

ASBURY AUTOMOTIVE GROUP INC  
Form 10-K  
February 25, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

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

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

Delaware	01-0609375
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2905 Premiere Parkway, NW, Suite 300	30097
Duluth, Georgia	(Zip Code)
(Current address of principal executive offices)	
(770) 418-8200	
(Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	
None.	

a

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

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

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  No





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FOR THE YEAR ENDED  
DECEMBER 31, 2013

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PART I.

Forward-Looking Information

Certain of the discussions and information included in this report may constitute “forward-looking statements” within the meaning of the federal securities laws. 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,” “expect,” “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;
- 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, manufacturer recalls, age of vehicles in service and any changes in business strategy and government regulations;
- the variable nature of significant components of our cost structure;
- our ability to decrease 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 fully leverage our dealer management system in a cost-efficient manner;
- our acquisition and divestiture strategies;
- the continued availability of financing, including floor plan financing for inventory;
- the ability of consumers to secure vehicle financing;
- 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;
- 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;

• our ability to generate sufficient cash flows, maintain our liquidity and obtain additional funds for working capital, capital expenditures, acquisitions, debt maturities and other corporate purposes, if necessary;

• 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;

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• 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;

• our relationship 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

• changes in our ability to access capital.

Many of these factors are beyond our control or difficult to predict, and their ultimate impact could be material. Moreover, the factors set forth under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” below and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. We urge you to carefully consider those factors.

Forward-looking statements speak only as of the date of this report. We expressly disclaim any obligation to update any forward-looking statement contained herein.

**Additional Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are made available free of charge on our web site at <http://www.asburyauto.com> as soon as practical after such reports are filed with the Securities and Exchange Commission (the “Commission”). In addition, the proxy statement that will be delivered to our stockholders in connection with our 2014 Annual Meeting of Stockholders, when filed, will also be available on our web site, and at the URL stated in such proxy statement. We also make available on our web site copies of our charter, bylaws and other materials that outline our corporate governance policies and practices, including:

• the respective charters of our audit committee, governance and nominating committee, compensation and human resources committee and risk management committee;

• our criteria for independence of the members of our board of directors, audit committee, and compensation committee;

• our Corporate Governance Guidelines; and

• our Code of Business Conduct and Ethics for Directors, Officers and Employees.

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

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

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

#### Item 1. Business

We are one of the largest automotive retailers in the United States, operating 100 franchises (80 dealership locations) as of December 31, 2013. We offer an extensive range of automotive products and services, including:

new and used vehicles;

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• vehicle maintenance;

• replacement parts and collision repair services;

• new and used vehicle financing; and

• aftermarket products such as insurance, warranty and service contracts.

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

#### General Description of Our Operations

As of December 31, 2013, we operated dealerships in 18 metropolitan markets throughout the United States. We have developed our dealership portfolio through the acquisition of large, locally-branded dealership groups operating throughout the United States. We have complemented these large dealership group acquisitions with the purchase of numerous single point dealerships and smaller dealership groups in and surrounding our then-existing market areas. Our retail network is made of up dealerships operating primarily under eight locally-branded dealership groups. The following chart gives a detailed breakdown of our markets, brand names and franchises as of December 31, 2013:

Brand Names	Date of Initial Acquisition	Markets	Franchises
Nalley Automotive Group	September 1996	Atlanta, GA	Acura, Audi, Bentley, BMW, Honda, Hyundai, Infiniti(a), Kia, Lexus(a), Nissan, Toyota(a), Volkswagen
Courtesy Autogroup	September 1998	Tampa, FL	Chrysler, Dodge, Honda, Hyundai, Infiniti, Jeep, Kia, Mercedes-Benz, Nissan, Toyota, smart, Sprinter
Coggin Automotive Group	October 1998	Jacksonville, FL Orlando, FL Fort Pierce, FL	Honda(a), Nissan(a), Toyota, Chevrolet, Buick, GMC Ford, Honda(a), Lincoln Acura, BMW, Honda, Mercedes-Benz
Crown Automotive Company	December 1998	Princeton, NJ Greensboro, NC Durham, NC Fayetteville, NC Richmond, VA Charlottesville, VA Greenville, SC	BMW, MINI Acura, BMW, Chrysler, Dodge, Honda, Jeep, Nissan, Volvo Honda Dodge, Ford Acura, BMW(a), MINI BMW Jaguar, Lexus, Nissan, Porsche, Toyota, Volvo
David McDavid Auto Group	April 1998	Dallas/Fort Worth, TX Houston, TX Austin, TX	Acura, Honda(a), Lincoln Nissan Acura
North Point Auto Group	February 1999	Little Rock, AR	BMW, Ford, Lincoln, Mazda, Nissan(a), Toyota, Volkswagen, Volvo

Gray-Daniels Auto Family	April 2000	Jackson, MS	Chevrolet, Ford, Lincoln, Nissan(a), Toyota
Plaza Motor Company	December 1997	St. Louis, MO	Audi, BMW, Infiniti, Jaguar, Land Rover, Lexus, Mercedes-Benz(a), Porsche, smart, Sprinter(a)

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(a) This market has two of these franchises

Our operations provide a diverse revenue base that we believe mitigates the impact of fluctuating new vehicle sales volumes and our broad geographic footprint, as well as diversification among manufacturers, decrease our exposure to regional economic downturns and manufacturer-specific risks such as warranty issues or production disruption. While new vehicle sales generate the majority of our revenue, used vehicle retail sales, parts and service and finance and insurance provide significantly

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higher profit margins, and therefore account for the majority of our profitability and have been historically more stable throughout economic cycles.

### New Vehicle Sales

As of December 31, 2013, our dealerships represented a diverse portfolio of 29 American, European and Asian brands. Our new vehicle sales consist of the sale of new vehicles to individual retail customers (“new vehicle retail”) and the sale of new vehicles to commercial customers (“fleet”) (the terms “new vehicle retail” and “fleet” being together referred to as “new”). New vehicle revenue and new vehicle gross profit consist of revenue and gross profit from new vehicle retail and fleet sales. In 2013, we sold 87,959 new vehicles through our dealerships. We evaluate the results of our new vehicle sales based on unit volumes and gross profit per vehicle sold. Our new vehicle revenues represented 55% of our total revenues and 21% of our total gross profit for the year ended December 31, 2013.

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

### Used Vehicle Sales

We sell used vehicles at all of our dealership locations. Used vehicle sales include the sale of used vehicles to individual retail customers (“used retail”) and the sale of used vehicles to other dealers at auction (“wholesale”) (the terms “used retail” and “wholesale” being together referred to as “used”). In 2013, we sold 69,454 used retail vehicles through our dealerships. We evaluate the results of our used vehicle sales based on unit volumes and gross profit per vehicle sold. Our used retail vehicle business, which generally has higher gross margins than our new vehicle business, accounted for approximately 26% of our total revenues and 14% of our total gross profit for the year ended December 31, 2013. Wholesale sales represented 3% of our total revenues, but did not have a material impact on our total gross profit for the year ended December 31, 2013.

Gross profit from the sale of used vehicles depends primarily on the ability of our dealerships to obtain a high quality supply of used vehicles and the use of advanced technology to manage our inventory. Our new vehicle operations typically provide our used vehicle operations with a large supply of high quality trade-ins and off-lease vehicles, which we believe are good sources of attractive used vehicle inventory. We also purchase a significant portion of our used vehicle inventory at auctions restricted to new vehicle dealers (offering off-lease, rental and fleet vehicles) and “open” auctions that offer vehicles sold by other dealers and repossessed vehicles. Though we make every effort to sell our used vehicle inventory to retail customers, either through the dealership of origin or through another of our dealerships, our used vehicle inventory is typically sold as wholesale if a vehicle is not sold at retail within 60 days. The reconditioning of used vehicles also generates gross profit for our parts and service departments.

### Parts and Service

We sell replacement parts and provide vehicle maintenance and collision repair service at all of our franchised dealerships, primarily for the vehicle brands sold at those dealerships. In addition, as of December 31, 2013, we maintained 24 free-standing collision repair centers either on the premises of, or in close proximity to, our dealerships. Our parts and service business accounted for approximately 12% of our total revenues and 42% of our total gross profit for the year ended December 31, 2013. Historically, parts and service revenues have been more stable than those from vehicle sales. Industry-wide, parts and service revenues have consistently increased over time primarily due to the increased cost of maintaining vehicles, the added technical complexity of vehicles and the increasing number of vehicles on the road.

The automotive parts and service industry tends to be highly fragmented, with franchised dealerships and independent repair shops competing for this business. We believe, however, that the increased use of advanced technology in vehicles is making it difficult for independent repair shops to compete effectively for our parts and service business. These independent repair shops may not be able to invest in the equipment and training necessary to perform major or

technical repairs, especially as such repairs relate to luxury and mid-line imports, which comprise a significant majority of our new vehicle retail sales. We believe our parts and service business is also well-positioned to benefit from the service work potentially generated through the sale of extended service contracts to customers who purchase new and used vehicles from us, as historically these customers have tended to have their vehicles serviced at the location where they purchase extended service contracts. Additionally, vehicle manufacturers generally require manufacturer warranty work to be performed only at franchised dealerships. As a result, unlike

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independent service stations or independent and superstore used car dealerships with service operations, our franchised dealerships are authorized to perform work covered by manufacturer warranties on increasingly technologically complex vehicles.

### Finance and Insurance

We refer to the finance and insurance portion of our business as "F&I." Through our F&I business, we arrange, and receive commissions for, third-party financing of the sale or lease of new and used vehicles to customers, as well as offer a number of aftermarket products, as described below. We also generate F&I revenues from the receipt of certain marketing fees paid to us under agreements with preferred lenders. Our F&I business generated approximately 4% of our total revenues and 24% of our total gross profit for the year ended December 31, 2013.

The following is a brief description of our significant F&I product offerings:

- Extended service contracts – covers certain repair work after the expiration of the manufacturer warranty;
- Guaranteed asset protection ("GAP") debt cancellation – covers the customer after a total loss for the difference between the value of the vehicle and the outstanding loan or lease obligation after insurance proceeds;
- Prepaid maintenance – covers certain routine maintenance work, such as (i) oil changes, (ii) cleaning and adjusting of brakes, (iii) multi-point vehicle inspections and (iv) tire rotations; and
- Credit life and disability – covers the remaining amounts due on an auto loan or a lease in the event of death or disability.

We earn sales-based commissions from third-party lenders, including manufacturer captive finance subsidiaries, on substantially all of the financing that we arrange on behalf of our customers. We may be charged back ("chargebacks") for these commissions in the event a finance contract is canceled or repaid, typically within the first 90 days of such contract. We arranged customer financing on approximately 71% of the vehicles we sold during the year ended December 31, 2013. We do not retain any material liability for the credit risk associated with these purchase and lease transactions after the completion of the transactions.

Similarly, we may be required to refund a portion of our profit relating to the sale of service contracts, maintenance and insurance and other products in the event of early cancellation. We do not, however, bear any risk related to insurance payments, which are borne by third parties. We receive discounted pricing compared to smaller competitors in our local markets on many of the service contracts, maintenance and insurance products that we provide as a result of our size and sales volume. Historically, chargebacks on finance and service contracts, maintenance and insurance products have totaled between 9% and 14% of total F&I revenue.

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

### Recent Developments

In January 2014, we acquired the assets of one franchise in our existing market of Greenville, South Carolina, which we integrated with one of our existing dealership locations.

### Business Strategy

Focus on Premier Brand Mix, Strategic Markets and Diversification

We classify our new vehicle retail sales into the following categories: luxury, mid-line import, and mid-line domestic. Luxury and mid-line imports together accounted for approximately 86% of our new vehicle sales for the year ended December 31, 2013. Despite a recent modest increase in sales of mid-line domestic vehicles, we continue to believe that, over the long-term, luxury and mid-line import manufacturers are well positioned to continue the market share gains they have achieved in the United States over the past few decades based on the expectation of

continued broadening of their product offerings and the delivery of high quality products and services to their customers.

Our physical locations encompassed 18 different metropolitan markets at 80 locations in the following 10 states as of December 31, 2013: Arkansas, Florida, Georgia, Mississippi, Missouri, New Jersey, North Carolina, South Carolina, Texas and

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Virginia. We believe that our broad geographic coverage, as well as diversification among manufacturers, decreases our exposure to regional economic downturns and manufacturer-specific risks such as recalls, warranty issues or production disruption.

The following table reflects (i) the number of franchises and (ii) the percent of new vehicle revenues represented by each class of franchise as of December 31, 2013:

Class/Franchise	Number of Franchises as of December 31, 2013	% of New Vehicle Revenues for the Year Ended December 31, 2013	
Luxury			
BMW	9	9	%
Acura	6	5	
Mercedes-Benz	4	7	
Infiniti	4	4	
Lincoln	4	1	
Lexus	4	7	
Volvo	3	1	
Audi	2	2	
Jaguar	2	*	
Porsche	2	1	
Bentley	1	*	
Land Rover	1	1	
Total Luxury	42	38	%
Mid-Line Import			
Honda	11	20	%
Nissan	11	13	
Toyota	7	11	
Sprinter	3	*	
MINI	2	1	
smart	2	*	
Volkswagen	2	1	
Hyundai	2	1	
Kia	2	1	
Mazda	1	*	
Total Mid-Line Import	43	48	%
Mid-Line Domestic			
Ford	4	7	%
Dodge	3	3	
Chevrolet	2	2	
Chrysler	2	*	
Jeep	2	1	
Buick	1	*	
GMC	1	1	
Total Mid-Line Domestic	15	14	%
Total Franchises	100	100	%

\* Franchise accounted for less than 1% of new vehicle revenues for the year ended December 31, 2013





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### Maintain Disciplined Cost Structure and Emphasize Expense Control

We continually focus on expense control at our dealerships. We are constantly evaluating our cost structure, and believe we are well positioned to manage our costs in the future by:

- continuing to centralize our financial and information processing systems;
- deploying information technology and best practices across our dealership network;
- further capitalizing on our scale through negotiating contracts with certain of our vendors on a national basis; and
- maintaining a performance-based compensation structure.

In order to mitigate the impact of significant fluctuations in vehicle sales, we tie management and employee compensation at various operational levels to performance through incentive-based pay systems based on various metrics. For example, a portion of management's stock-based compensation is typically based on various performance criteria relative to our peer group, including, profitability growth, productivity improvement and return on invested capital measures. We also compensate our general managers, department managers and sales and other dealership personnel with incentive pay, based on metrics such as dealership profitability, departmental profitability and individual performance, as appropriate.

### Flexible and Prudent Capital Allocation

Our capital allocation decisions are primarily based on our desire to maintain sufficient liquidity and a prudent capital structure. We continuously evaluate our liquidity and capital resources based upon (i) our cash and cash equivalents on hand, (ii) the funds that we expect to generate through future operations, (iii) current and expected borrowing availability under our credit facilities and mortgage financings, (iv) amounts in our new vehicle floor plan notes payable offset accounts and (v) the potential impact of any contemplated or pending future transactions, including, but not limited to, financings, acquisitions, dispositions or other capital expenditures. As part of our balanced approach, we continuously evaluate capital deployment opportunities that we believe will maximize the value of our Company, including:

- investing in our business and technology;
- acquiring dealerships that meet our internal return threshold;
- repurchasing shares of our common stock in the open market; and
- managing our leverage through the periodic incurrence of mortgage or other indebtedness, as well as repurchasing outstanding indebtedness and purchasing properties currently under lease at various times.

We may at some time in the future return some portion of capital to our shareholders through the payment of dividends.

### Focus on Higher Margin Products and Services

While new vehicle sales are critical to drawing customers to our dealerships, parts and service, used vehicle retail sales, and F&I generally provide significantly higher profit margins and account for the majority of our profitability. In order to maximize the growth of these higher margin businesses, we have discipline-specific executives at both the corporate and dealership levels who focus on increasing the penetration of current services and expanding the breadth of our offerings to customers.

### Local Management of Dealership Operations

We believe that local management of dealership operations enables our retail network to provide market-specific responses to sales, customer service and inventory requirements. The general manager of each of our dealerships is responsible for the operations, personnel and financial performance of that dealership as well as other day-to-day operations. We believe our general managers' familiarity with their respective markets enables them to effectively run day-to-day operations, market to customers and recruit new employees. The general manager of each dealership is supported, in most cases, by a new vehicle sales manager, a used vehicle sales manager, an F&I manager, and a parts

and service manager. Our dealership management teams typically have many years of experience in the automotive retail industry. This management structure is complemented by support from the corporate office through centralized technology and financial oversight.

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### Centralized Administrative and Strategic Functions

Our corporate management is responsible for our capital structure and operating strategy while the implementation of our operating strategy rests with each dealership management team based on the policies and procedures established by corporate management. Corporate management continuously evaluates the financial and operating results of our dealerships, as well as each dealership's geographical location, and from time to time, makes decisions to acquire or dispose of dealerships to refine our dealership portfolio.

As part of our investment in our IT systems, we have deployed a common dealer management system (DMS) with the Dealer Services Group of Automatic Data Processing, Inc. as our provider. We believe a single DMS provides the foundation for future efficiencies and creates a more efficient retail operation that results in a better experience for our customers.

We consolidate financial, accounting and operational data received from our dealerships through customized financial products. Our IT approach enables us to integrate and aggregate information from our dealerships. Through the combination of a common DMS and our corporate financial products, management has access to the financial, accounting and operational data at various levels of the organization. In addition, we have centralized our information technology, payroll and benefits administration and are currently focused on centralizing additional back office processes, from which we expect future cost synergies.

#### Commitment to Customer Service

We are focused on providing a high level of customer service and have designed our dealerships' services to meet the needs of an increasingly sophisticated and demanding automotive consumer. We endeavor to establish relationships that we believe will result in both repeat business and additional business through customer referrals. Furthermore, we provide our dealership managers with appropriate incentives to employ efficient selling approaches, engage in extensive follow-up to develop long-term relationships with customers and extensively train our sales staff to meet customer needs.

We continually evaluate opportunities, and implement appropriate new technologies, to improve the buying experience for our customers, and believe that our ability to share best practices across our multi-jurisdictional platform gives us an advantage over independent dealerships. For example, we have implemented a common customer relations management tool in all of our dealerships to facilitate communications with customers before, during and after the sale. We continue to invest in technologies designed to improve our sales process and employee productivity, all with the goal of improving the customer experience.

In addition, our higher margin parts and service operations are an integral part of our overall approach to customer service, providing an opportunity to foster ongoing relationships and improve customer loyalty. We continue to train our technicians and service advisors to ensure that our customers continue to receive excellent service.

### Marketing

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

• focusing on online brand development;

• performing research to better understand the online consumer and their decision to visit one site versus another; and

• increasing marketing spend on online marketing.

In addition, radio, print, direct mail and the yellow pages make up a significant portion of our remaining advertising spend. We also use electronic mail and social media channels to assist our marketing efforts and to stay in contact

with our customers.

We use common marketing materials for our brand names developed by professional advertising agencies. Our total advertising expense from continuing operations was \$32.8 million for the year ended December 31, 2013, which equaled an average of \$208 per retail vehicle sold. In addition, manufacturers' direct advertising spending in support of their brands has historically been a significant component of the total amount spent on new car advertising in the United States.

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### Competition

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

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

privately negotiated sales of used vehicles;

other used vehicle retailers, including regional and national vehicle rental companies;

Internet-based used vehicle brokers that sell used vehicles to consumers;

service center and parts supply chain stores; and

independent service and repair shops.

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

We compete with other franchised dealers to perform warranty repairs and with other automobile dealers and franchised and independent service centers for non-warranty repair and routine maintenance business. We compete with other automobile dealers, service stores and auto parts retailers in our parts operations. We believe that the principal competitive factors in parts and service sales are our ability to use factory-approved replacement parts, our competitive prices, our familiarity with a manufacturer's brands and models, and the quality of our customer service. In arranging financing for our customers' vehicle purchases, we compete with a broad range of financial institutions. In addition, many financial institutions are now offering F&I products through the Internet, which has increased competition and may reduce our profits on certain of these items. We believe that the principal competitive factors in providing financing are convenience, interest rates and flexibility in contract length.

In addition, given our desire to hire experienced, talented and successful individuals, the market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive. As a result, we also compete with franchised dealers and other large automotive retailers for talented personnel.

### Seasonality

The automobile industry has historically been subject to seasonal variations in revenues. Demand for vehicles is generally lower during the first and fourth quarters of each year and, accordingly, we expect our revenues and operating results generally to be lower in the first and fourth quarters than in the second and third quarters of any year. If conditions occur during the second or third quarters that weaken automotive sales, our revenues for the year may be disproportionately adversely affected.

### Dealer and Framework Agreements

Each of our dealerships operates pursuant to a dealer agreement between the dealership and the manufacturer (or in some cases the distributor) of each brand of new vehicles sold and/or serviced at the dealership. A typical dealer agreement specifies the locations at which the dealer has the right and obligation to sell the manufacturer's vehicles and related parts and products and/or to perform certain approved services. Each dealer agreement also governs the use of the manufacturer's trademarks and service marks.

The allocation of new vehicles among dealerships is subject to the discretion of the manufacturer, and generally does not guarantee the dealership exclusivity within a given territory or otherwise. Most dealer agreements impose

requirements on substantially all aspects of the dealer's operations. For example, most of our dealer agreements contain provisions and standards related to, among other things, the following:

- inventories of new vehicles and manufacturer replacement parts;

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• maintenance of minimum net working capital requirements, and in some cases, minimum net worth requirements;

• achievement of certain sales and customer satisfaction targets;

• advertising and marketing practices;

• facilities and signs;

• products offered to customers;

• dealership management;

• personnel training;

• information systems;

geographic market, including but not limited to requirements to meet sales and service targets within an assigned market area, geographic limitations on where the dealership may locate or advertise, and restrictions on the export of vehicles; and

• dealership monthly and annual financial reporting.

In addition to requirements under dealer agreements, we are subject to provisions contained in supplemental agreements, framework agreements, dealer addenda and manufacturers' policies, collectively referred to as "framework agreements." Framework agreements impose requirements on us in addition to those described above. Such agreements also define other standards and limitations, including:

• company-wide performance criteria;

• capitalization requirements;

• limitations on changes in our ownership or management;

• limitations on the number of a particular manufacturer's franchises owned by us;

• restrictions or prohibitions on our ability to pledge the stock of certain of our subsidiaries; and

conditions for consent to proposed acquisitions, including sales and customer satisfaction criteria, as well as limitations on the total local, regional and national market share percentage that would be represented by a particular manufacturer's franchises owned by us after giving effect to a proposed acquisition.

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

Certain of our dealer agreements expire after a specified period of time, ranging from one year to eight years, while other of our agreements have a perpetual term. We expect that we will be able to renew expiring agreements in the ordinary course of business. However, typical dealer agreements give the manufacturer the right to terminate or the option of non-renewal of the dealer agreement under certain circumstances, including:

insolvency or bankruptcy of the dealership;

failure to adequately operate the dealership or to maintain required capitalization levels;

impairment of the reputation or financial condition of the dealership;

change of control of the dealership without manufacturer approval (including certain material changes in the composition of our Board of Directors during a specified time period, the acquisition of 20% or more of our voting stock by another vehicle manufacturer or distributor, or the acquisition of 50% or more of our voting stock by a person, entity or group not affiliated with the vehicle manufacturer or distributor);

- certain extraordinary corporate transactions such as a merger or sale of all or substantially all of our assets;

failure to complete facility upgrades required by the manufacturer or agreed to by the dealer; or

material breach of other provisions of a dealer agreement.



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While one or more of our dealer agreements may be terminated or not renewed due to a number of circumstances, it may be possible to negotiate a waiver of termination or non-renewal with the manufacturer. Notwithstanding that, however, no assurances can be provided that upon the termination or attempted termination, or nonrenewal of any agreement, we will be able to enter into new agreements, or waivers to any agreement, on acceptable terms, in a timely manner, or at all. Our loss of any one or more of our dealer agreements, whether as a result of termination, expiration or otherwise, could have a material adverse effect on our revenues and results of operations.

Applicable state laws generally provide that an automobile manufacturer may not terminate or refuse to renew a dealer agreement unless it has first provided the dealer with written notice setting forth “good cause” and stating the grounds for termination or non-renewal. Some state laws allow dealers to file protests or petitions or allow them to attempt to comply with the manufacturer's criteria within a notice period to avoid the termination or non-renewal. Our framework agreements with certain manufacturers contain provisions that, among other things, attempt to limit the protections available to dealers under these laws and, though unsuccessful to date, manufacturers' ongoing lobbying efforts may lead to the repeal or revision of these laws. If these laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of these laws, it may also be more difficult for us to renew our dealer agreements upon expiration. Changes in laws that provide manufacturers the ability to terminate our dealer agreements could materially adversely affect our business, financial condition and results of operations. Furthermore, if a manufacturer seeks protection from creditors in bankruptcy, courts have held that the federal bankruptcy laws may supersede these laws, resulting in either the termination, non-renewal or rejection of franchises by such manufacturers, which, in turn, could materially adversely affect our business, financial condition and results of operations.

### Regulations

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

- advertising;
- motor vehicle and retail installment sales practices;
- leasing;
- sales of finance, insurance and vehicle protection products;
- consumer credit;
- unfair and deceptive trade practices;
- consumer protection;
- consumer privacy;
- money laundering;
- environmental matters;
- land use and zoning;

- health and safety;  
and

employment practices.

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

#### Environmental Matters

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

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

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

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

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

### Employees

As of December 31, 2013, we employed approximately 7,600 people. We believe our relationship with our employees is favorable. We do not have employees that are represented by a labor union; however, certain of our facilities are located in areas of high union concentration, and such facilities are susceptible to union-organizing activity. Although we have not experienced any strikes or walkouts at our operations, because of our dependence on vehicle manufacturers, we may be affected adversely by labor strikes, work slowdowns and walkouts at vehicle manufacturers’ production facilities and transportation modes that are outside of our control.

### Insurance

Because of the vehicle inventory and the nature of the automotive retail business, automobile retail dealerships generally require significant levels of insurance covering a broad variety of risks. Our insurance program includes multiple umbrella policies with a total per occurrence and aggregate limit of \$102.0 million. We are self insured for certain employee medical claims and maintain stop loss insurance for individual claims. We have large deductible insurance programs in place for workers compensation, property and general liability claims.



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Item 1A. Risk Factors

In addition to the other information contained and referred to in this report, you should consider carefully the following factors when evaluating our business. Any of these risks, or the occurrence of any of the events described in these risk factors, could cause our actual future results, performance or achievements to be materially different from or could materially adversely affect our business, financial condition or results of operations. In addition, other risks or uncertainties not presently known to us or that we currently do not deem material could arise, any of which could also materially adversely affect us.

Uncertainty in the automotive retail environment could present challenges for our dealerships and adversely affect our ability to generate sufficient cash, which could materially adversely affect our liquidity.

Although the automotive retail industry has shown continued improvement in recent periods from the unprecedented challenging environment which began in 2008, we believe that the long-term prospects for the full industry and general economy continue to be difficult to predict. During the downturn in the automotive retailing industry, our results of operations were adversely affected, and could again be adversely affected by the uncertainty in present and expected economic conditions, including any increased difficulty for consumers in securing vehicle financing due to rising interest rates or continued higher than recent historical average unemployment levels. If consumer financing becomes more difficult to obtain, the new vehicle seasonally adjusted annual rate ("SAAR") could be negatively impacted, which in turn could further adversely impact our results of operations, our cash flows and ultimately our liquidity.

If we are unable to generate sufficient operating cash flows, we may need to enter into certain extraordinary transactions in order to generate additional cash, which may include, but not be limited to, selling certain of our dealerships or other assets or increasing borrowings under our existing, or any future, credit facilities. There can be no assurance that, if necessary, we will be able to enter into any such transactions in a timely manner or on reasonable terms, if at all. Furthermore, in the event we were required to sell dealership assets, the sale of any material portion of such assets could have a material adverse effect on our revenue and profitability.

Our dealerships' profitability depends in large part upon customer demand for the particular vehicle lines they carry, and the availability to us of such popular vehicles.

The profitability of our dealerships depends in large part on customer demand for the vehicle lines they carry. Historically, we have generated most of our revenue through new vehicle sales. New vehicle sales also tend to lead to sales of higher-margin products and services such as finance and insurance products and parts and services.

As a result, our success is dependent upon our ability to obtain a desirable mix of popular new vehicles from manufacturers. More popular vehicles may often be difficult to obtain from manufacturers. Manufacturers generally allocate their vehicles among their franchised dealerships based on the sales history of each dealership, and in some instances on the level of capital expenditures associated with such dealerships. If our dealerships experience prolonged periods of sales declines or do not make adequate capital expenditures, those manufacturers may reduce their allotments of popular vehicles to our dealerships and, as a result, our new vehicle sales and profits may decline.

In addition, a general reduction in demand for new vehicles, or an oversupply of such vehicles, could result in a need for us

to sell vehicles at a lower price, reducing our revenue per new vehicle sold and our new vehicle margins.

Changes or declines in consumer demand, or delays in nonessential services, due to general economic conditions, changes in preferences, or otherwise, could materially adversely affect our revenues and results of operations.

Our business is heavily dependent on consumer demand and preferences, and our key partners' respective abilities to adapt to changes in consumer demand and preferences. Further, retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as levels of discretionary personal income, credit availability and interest rates. In addition, in recent periods fuel prices have been unstable and have reached

historically high levels. If gasoline prices become unstable, this could cause a reduction in automobile purchases and a further shift in buying patterns from less fuel-efficient luxury or SUV models (which typically provide higher profit margins to automotive retailers) to smaller, more fuel-efficient and economical vehicles (which typically have lower profit margins). A shift in preferences by consumers to smaller, more economical vehicles due to pricing, fuel costs or otherwise may have a material adverse effect on our revenues and results of operations.

While a decline in vehicle purchases in some instances creates additional demand for parts and services due to the aging of and increased wear and tear on existing vehicles, in difficult economic conditions, people often delay nonessential service and repairs on their vehicles. Continued delays on the service and repairs of vehicles due to a continual decline in economic

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conditions or otherwise could have a material adverse effect on the revenues and results of operations of our parts and service business, which has traditionally produced higher profit margins for our business relative to vehicle sales. Conversely, in the recent past, we have seen the prices of used vehicles generally increase, creating an increased demand for new vehicles. A relative increase in new vehicle sales versus used vehicle sales could have an adverse effect on our results of operations as used vehicle sales have traditionally produced relatively higher profit margins than new vehicle sales for our business.

If our brand mix is significantly concentrated, and the manufacturer of one or more of those brands experiences any disruptions in its operations or a decrease in consumer demand for its vehicles, or otherwise develops a poor reputation, there could be a material adverse effect on our revenues, operational results or profitability.

Although we have sought to limit our dependence on any one vehicle brand, we have focused and continue to focus our new vehicle sales operations primarily on mid-line import and luxury brands, and there can be no assurance that our brand mix is appropriate or sufficiently diverse to protect from a significant decline in the desirability of vehicles manufactured by a particular manufacturer. At December 31, 2013, our brand mix was weighted 86% towards luxury and mid-line import brands, with the remaining 14% consisting of domestic brands. For the year ended December 31, 2013, brands representing 5% or more of our revenues from new vehicle sales were as follows:

Brand	% of Total New Vehicle Revenues	
Honda	20	%
Nissan	13	%
Toyota	11	%
BMW	9	%
Ford	7	%
Mercedes-Benz	7	%
Lexus	7	%
Acura	5	%

If a manufacturer fails to produce desirable vehicles or develops a reputation for producing undesirable vehicles, and we own dealerships that sell that manufacturer's vehicles, our revenues at those dealerships could be adversely affected as consumers shift their vehicle purchases away from that brand. Likewise, if the manufacturer experiences any disruption in its ability to produce vehicles, thus limiting the supply of vehicles to our dealerships, it could have a material adverse effect on our revenues, results of operations and profitability. If the profitability at certain of our dealerships is adversely affected, there could be a significant reduction of our cash flows, which in turn could result in impairments of such dealership's properties and/or intangible assets.

Despite our current level of outstanding indebtedness, we may be able to incur substantially more debt. Our existing, and future, debt may limit our flexibility to manage our business. Furthermore, we must generate sufficient cash to service our debt, or our business and financial condition may be materially adversely affected.

We and our subsidiaries may have the ability to incur substantial additional debt in the future to finance, among other things, acquisitions, working capital and capital expenditures, and new and used vehicle inventory, as well as to refinance new and used vehicle inventory, subject in each case to the restrictions contained in our debt instruments and other agreements existing at the time such indebtedness is incurred. The specific restrictions that could potentially limit the additional amount of debt we could incur are the leverage covenants contained in various of our debt agreements.

Our debt service obligations could have important consequences to us for the foreseeable future, including the following:

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

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

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

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



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

We are a holding company and as a result are dependent on our operating subsidiaries to generate sufficient cash and distribute cash to us to service our indebtedness and fund our ongoing operations.

Our ability to make payments on our indebtedness and fund our ongoing operations depends on our operating subsidiaries' ability to generate cash in the future and distribute that cash to us. It is possible that our subsidiaries may not generate cash from operations in an amount sufficient to enable us to service our indebtedness. In addition, many of our subsidiaries are required to comply with the provisions of franchise agreements, dealer agreements, other agreements with manufacturers, mortgages, and credit facility providers. Many of these agreements contain minimum working capital or net worth requirements, and are subject to change at least annually. Although the requirements contained in these agreements did not restrict our subsidiaries from distributing cash to us as of December 31, 2013, unexpected changes to our franchise agreements, dealer agreements or other agreements with manufacturers could require us to alter the manner in which we distribute or use cash. If our operating subsidiaries are unable to generate and distribute sufficient cash to us to service our indebtedness and fund our ongoing operations, our financial condition may be materially adversely affected.

Under several of our debt, mortgage, lease and framework agreements, we are required to maintain compliance with certain financial and other covenants. Our failure to comply with certain covenants in these agreements could adversely affect our ability to access our borrowing capacity, subject us to acceleration of our outstanding debt or result in a cross default on other indebtedness, and adversely affect our ability to conduct our business.

There are operating and financial restrictions and covenants in certain of our debt and mortgage agreements, including the agreement governing our senior credit facility, the indenture governing our senior notes and our mortgage agreements and related mortgage guarantees, as well as certain other agreements to which we are a party that may adversely affect our ability to finance our future operations or capital needs or to pursue certain business activities. These limit, among other things, our ability to incur certain additional debt, create certain liens or other encumbrances, and make certain payments (including dividends and repurchases of our common stock and for investments). Certain of these agreements also require us to maintain compliance with certain financial ratios. In many cases, our compliance with these restrictions and covenants is tested giving pro forma effect to certain proposed transactions.

If we are unable to comply with any applicable financial or other covenants after giving effect to certain proposed transactions or otherwise, we may not be able to complete such proposed transactions or may be required to seek waivers of or modifications to our covenants from our creditors, or we may need to undertake one or more transactions designed to generate proceeds sufficient to repay our debt. Obtaining such waivers or modifications often requires the payment to creditors of significant fees and requires significant time and attention of management. We cannot give any assurance that we would be able to successfully take any necessary actions at times, or on terms acceptable to us.

Our failure to comply with any of these covenants in the future could constitute a default under the relevant agreement, which could, depending on the relevant agreement, (i) entitle the creditors under such agreement to terminate our ability to borrow under the relevant agreement and accelerate our obligations to repay outstanding borrowings; (ii) require us to repay these borrowings; (iii) entitle the creditors under such agreement to foreclose on the property securing the relevant indebtedness; or (iv) prevent us from making debt service payments on certain of our other indebtedness, any of which would have a material adverse effect on our business, financial condition or results of operations. In many cases, a default under one of our debt, mortgage, or other agreements could trigger cross

default provisions in one or more of our other debt or mortgage agreements.

In addition to the financial and other covenants contained in our various debt or mortgage agreements, a number of our dealerships are located on properties that we lease. Certain of the leases governing such properties have certain covenants with which we must comply. If we fail to comply with the covenants under our leases, the respective landlords could, among exercising other remedies, terminate the leases and seek significant cash damages, or evict us from the applicable properties.

Similarly, our failure to comply with any financial or other covenants in any of our framework agreements would give the relevant manufacturer certain rights, including the right to reject proposed acquisitions, and may give it the right to repurchase its franchises from us. Events that give rise to such rights, and our inability to acquire additional dealerships or the requirement that we sell one or more of our dealerships at any time, could inhibit the growth of our business, and could have a material adverse effect on our business, financial condition and results of operations.

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Manufacturers may also have the right to restrict our ability to provide guaranties of our operating companies, pledges of the capital stock of our subsidiaries and liens on our assets, which could materially adversely impact our ability to obtain financing for our business and operations on favorable terms or at desired levels, if at all.

A decline in our credit rating or a general disruption in the credit markets could negatively impact our liquidity and ability to conduct our operations.

Access to sources of credit enhances our ability to take strategic actions for the benefit of our business. A deterioration of our credit rating, or a general disruption in the credit markets, could limit our ability to obtain credit on favorable terms. In addition, in the recent past, global financial markets and economic conditions have been disruptive and volatile, and continue to be uncertain. These issues, along with significant write-offs in the financial services sector, the re-pricing of certain credit risks and continued uncertain economic conditions in certain industries and sectors may make it more difficult for us to obtain funding at any given time.

Our inability to access necessary or desirable funding, or to enter into certain related transactions, at times and at costs deemed appropriate by us, could have a negative impact on our liquidity and our ability to conduct our operations.

We currently maintain a senior secured credit facility with a syndicate of banks, and we have hedge transactions in place with a number of counterparties that we believe are financially stable. However, if any of the financial institutions that have extended credit commitments to us or have entered into hedge or similar transactions with us are adversely affected by continued uncertain conditions in the U.S. and international capital markets, they may become unable or unwilling to fulfill their obligations to us, which also could have a material adverse effect on our liquidity and our ability to conduct our operations.

Our capital costs and our results of operations may be materially and adversely affected by changes in interest rates. We generally finance our purchases of new vehicle inventory, have the ability to finance the purchases of used vehicle inventory and have the availability to borrow funds for working capital using senior secured credit facilities under which we are charged interest at variable rates. Therefore, our interest expense from variable rate debt will rise with increases in interest rates. In addition, a significant rise in interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because most of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our capital costs and reducing our revenues. Given our debt composition as of December 31, 2013, each one percent increase in market interest rates would increase our total annual interest expense, including floor plan interest, by as much as \$6.1 million. When considered in connection with reduced expected sales as and if interest rates increase, any such increase could materially adversely affect our business, financial condition and results of operations.

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

Our ability to successfully market vehicles to the public depends to a great extent on aspects of manufacturers' operations. Vehicle manufacturers have in the recent past been adversely affected by the U.S. and international economic climate. In addition to challenges created by uncertain economic conditions, we remain vulnerable to other matters that may impact the manufacturers of the vehicles we sell. For example, other factors outside of our control that could negatively affect vehicle manufacturers include:

- changes in their respective financial condition;

- changes in their respective marketing efforts;

- changes in their respective reputation for quality;

• manufacturer and other product defects, including recalls;

• changes in their respective management;

• disruptions in the production and delivery of vehicles and parts due to natural disasters or other reasons that are outside of our control; and

• issues with respect to labor relations.

Adverse conditions that materially affect a vehicle manufacturer and impact its ability to profitably design, market, produce or distribute desirable new vehicles could in turn materially adversely affect our ability to (i) sell vehicles produced by that manufacturer, (ii) obtain or finance our desired new vehicle inventories, (iii) access or benefit from manufacturer financial

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assistance programs, (iv) collect in full or on a timely basis any amounts due therefrom, and/or (v) obtain other goods and services provided by the impacted manufacturer. Our business, results of operations, financial condition, cash flows, and prospects could be materially adversely affected as a result of any event that has an adverse effect on any vehicle manufacturers or distributors.

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

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

We benefit from certain sales incentive, warranty and other promotional programs of vehicle manufacturers that are intended to promote and support their respective new vehicle sales. Key incentive programs include:

• customer rebates on new vehicles;

• dealer incentives on new vehicles;

• special financing or leasing terms;

• warranties on new and used vehicles; and

• sponsorship of used vehicle sales by authorized new vehicle dealers.

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

Our vehicle sales, results of operations and financial condition may be materially adversely affected by depressed levels of available consumer financing.

The majority of vehicle purchases are financed. During and as a result of the recent global economic downturn, consumers experienced a decline in the availability of credit. In addition, manufacturers decreased the availability of leases or, in some instances, terminated leasing programs altogether. The reduced availability of credit to consumers contributed to the decline in our vehicle sales in past periods. Reductions in available credit or increased costs of credit could result in a decline in our vehicle sales, which would have a material adverse effect on our results of operations and financial condition.

Sub-prime lenders have historically provided financing to those buyers who, for various reasons, do not have access to traditional financing, including those buyers who have a poor credit history or lack the down payment necessary to purchase a vehicle. During the recent economic downturn, sub-prime lenders became more stringent with their credit standards, which made it more difficult for consumers needing sub-prime financing to obtain credit in these periods. If this trend returns, or if interest rates increase, the ability of these consumers to purchase vehicles again could become limited, resulting in a decline in our vehicle sales, which, in turn, could have a material adverse effect on our results of

operations and financial condition.

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

Our overall corporate results are also subject to local economic, competitive and other conditions prevailing in the various geographic markets in which we operate. Our dealerships are currently located in the Atlanta, Austin, Charlottesville, Dallas-Fort Worth, Durham, Fayetteville, Fort Pierce, Greensboro, Greenville, Houston, Jackson, Jacksonville, Little Rock, Orlando, Princeton, Richmond, St. Louis and Tampa markets. If economic conditions remain uncertain, we experience a decline in the value of our local brands for any reason, consumer vehicle demand decreases or competition for services offered by automotive retailers remains significant in any of these markets, or any of these factors becomes exacerbated, our business could be materially adversely affected.

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

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

Our dealer agreements may be terminated or not renewed by manufacturers for a number of reasons, and many of the manufacturers have the right to direct us to divest our dealerships if there is a default under the franchise agreement, an unapproved change of control (including certain material changes in the composition of our Board of Directors during a specified time period, the acquisition of 20% or more of our voting stock by another vehicle manufacturer or distributor, or the acquisition of 50% or more of our voting stock by a person, entity or group not affiliated with the vehicle manufacturer or distributor), or certain other unapproved events (including certain extraordinary corporate transactions such as a merger or sale of all or substantially all of our assets).

Our dealer agreements are scheduled to expire at various times. Although we expect that these agreements will be renewed in the ordinary course of business, there can be no assurances that we will be able to renew these agreements on a timely basis or on acceptable terms or at all. Most of our dealer agreements also provide the manufacturer with a right of first refusal to purchase any of the manufacturer's franchises we seek to sell. Our business, financial condition and results of operations may be materially adversely affected to the extent that our rights become compromised or our operations are restricted due to the terms of our dealer or framework agreements or if we lose franchises representing a significant percentage of our revenues.

Our dealer agreements do not give us the exclusive right to a given geographic area. Manufacturers can establish new franchises or relocate existing franchises, subject to applicable state franchise laws. The establishment or relocation of franchises in our markets could have a material adverse effect on the business, financial condition and results of operations of our dealerships in the market in which the action is taken.

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

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

Also, manufacturers often impose facilities requirements on our dealerships. Among other things, manufacturers may require us to move or renovate our dealerships to meet certain image standards. Image standards have been modified by manufacturers in the past, and we cannot assure you that the standards will not be further modified or replaced by different criteria in the future. These commitments could require significant capital expenditures, which could have an adverse affect on our profitability.

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



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

We are generally required to obtain manufacturer consent before we can acquire dealerships selling a manufacturer's automobiles. In addition, as described above, many of our dealer and framework agreements require that we meet certain CSI rating and sales performance criteria as a condition to additional dealership acquisitions. We cannot assure you that we will be able to meet these performance criteria at any applicable time or that manufacturers will consent to future acquisitions, which may prevent us from being able to take advantage of strategic opportunities, and may limit our ability to expand our business. The process of obtaining a manufacturer's consent can take a significant amount of time. Delays in consummating acquisitions caused by this process may negatively affect our ability to acquire dealerships that we believe would produce acquisition synergies and integrate well into our overall strategy. In addition, manufacturers typically establish minimum capital requirements for each of their dealerships on a case-by-case basis. As a condition to granting consent to a proposed acquisition, a manufacturer may require us to remodel or upgrade our facilities and capitalize the subject dealership at levels we would not otherwise choose to fund, causing us to divert our financial resources away from uses that management believes may be of higher long-term value to us. Furthermore, the exercise by a manufacturer of its right of first refusal to acquire a dealership may prevent us from acquiring dealerships that we otherwise would acquire, which could have an adverse effect on our ability to grow through acquisitions, and therefore materially adversely impact our business, financial condition and results of operations.

Likewise, from time to time, we may determine that it is in our best interest to divest one or more of our dealerships. Parties that are interested in acquiring any dealership may also be required to obtain the consent of the manufacturer. The refusal by the manufacturer to approve a potential buyer may delay the sale of that dealership, and would require us to find another potential buyer or wait until the buyer is able to meet the requirements of the manufacturer. A delay in the sale of a dealership could have a negative impact on our business, financial condition or results of operations. Additionally, many vehicle manufacturers place limits on the total number of franchises that any group of affiliated dealerships may own. Certain manufacturers place limits on the number of franchises or share of total brand vehicle sales that may be maintained by an affiliated dealership group on a national, regional or local basis, as well as limits on store ownership in contiguous markets. If we reach any of these limits, we may be prevented from making further acquisitions, which could adversely affect our future growth.

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

Applicable state laws generally provide that an automobile manufacturer may not terminate or refuse to renew a dealer agreement unless it has first provided the dealer with written notice setting forth "good cause" and stating the grounds for termination or non-renewal. Some state laws allow dealers to file protests or petitions or allow them to attempt to comply with the manufacturer's criteria within a notice period to avoid the termination or non-renewal. Our framework agreements with certain manufacturers contain provisions that, among other things, attempt to limit the protections available to dealers under these laws, and, though unsuccessful to date, manufacturers' ongoing lobbying efforts may lead to the repeal or revision of these laws. If these laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of these state laws, it may also be more difficult for us to renew our dealer agreements upon expiration. Changes in laws that provide manufacturers the ability to terminate our dealer agreements could materially adversely affect our business, financial condition and results of operations. Furthermore, if a manufacturer seeks protection from creditors in bankruptcy, courts have held that the federal bankruptcy laws may supersede the state laws that protect automotive retailers resulting in either the termination, non-renewal or rejection of franchises by such manufacturers, which, in turn, could materially adversely affect our business, financial condition and results of operations.

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

Some of our dealer agreements and framework agreements with manufacturers prohibit transfers of any ownership interests of a dealership or, in some cases, its parent, without the applicable manufacturer's consent. Our agreements with some manufacturers provide that, under certain circumstances, the manufacturer would have the right to terminate our agreement or force a sale of our franchise if a person or entity acquires an ownership interest in us above a specified level or if a person or entity acquires the right to vote a specified percentage of our common stock without the approval of the applicable manufacturer. Triggers of these clauses are often based upon actions by our stockholders and are generally outside of our control, and may result in the termination or non-renewal of our dealer and framework agreements or forced sale of one or more

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franchises, which may have a material adverse effect on us. These restrictions may also prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock. Our business is seasonal, and events occurring during seasons in which revenues are typically higher may disproportionately affect our results of operations and financial condition.

The automobile industry is subject to seasonal variations in revenues. Demand for vehicles is generally lower during the first and fourth quarters of each year. Accordingly, we expect our revenues and operating results generally to be lower in the first and fourth quarters than in the second and third quarters of any year. If conditions occur during the second or third quarters that weaken automotive sales, such as severe weather in the geographic areas in which our dealerships operate, war, high fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year may be disproportionately adversely affected.

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

A portion of our 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 import duties, exchange rates, trade restrictions, work stoppages, natural or man-made disasters, and general political and socio-economic conditions in other 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. Relative weakness of the U.S. dollar against foreign currencies in the future may result in an increase in costs to us and in the retail price of such vehicles or parts, which could discourage consumers from purchasing such vehicles and adversely impact our profitability.

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

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

• failing to obtain manufacturers' consents to acquisitions of additional franchises;

• incurring significant transaction related costs for both completed and failed acquisitions;

• incurring significantly higher capital expenditures and operating expenses;

• failing to integrate the operations and personnel of the acquired dealerships and impairing relationships with employees;

• incorrectly valuing entities to be acquired or incurring undisclosed liabilities at acquired dealerships;

• disrupting our ongoing business and diverting our management resources to newly acquired dealerships;

• failing to achieve predicted performance levels; and

• impairing relationships with manufacturers and customers as a result of changes in management.

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

associated with integrating the acquired dealership. If we cannot adequately anticipate and respond to these demands, we may fail to realize acquisition synergies and our resources will be focused on incorporating new operations into our structure rather than on areas that may be more profitable.

There is competition to acquire automotive dealerships, and we may not be able to grow our business through acquisitions if attractive targets are not available or if market values result in prices at levels that we do not believe offer an acceptable rate of return.

We believe that the U.S. automotive retailing market is fragmented and offers many potential acquisition candidates. However, we often compete with several other national, regional and local dealership groups, and other strategic and financial buyers, some of which may have greater financial resources, in evaluating potential acquisition candidates. Competition for

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attractive acquisition targets may result in fewer acquisition opportunities for us, and increased acquisition costs. We may have to forego acquisition opportunities to the extent that we cannot negotiate any such acquisitions on acceptable terms.

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

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

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

privately negotiated sales of used vehicles;

other used vehicle retailers, including regional and national vehicle rental companies;

Internet-based used vehicle brokers that sell used vehicles to consumers;

service center and parts supply chain stores; and

independent service and repair shops.

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

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

The automotive retail business is subject to substantial risk of property loss due to the significant concentration of property at dealership locations, including vehicles and parts. We have historically experienced business interruptions from time to time at several of our dealerships due to adverse weather conditions or other extraordinary events, such as hurricanes in Florida and tornadoes and hail storms in Texas and Mississippi. Concentration of property at dealership locations also makes the automotive retail business particularly vulnerable to theft, fraud and misappropriation of assets. Illegal or unethical conduct by employees, customers, vendors and unaffiliated third parties can result in loss of assets, disrupt operations, impact brand reputation, jeopardize manufacturer and other relationships, result in the imposition of fines or penalties, and subject us to governmental investigations or lawsuits. Other potential liabilities arising out of our operations may involve claims by employees, customers or third parties for personal injury or property damage and potential fines and penalties in connection with alleged violations of regulatory requirements. To the extent we experience events such as these, or others, our financial condition and results of operations may be materially adversely impacted.

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

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

Business interruptions at our dealerships due to a failure of any of our management information systems, could have a material adverse effect on our business, results of operations, financial condition and cash flow.

We rely on management information systems at our dealerships which are licensed from third parties and are used in all aspects of our sales and service efforts, as well as in the preparation of our consolidated financial and operating data. All of our dealerships currently operate on a common dealer management system (“DMS”) provided by ADP. Our business could be significantly disrupted if (i) the ADP DMS fails to integrate with other third party management information systems, customer relations management tools or other software, or to the extent any of these systems become unavailable to us for an extended period of time, or (ii) if our relationship deteriorates with ADP or any of our other third-party providers. Any such significant

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disruption in our business could materially adversely affect our business, results of operations, financial condition and cash flow.

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

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

• motor vehicle and retail installment sales practices;

• leasing;

• sales of finance, insurance and vehicle protection products;

• consumer credit;

• unfair and deceptive trade practices;

• consumer protection;

• consumer privacy;

• money laundering;

• advertising;

• land use and zoning;

• environmental matters;

- health and safety;  
and

• employment practices.

In every state in which we operate, we must obtain certain licenses issued by state authorities in order to operate our businesses, including dealer, sales, finance and insurance-related licenses. State laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include state franchise laws and regulations and other extensive laws and regulations applicable to new and used automobile dealers. The enactment of new laws and regulations that materially impair or restrict our sales, finance and insurance, or other operations could have a material adverse effect on our business, results of operations, financial condition, cash flows, and prospects. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau, which has broad regulatory powers. Although automotive dealers are generally excluded from coverage within this agency, the Dodd-Frank Act and future regulatory actions by this bureau could lead to additional, indirect regulation of automotive dealers through its regulation of automotive finance companies and other financial institutions.

Our financing activities are subject to federal truth-in-lending, consumer leasing and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws and regulations. Some states regulate finance, documentation and administrative fees that may be charged in connection with vehicle sales. Claims arising out of actual or alleged violations of law may be asserted against us or our dealerships by individuals or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct dealership operations and

finances. In recent years, private plaintiffs and state attorneys general in the United States have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. These activities have led many lenders to limit the amounts that may be charged to customers as fee income for these activities. If these or similar activities were to significantly restrict our ability to generate revenue from arranging financing for our customers, we could be adversely affected.

Our operations are also subject to the National Traffic and Motor Vehicle Safety Act, the Magnusson-Moss Warranty Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to U.S. customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

If we or any of our employees at any individual dealership violate or are alleged to violate laws and regulations applicable to them or protecting consumers generally, we could be subject to individual claims or consumer class actions, administrative, civil or criminal investigations or actions and adverse publicity. Such actions could expose us to substantial monetary damages



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and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchises to conduct dealership operations.

Likewise, employees and former employees are protected by a variety of employment-related laws and regulations relating to, among other things, wages and discrimination. Allegations of a violation could subject us to individual claims or consumer class actions, administrative investigations or adverse publicity. Such actions could expose us to substantial monetary damages and legal defense costs, injunctive relief and civil fines and penalties, and damage our reputation and sales.

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

A significant judgment against us, the loss of a significant license or permit or the imposition of a significant fine could have a material adverse effect on our business, financial condition and future prospects. We further expect that, from time to time, new laws and regulations, particularly in the labor, employment, environmental and consumer protection areas will be enacted, and compliance with such laws, or penalties for failure to comply, could significantly increase our costs.

Any further healthcare reform legislation could adversely affect our future profitability and financial condition. Rising healthcare costs and interest in universal healthcare coverage in the United States have resulted in significant healthcare reforms in recent years. We cannot predict the extent of the effect that any future state or federal healthcare legislation or regulation will have on us. However, any further expansion in government's role in the U.S. healthcare industry could result in significant additional long-term costs to us, which could in turn adversely affect our future profitability and financial condition.

A data security breach with regard to personally identifiable information ("PII") about our customers or employees could negatively affect operations and result in high costs.

In the ordinary course of business, we and our partners receive significant PII about our customers in order to complete the sale or service of a vehicle and related products. We also receive PII from our employees. Numerous state and federal regulations, as well as payment card industry and other vendor standards, govern the collection and maintenance of PII from consumers and other individuals. Although many companies across many industries are affected by malicious efforts to obtain access to PII, news reports suggest that the automotive dealership industry is a particular target of identity thieves. Moreover, there are numerous opportunities for a data security breach, including cyber-security breaches, burglary, lost or misplaced data, scams, or misappropriation of data by employees, vendors or unaffiliated third parties. Despite the security measures we have in place and any additional measures we may implement or adopt in the future, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, scams, burglary, human errors, acts of vandalism, or other events. Alleged or actual data security breaches can increase costs of doing business, negatively affect customer satisfaction and loyalty, expose us to negative publicity, individual claims or

consumer class actions, administrative, civil or criminal investigations or actions, and infringe on proprietary information, any of which could have a material adverse effect on our business, financial condition or results of operations.

Governmental regulation pertaining to fuel economy standards may affect a manufacturer's ability to produce cost effective vehicles, which could impact our sales.

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

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The primary goal of CAFE was to substantially increase passenger car fuel efficiency. Congress has continuously increased the standards since 1974 and, since mid-year 1990, the passenger car standard was increased to 27.5 miles per gallon, a level at which it remained through 2009. Passenger car fuel economy is now required to rise to an industry average of 39 miles per gallon by 2016. Likewise, significant changes to light truck CAFE standards have been established over the years. The standard is expected to be increased to about 30 miles per gallon by 2016. The penalty for a manufacturer's failure to meet the CAFE standards is currently \$5.50 per tenth of a mile per gallon for each tenth under the target volume times the total volume of those vehicles manufactured for a given model year. In May 2010, the U.S. Environmental Protection Agency (the "EPA") and the Department of Transportation's National Highway Traffic Safety Administration (the "NHTSA") issued final rules establishing new standards for light-duty vehicles aimed at reducing greenhouse gas emissions and improving fuel economy. Under the joint final rule, the EPA finalized greenhouse gas emissions standards under the Clean Air Act, and the NHTSA finalized CAFE standards under the Energy Policy and Conservation Act, as amended. These standards apply to passenger cars, light-duty trucks, and medium-duty passenger vehicles, in model years 2017 through 2025.

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

Climate change legislation or regulations restricting emission of "greenhouse gases" could result in increased operating costs and reduced demand for the vehicles we sell.

The U.S. Environmental Protection Agency ("EPA") has published its findings that emissions of carbon dioxide, methane and other "greenhouse gases" present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings allow the EPA to adopt and implement regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Accordingly, the EPA has proposed regulations that would require a reduction in emissions of greenhouse gases from motor vehicles and could trigger permit review for greenhouse gas emissions from certain stationary sources. The EPA's proposed regulations requiring permit review for greenhouse gas emissions from certain stationary sources is currently under review at the Supreme Court of the United States. The outcome of that review is uncertain. In addition, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States, including facilities that emit more than 25,000 tons of greenhouse gases on an annual basis, beginning in 2011 for emissions occurring in 2010. More than one-third of the states, either individually or through multi-state regional initiatives, have begun implementing legal measures to require reduction of emissions of greenhouse gases. The adoption and implementation of any regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our facilities, equipment and operations could require us to incur costs to reduce emissions of greenhouse gases associated with our operations. In addition, similar regulations imposed on the owners of the vehicles that we sell could adversely affect demand for certain vehicles.

The loss of key personnel may adversely affect our business.

Our success depends, to a significant degree, upon the continued contributions of our management team.

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

In addition, we may need to hire additional managers or other key personnel from time to time. In some instances, potential acquisitions are more viable to us if we are able to retain experienced managers or obtain replacement managers should the owner or manager of an acquired dealership not continue to manage the business. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low

unemployment. The loss of the services of key employees or the inability to attract additional qualified managers may adversely affect the ability of our dealerships to conduct their operations in accordance with the standards set by us or the manufacturers.

We depend on our executive officers as well as other key personnel. Although our CEO and COO have entered into agreements relating to their employment with us, most of our key personnel are not bound by employment agreements, and those with employment agreements are bound only for a limited period of time. Further, we do not maintain “key man” life

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insurance policies on any of our executive officers or key personnel. If we are unable to retain our key personnel, we may be unable to successfully develop and implement our business plans, which may have a material adverse effect on our business.

We are, and will continue to be, subject to legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects. We are involved and will continue to be involved in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, employment-related lawsuits, class actions, purported class actions, and actions brought by governmental authorities. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition and cash flows.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We lease our corporate headquarters, which are located at 2905 Premiere Parkway, NW, Suite 300, Duluth, Georgia. In addition, as of December 31, 2013, our operations encompassed 80 dealership locations throughout 10 states. As of December 31, 2013, we leased 29 of these locations and owned the remaining locations. We have one location in Mississippi and one location in Missouri where we lease the underlying land but own the building facilities on that land. These locations are included in the leased column of the table below. In addition, we operate 24 collision repair centers. We lease 12 of these collision repair centers and own the remaining repair center locations.

Dealership Group	Dealerships		(a)	Collision Repair Centers	
	Owned	Leased		Owned	Leased
Coggin Automotive Group	10	4	(a)	4	2
Courtesy Autogroup	4	4		—	2
Crown Automotive Company	13	6		2	1
David McDavid Auto Group	6	—		3	2
Gray-Daniels Auto Family	—	5		—	1
Nalley Automotive Group	9	6		2	2
Northpoint Auto Group	4	2		1	1
Plaza Motor Company	5	2		—	1
Total	51	29		12	12

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

## Item 3. Legal Proceedings

From time to time, we and our dealerships may become involved in various claims relating to, and arising out of our business and our operations. These claims may involve, but are not limited to, financial and other audits by vehicle manufacturers, lenders and certain federal, state and local government authorities, which relate 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, can relate to, but are not limited to, the practice of charging administrative fees, employment-related matters, truth-in-lending practices, 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.



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## Item 4. Mine Safety Disclosures

Not applicable.

## PART II. FINANCIAL INFORMATION

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

Our common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "ABG". Quarterly information concerning our high and low closing sales price per share of our common stock as reported by the NYSE is as follows:

	High	Low
Fiscal Year Ended December 31, 2012		
First Quarter	\$28.23	\$21.50
Second Quarter	28.68	22.18
Third Quarter	29.93	24.89
Fourth Quarter	32.35	27.83
Fiscal Year Ended December 31, 2013		
First Quarter	\$38.04	\$32.26
Second Quarter	43.05	33.56
Third Quarter	54.00	40.55
Fourth Quarter	55.61	47.51

We did not pay any dividends during any of these periods. On February 21, 2014, the last reported sale price of our common stock on the NYSE was \$48.44 per share, and there were approximately 89 record holders of our common stock.

In December 2012, our board of directors authorized the repurchase of up to \$50.0 million of the Company's common stock in open market transactions, effective January 1, 2013. During the year ended December 31, 2013, we repurchased 697,303 shares of our common stock for \$30.0 million under that authorization from our board of directors.

Pursuant to the indentures governing our 8.375% Notes and the agreements governing our senior secured credit facilities, our ability to repurchase shares of our common stock and pay cash dividends was limited to \$88.3 million as of December 31, 2013, with an additional \$10 million available to repurchase common stock only.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program (in millions)
10/01/2013 - 10/31/2013	132,600	\$48.50	132,600	\$23.3
11/01/2013 - 11/30/2013	29,400	\$48.30	29,400	\$21.9
12/01/2013 - 12/31/2013	35,000	\$53.74	35,000	\$20.0

In January 2014, our Board of Directors authorized an additional \$50.0 million for the repurchase of the Company's common stock in open market transactions.

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PERFORMANCE GRAPH

The following graph furnished by the Company shows the value as of December 31, 2013, of a \$100 investment in the Company's common stock made on December 31, 2008 (with dividends reinvested), as compared with similar investments based on (i) the value of the S & P 500 Index (with dividends reinvested) and (ii) the value of a market-weighted Peer Group Index composed of the common stock of AutoNation, Inc., Sonic Automotive, Inc., Group 1 Automotive, Inc., Penske Automotive Group, Inc. and Lithia Motors, Inc., in each case on a "total return" basis assuming reinvestment of dividends. The market-weighted Peer Group Index values were calculated from the beginning of the performance period. The historical stock performance shown below is not necessarily indicative of future expected performance.

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

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data as of and for the five years ended December 31, 2013. The accompanying income statement data for the years ended December 31, 2012, 2011, 2010, and 2009 have been reclassified to reflect the status of our discontinued operations as of December 31, 2013. In addition, certain reclassifications of amounts previously reported have been made to the accompanying income statement data in order to conform to current presentation. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and the notes thereto, included elsewhere in



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this annual report on Form 10-K.

Income Statement Data:	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in millions, except per share data)				
Revenues:					
New vehicle	\$2,952.2	\$2,608.3	\$2,240.2	\$2,078.5	\$1,755.2
Used vehicle	1,564.2	1,301.6	1,208.6	1,041.7	860.9
Parts and service	611.6	565.3	555.6	531.2	531.0
Finance and insurance, net	206.9	166.6	137.0	111.2	85.4
Total revenues	5,334.9	4,641.8	4,141.4	3,762.6	3,232.5
Cost of sales	4,457.4	3,876.8	3,441.1	3,134.4	2,671.6
Gross profit	877.5	765.0	700.3	628.2	560.9
Selling, general and administrative expenses	619.3	556.1	531.6	484.1	449.4
Depreciation and amortization	24.3	22.6	22.5	20.5	21.4
Other operating expense (income), net	7.8	0.4	15.0	1.1	(0.8)
Income from operations	226.1	185.9	131.2	122.5	90.9
Other (expense) income:					
Floor plan interest expense	(12.5)	) (11.6)	) (9.3)	) (9.0)	) (10.3)
Other interest expense, net	(39.0)	) (35.6)	) (39.6)	) (35.4)	) (34.8)
Swap interest expense	(2.5)	) (5.0)	) (5.5)	) (6.6)	) (6.6)
Convertible debt discount amortization	—	) (0.4)	) (0.8)	) (1.4)	) (1.8)
(Loss) gain on extinguishment of long-term debt, net	(6.8)	) —	) (0.8)	) (12.6)	) 0.1
Total other expense, net	(60.8)	) (52.6)	) (56.0)	) (65.0)	) (53.4)
Income before income taxes	165.3	133.3	75.2	57.5	37.5
Income tax expense	64.2	50.0	28.7	22.1	14.0
Income from continuing operations	101.1	83.3	46.5	35.4	23.5
Discontinued operations, net of tax	8.0	(1.1)	) 21.4	2.7	(10.1)
Net income	\$109.1	\$82.2	\$67.9	\$38.1	\$13.4
Income from continuing operations per common share:					
Basic	\$3.29	\$2.68	\$1.46	\$1.10	\$0.73
Diluted	\$3.25	\$2.64	\$1.43	\$1.06	\$0.71
	As of December 31,				
Balance Sheet Data:	2013	2012	2011	2010	2009
	(in millions)				
Working capital	\$274.4	\$206.6	\$156.2	\$241.0	\$213.4
Inventories(a)	767.7	655.1	519.5	578.7	506.7
Total assets	1,888.6	1,661.4	1,419.4	1,486.3	1,400.9
Floor plan notes payable(b)	609.5	562.1	434.0	451.6	441.6
Total debt(b)	554.4	466.0	458.6	549.0	537.8
Total shareholders' equity	490.6	402.8	326.6	287.1	243.6

(a)Includes amounts classified as assets held for sale on our consolidated balance sheets.

(b)Includes amounts classified as liabilities associated with assets held for sale on our consolidated balance sheets.



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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are one of the largest automotive retailers in the United States, operating 100 franchises (80 dealership locations) in 18 metropolitan markets within 10 states as of December 31, 2013. We offer an extensive range of automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts and collision repair services; and financing, insurance and service contracts. As of December 31, 2013, we offered 29 domestic and foreign brands of new vehicles. Our current brand mix is weighted 86% towards luxury and mid-line import brands, with the remaining 14% consisting of 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.

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 48% of revenue from mid-line import brands and 38% of revenue from luxury brands for 2013, 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 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

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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 improvement in 2013, with new vehicle SAAR increasing to 15.6 million as compared to 14.5 million in 2012. We continued to benefit from improving economic conditions in 2013, which we attribute to improved consumer confidence, the continued availability of credit at terms favorable to consumers resulting primarily from the current low interest rate environment, gradually improving unemployment, stable fuel prices 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 further changes 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 stronger economy continue to be difficult to predict.

We had total available liquidity of \$281.4 million as of December 31, 2013, which consisted of cash and cash equivalents of \$5.4 million, borrowing availability of \$231.7 million under our revolving credit facilities and \$44.3 million of availability under our floor plan offset account. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.

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## RESULTS OF OPERATIONS

The Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

	For the Year Ended December 31,		Increase	%	
	2013	2012	(Decrease)	Change	
	(Dollars in millions, except per share data)				
<b>REVENUES:</b>					
New vehicle	\$2,952.2	\$2,608.3	\$343.9	13	%
Used vehicle	1,564.2	1,301.6	262.6	20	%
Parts and service	611.6	565.3	46.3	8	%
Finance and insurance, net	206.9	166.6	40.3	24	%
Total revenues	5,334.9	4,641.8	693.1	15	%
<b>GROSS PROFIT:</b>					
New vehicle	181.3	166.5	14.8	9	%
Used vehicle	120.1	104.1	16.0	15	%
Parts and service	369.2	327.8	41.4	13	%
Finance and insurance, net	206.9	166.6	40.3	24	%
Total gross profit	877.5	765.0	112.5	15	%
<b>OPERATING EXPENSES:</b>					
Selling, general and administrative	619.3	556.1	63.2	11	%
Depreciation and amortization	24.3	22.6	1.7	8	%
Other operating expense, net	7.8	0.4	7.4	NM	
Income from operations	226.1	185.9	40.2	22	%
<b>OTHER EXPENSES:</b>					
Floor plan interest expense	(12.5)	) (11.6)	) 0.9	8	%
Other interest expense, net	(39.0)	) (35.6)	) 3.4	10	%
Swap interest expense	(2.5)	) (5.0)	) (2.5)	) (50)	)%
Convertible debt discount amortization	—	(0.4)	) (0.4)	) 100	%
Loss on extinguishment of long-term debt	(6.8)	) —	6.8	NM	
Total other expense, net	(60.8)	) (52.6)	) 8.2	16	%
Income before income taxes	165.3	133.3	32.0	24	%
INCOME TAX EXPENSE	64.2	50.0	14.2	28	%
INCOME FROM CONTINUING OPERATIONS	101.1	83.3	17.8	21	%
DISCONTINUED OPERATIONS, net of tax	8.0	(1.1)	) 9.1	NM	
NET INCOME	\$109.1	\$82.2	\$26.9	33	%
Income from continuing operations per common share—Diluted	\$3.25	\$2.64	\$0.61	23	%
Net income per common share—Diluted	\$3.51	\$2.61	\$0.90	34	%

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 NM—Not Meaningful

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	For the Year Ended December		
	31,		
	2013	2012	
<b>REVENUE MIX PERCENTAGES:</b>			
New vehicles	55.3	% 56.2	%
Used retail vehicles	25.8	% 23.7	%
Used vehicle wholesale	3.5	% 4.3	%
Parts and service	11.5	% 12.2	%
Finance and insurance, net	3.9	% 3.6	%
Total revenue	100.0	% 100.0	%
<b>GROSS PROFIT MIX PERCENTAGES:</b>			
New vehicles	20.7	% 21.8	%
Used retail vehicles	13.8	% 13.7	%
Used vehicle wholesale	(0.2)	)% (0.1)	)%
Parts and service	42.1	% 42.8	%
Finance and insurance, net	23.6	% 21.8	%
Total gross profit	100.0	% 100.0	%
<b>SG&amp;A EXPENSES AS A PERCENTAGE OF GROSS PROFIT</b>	70.6	% 72.7	%

Net income and income from continuing operations increased by \$26.9 million (33%) and \$17.8 million (21%), respectively, during 2013 as compared to 2012. The increase in income from continuing operations was primarily the result of a \$112.5 million (15%) increase in gross profit, which was partially offset by (i) a \$63.2 million (11%) increase in SG&A expenses, (ii) a \$6.8 million loss on the redemption of our 7.625% Senior Subordinated Notes due 2017 (the "7.625% Notes") and (iii) a \$7.4 million increase in other operating expenses due primarily to real estate related charges. Net income for 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 \$41.4 million (13%) increase in parts and service gross profit, (ii) a \$40.3 million (24%) increase in F&I gross profit, (iii) a \$16.0 million (15%) increase in used vehicle gross profit and (iv) a \$14.8 million (9%) increase in new vehicle gross profit. Our total gross profit margin decreased 10 basis points to 16.4%, primarily as a result of (i) a 30 basis point decrease in our same store new vehicle retail gross margin and (ii) a 60 basis point decrease in our same store used vehicle retail gross margin, which was partially offset by a 240 basis point increase in our same store parts and service gross margin. The \$693.1 million (15%) increase in total revenue was primarily a result of (i) a \$343.9 million (13%) increase in new vehicle revenue and (ii) a \$262.6 million (20%) increase in used vehicle revenue.

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## New Vehicle—

	For the Year Ended December 31,		Increase	%	
	2013	2012	(Decrease)	Change	
(Dollars in millions, except for per vehicle data)					
Revenue:					
New vehicle revenue—same store(1)					
Luxury	\$1,097.3	\$963.6	\$133.7	14	%
Mid-line import	1,384.0	1,270.4	113.6	9	%
Mid-line domestic	407.1	374.3	32.8	9	%
Total new vehicle revenue—same store(1)	2,888.4	2,608.3	280.1	11	%
New vehicle revenue—acquisitions	63.8	—			
New vehicle revenue, as reported	\$2,952.2	\$2,608.3	\$343.9	13	%
Gross profit:					
New vehicle gross profit—same store(1)					
Luxury	\$79.5	\$73.4	\$6.1	8	%
Mid-line import	71.3	67.9	3.4	5	%
Mid-line domestic	26.5	25.2	1.3	5	%
Total new vehicle gross profit—same store(1)	177.3	166.5	10.8	6	%
New vehicle gross profit—acquisitions	4.0	—			
New vehicle gross profit, as reported	\$181.3	\$166.5	\$14.8	9	%

	For the Year Ended December 31,		Increase	%	
	2013	2012	(Decrease)	Change	
New vehicle units:					
New vehicle retail units—same store(1)					
Luxury	21,994	19,429	2,565	13	%
Mid-line import	51,632	48,136	3,496	7	%
Mid-line domestic	11,082	10,147	935	9	%
Total new vehicle retail units—same store(1)	84,708	77,712	6,996	9	%
Fleet vehicles	1,258	2,365	(1,107)	(47)	)%
Total new vehicle units—same store(1)	85,966	80,077	5,889	7	%
New vehicle units—acquisitions	1,993	—			
New vehicle units—actual	87,959	80,077	7,882	10	%

## New Vehicle Metrics—

	For the Year Ended December 31,		Increase	%	
	2013	2012	(Decrease)	Change	
Revenue per new vehicle sold—same store(1)	\$33,599	\$32,572	\$1,027	3	%
Gross profit per new vehicle sold—same store(1)	\$2,062	\$2,079	\$(17)	(1)	)%
New vehicle gross margin—same store(1)	6.1	% 6.4	% (0.3)	)% (5)	)%

(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 \$343.9 million (13%) increase in new vehicle revenue was primarily a result of a 7% increase in same store new vehicle unit sales, combined with a 3% increase in same store revenue per new vehicle sold. Our total new vehicle revenue also benefited from \$63.8 million derived from acquisitions. Same store unit volumes for our luxury, mid-line



import and domestic brands increased 13%, 7%, and 9%, respectively, reflecting (i) a general increase in consumer demand, (ii) the continued availability of credit at terms favorable to our customers and (iii) an improvement in the availability of new vehicle inventory

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from which to choose. New vehicle SAAR increased by 8% to 15.6 million in 2013 as compared to 14.5 million in 2012, which contributed to the unit volume increases in each of our three brand segments.

Total new vehicle gross profit increased by \$14.8 million (9%), driven by the 7% increase in same store new vehicle unit sales as well as \$4.0 million in gross profit derived from acquisitions. Partially offsetting these increases was a 30 basis point (5%) decrease in our same store new vehicle gross profit margin. Our same store gross profit per new vehicle sold decreased by \$17 (1%) overall, largely driven by our luxury brands. Our margins in the near future are expected to be primarily dependent upon market-based forces of supply and demand.

Used Vehicle—

	For the Year Ended December 31,		Increase	%	
	2013	2012	(Decrease)	Change	
(Dollars in millions, except for per vehicle data)					
Revenue:					
Used vehicle retail revenues—same store(1)	\$1,340.3	\$1,102.0	\$238.3	22	%
Used vehicle retail revenues—acquisitions	34.6	—			
Total used vehicle retail revenues	1,374.9	1,102.0	272.9	25	%
Used vehicle wholesale revenues—same store(1)	186.3	199.6	(13.3)	(7)	)%
Used vehicle wholesale revenues—acquisitions	3.0	—			
Total used vehicle wholesale revenues	189.3	199.6	(10.3)	(5)	)%
Used vehicle revenue, as reported	\$1,564.2	\$1,301.6	\$262.6	20	%
Gross profit:					
Used vehicle retail gross profit—same store(1)	\$119.9	\$104.5	\$15.4	15	%
Used vehicle retail gross profit—acquisitions	2.2	—			
Total used vehicle retail gross profit	122.1	104.5	17.6	17	%
Used vehicle wholesale gross profit—same store(1)	(2.0)	(0.4)	(1.6)		) NM
Used vehicle wholesale gross profit—acquisitions	—	—			
Total used vehicle wholesale gross profit	(2.0)	(0.4)	(1.6)		) NM
Used vehicle gross profit, as reported	\$120.1	\$104.1	\$16.0	15	%
Used vehicle retail units:					
Used vehicle retail units—same store(1)	67,768	57,434	10,334	18	%
Used vehicle retail units—acquisitions	1,686	—			
Used vehicle retail units—actual					