date of our original filing and have not been adjusted to reflect subsequent information.

ASBURY AUTOMOTIVE GROUP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2005 (Unaudited) (Restated)*	December 31, 2004 (Restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,049	$ 28,093
Contracts-in-transit	112,432	105,360
Restricted investments	1,813	1,645
Accounts receivable (net of allowance of $2,224 and $2,073, respectively)	150,183	148,196
Inventories	722,160	761,557
Deferred income taxes	15,576	15,576
Prepaid and other current assets	58,512	56,831
Assets held for sale	43,424	25,748
Total current assets	1,115,149	1,143,006
PROPERTY AND EQUIPMENT, net	205,982	195,788
GOODWILL	464,947	461,650
RESTRICTED INVESTMENTS, net of current portion	3,282	2,478
OTHER LONG-TERM ASSETS	99,139	95,037
Total assets	$ 1,888,499	$ 1,897,959
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable manufacturer affiliated	$ 181,414	$ 336,369
Floor plan notes payable non-manufacturer affiliated	431,723	314,579
Current maturities of long-term debt	32,936	33,880
Accounts payable	66,649	53,078
Accrued liabilities	88,992	89,066
Liabilities associated with assets held for sale	27,619	20,538
Total current liabilities	829,333	847,510
LONG-TERM DEBT	476,408	492,536
DEFERRED INCOME TAXES	38,375	40,360
OTHER LONG-TERM LIABILITIES	39,927	35,821
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS EQUITY:		
Preferred stock, $.01 par value per share, 10,000,000 shares authorized		
Common stock, $.01 par value per share, 90,000,000 shares authorized 34,195,206 and 34,163,759 shares issued, including shares held in treasury, respectively	342	342
Additional paid-in capital	413,490	413,094
Retained earnings	113,532	87,905
Treasury stock, at cost; 1,586,587 shares held	(15,032)	(15,032)
Accumulated other comprehensive loss	(7,876)	(4,577)
Total shareholders equity	504,456	481,732
Total liabilities and shareholders equity	$ 1,888,499	$ 1,897,959

* See Note 2 Restatement

See Notes to Consolidated Financial Statements.

ASBURY AUTOMOTIVE GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
REVENUES:				
New vehicle	$ 880,684	$ 786,669	$ 1,659,191	$ 1,450,818
Used vehicle	350,740	300,639	673,312	583,993
Parts, service and collision repair	160,635	142,237	315,012	276,501
Finance and insurance, net	39,386	34,917	75,134	63,329
Total revenues	1,431,445	1,264,462	2,722,649	2,374,641
COST OF SALES:				
New vehicle	820,187	730,750	1,545,450	1,346,046
Used vehicle	320,654	275,400	614,325	533,927
Parts, service and collision repair	77,588	66,666	151,868	131,234
Total cost of sales	1,218,429	1,072,816	2,311,643	2,011,207
GROSS PROFIT	213,016	191,646	411,006	363,434
OPERATING EXPENSES:				
Selling, general and administrative	162,706	147,801	323,600	284,721
Depreciation and amortization	4,782	4,753	9,489	9,325
Income from operations	45,528	39,092	77,917	69,388
OTHER INCOME (EXPENSE):				
Floor plan interest expense	(7,541)	(4,724)	(14,147)	(8,831)
Other interest expense	(10,270)	(10,132)	(19,871)	(20,396)
Interest income	171	106	436	373
Other income, net	337	84	452	208
Total other expense, net	(17,303)	(14,666)	(33,130)	(28,646)
Income before income taxes	28,225	24,426	44,787	40,742
INCOME TAX EXPENSE	10,584	8,982	16,795	15,100
INCOME FROM CONTINUING OPERATIONS	17,641	15,444	27,992	25,642
DISCONTINUED OPERATIONS, net of tax	(1,655)	(696)	(2,365)	(530)
NET INCOME	$ 15,986	$ 14,748	$ 25,627	$ 25,112
EARNINGS PER COMMON SHARE:				
Basic				
Continuing operations	$ 0.54	$ 0.48	$ 0.86	$ 0.79
Discontinued operations	(0.05)	(0.03)	(0.07)	(0.02)
Net income	$ 0.49	$ 0.45	$ 0.79	$ 0.77
Diluted				
Continuing operations	$ 0.54	$ 0.47	$ 0.85	$ 0.78
Discontinued operations	(0.05)	(0.02)	(0.07)	(0.01)
Net income	$ 0.49	$ 0.45	$ 0.78	$ 0.77
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	32,604	32,470	32,596	32,452
Diluted	32,725	32,656	32,753	32,688

See Notes to Consolidated Financial Statements.

ASBURY AUTOMOTIVE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Six Months Ended June 30, 2005 (Restated)*	For the Six Months Ended June 30, 2004 (Restated)*
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 25,627	$ 25,112
Adjustments to reconcile net income to net cash used in operating activities-		
Depreciation and amortization	9,489	9,325
Depreciation and amortization from discontinued operations	1,100	1,341
Amortization of deferred financing fees	1,013	1,170
Change in allowance for doubtful accounts	151	(327)
(Gain) loss on sale of discontinued operations	(10)	474
Other adjustments	2,993	3,543
Changes in operating assets and liabilities, net of acquisitions and divestitures-		
Contracts-in-transit	(7,072)	(2,482)
Accounts receivable	(10,375)	(35,511)
Proceeds from the sale of accounts receivable	8,126	9,976
Inventories	31,705	(63,735)
Prepaid and other current assets	(13,190)	(6,454)
Floor plan notes payable manufacturer affiliated	(141,120)	25,078
Accounts payable and accrued liabilities	13,097	16,578
Other long-term assets and liabilities	770	(7,202)
Net cash used in operating activities	(77,696)	(23,114)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures non-financed	(16,942)	(18,391)
Capital expenditures financeable	(18,236)	(16,130)
Construction reimbursements associated with sale-leaseback agreements	2,595	9,493
Acquisitions	(11,562)	(100,403)
Proceeds from the sale of assets	7,989	3,522
Other investing activities	(878)	913
Net cash used in investing activities	(37,034)	(120,996)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings non-manufacturer affiliated	1,753,115	1,185,266
Floor plan repayments non-manufacturer affiliated	(1,629,643)	(1,130,882)
Proceeds from borrowings	20,734	3,850
Repayments of debt	(41,989)	(6,813)
Payments of debt issuance costs	(4,927)	
Proceeds from the exercise of stock options	396	857
Net cash provided by financing activities	97,686	52,278
Net decrease in cash and cash equivalents	(17,044)	(91,832)
CASH AND CASH EQUIVALENTS, beginning of period	28,093	106,711
CASH AND CASH EQUIVALENTS, end of period	$ 11,049	$ 14,879

See Note 12 for supplemental cash flow information

* See Note 2 Restatement

See Notes to Consolidated Financial Statements

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

1. DESCRIPTION OF BUSINESS

Asbury Automotive Group, Inc. is a national automotive retailer, operating 94 dealership locations (129 franchises) as of June 30, 2005. We offer an extensive range of automotive products and services, including new and used vehicles, financing and insurance, vehicle maintenance and collision repair services, replacement parts and service contracts. We offer 33 domestic and foreign brands of new vehicles, including four heavy truck brands. We also operate 23 collision repair centers that serve our markets. Our retail network is organized into regional dealership groups, formerly called platforms, in 23 metropolitan markets, which are marketed under different local brands.

During the first quarter of 2005, we reorganized our platforms into principally four regions: (i) Florida (comprising our Coggin dealerships, operating primarily in Jacksonville and Orlando, and our Courtesy dealerships operating in Tampa), (ii) West (comprising our McDavid dealerships operating throughout Texas, our Thomason dealerships operating in Portland, Oregon, our Spirit dealerships operating primarily in Los Angeles, California and our Northern California Dealerships operating in Sacramento and Fresno, California), (iii) Mid-Atlantic (comprising our Crown dealerships operating in North Carolina, South Carolina and Southern Virginia) and (iv) South (comprising our Nalley dealerships operating in Atlanta, Georgia, and our North Point dealerships operating in Little Rock, Arkansas.) Our Plaza dealerships operating in St. Louis, Missouri and our Gray Daniels dealerships operating in Jackson, Mississippi remain standalone operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim consolidated financial statements reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current period presentation.

In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of the unaudited interim consolidated financial statements as of June 30, 2005, and for the three and six months ended June 30, 2005 and 2004 have been included. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the full year. Our interim unaudited 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/A for the year ended December 31, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Restatement

Subsequent to the issuance of the Company s December 31, 2004 financial statements, we determined that certain information in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows should be restated for all periods presented to comply with the guidance under Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows, and Rule 5-02(19)(a) of Regulation S-X. Historically, we reported all cash flows arising in connection with changes in floor plan notes payable as an operating activity and considered all borrowings and repayments of floor plan notes payable associated with inventory acquired through a dealership acquisition and inventory sold through a dealership divestiture, non-cash activities. Therefore, the changes in floor plan notes payable associated with dealership acquisitions and divestitures were not included in the Consolidated Statements of Cash Flows. As a result, we have (i) restated floor plan notes payable to a party other than the manufacturer of a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles, as floor plan notes payable non-manufacturer affiliated on our Consolidated Balance Sheets (ii) restated the related non-manufacturer affiliated cash flows as a financing activity on our Consolidated Statements of Cash flows with borrowings reflected separately from repayments and (iii) included floor plan notes payable activity associated with dealership acquisitions and divestitures in the Consolidated Statements of Cash Flows. A summary of the significant effects of the restatement are as follows:

(In thousands)		As of June 30, 2005
Floor plan notes payable previously reported	$	613,137
Floor plan notes payable manufacturer affiliated - previously reported	$	
Floor plan notes payable manufacturer affiliated		181,414
Floor plan notes payable manufacturer affiliated restated	$	181,414
Floor plan notes payable non-manufacturer affiliated - previously reported	$	
Floor plan notes payable non-manufacturer affiliated		431,723
Floor plan notes payable non-manufacturer affiliated restated	$	431,723

	For the Six Months Ended June 30,			
(In thousands)		2005		2004
Cash provided by operating activities previously reported	$	43,394	$	4,651
Floor plan notes payable manufacturer affiliated		(121,343)		(27,393)
Other		253		(372)
Cash used in operating activities restated	$	(77,696)	$	(23,114)
Cash used in investing activities previously reported	$	(34,652)	$	(94,377)
Acquisitions		(6,870)		(28,809)
Proceeds from the sale of assets		4,741		1,818
Other		(253)		372
Cash used in investing activities restated	$	(37,034)	$	(120,996)
Cash used in financing activities previously reported	$	(25,786)	$	(2,106)
Floor plan borrowings non-manufacturer affiliated		1,753,115		1,185,266
Floor plan repayments non-manufacturer affiliated		(1,629,643)		(1,130,882)
Cash provided by financing activities restated	$	97,686	$	52,278

Revenue Recognition

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

We receive commissions from the sale of vehicle service contracts, credit life insurance and disability insurance to customers. In addition, we receive commissions from financing institutions for arranging customer financing. We may be charged back (chargebacks) for finance, insurance or vehicle service contract commissions in the event a contract is terminated. The revenues from financing fees and commissions are recorded at the time the vehicles are sold and a reserve for future chargebacks is established based on historical operating results and the termination provisions of the applicable contracts. Finance, insurance and vehicle service contract commissions, net of estimated chargebacks, are included in Finance and insurance, net in the accompanying Consolidated Statements of Income.

Goodwill and Other Intangible Assets

Upon adoption of Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, on January 1, 2002, we determined that each of our platforms qualified as a reporting unit since we operate in one segment, our platforms are one level below our corporate level, discrete financial information existed for each platform and the management of each platform directly reviewed the platform s performance. In late 2004, we began the process of reorganizing our platforms into four regions. Within this more streamlined structure, we will evaluate our operations and financial results by dealership in the aggregate, rather than by platform. The general managers, with direction from a centralized management team, including corporate and regional management, will continue to have the independence and flexibility to respond effectively to local market conditions. Based on the changes in our management, operational and reporting structure during the first quarter of 2005, we evaluate goodwill at the operating segment level.

Stock-Based Compensation

We account for stock-based compensation issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB Opinion No. 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock. We have adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-An amendment of FASB Statement No. 123.

The following table illustrates the effect on net income and net income per share had stock-based employee compensation been recorded based on the fair value method under SFAS No. 123 Accounting for Stock-Based Compensation :

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands, except per share data)	**2005**	**2004**	**2005**	**2004**
Net income	$ 15,986	$ 14,748	$ 25,627	$ 25,112
Adjustments to net income:				
Stock-based compensation expense included in net income, net of tax		62	1	83
Pro forma stock-based compensation expense, net of tax	(674)	(1,406)	(1,340)	(2,595)
Pro forma net income	$ 15,312	$ 13,404	$ 24,288	$ 22,600