

GROUP 1 AUTOMOTIVE INC  
Form 10-Q  
August 03, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

Delaware 76-0506313  
(State or other (I.R.S.  
jurisdiction of Employer  
incorporation or Identification  
organization) No.)

800 Gessner, Suite  
500  
Houston, Texas  
77024  
(Address of  
principal executive  
offices) (Zip code)  
(713) 647-5700  
(Registrant's  
telephone number,  
including area  
code)

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 28, 2016, the registrant had 21,354,073 shares of common stock, par value \$0.01, outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2016	December 31, 2015
	(Unaudited, in thousands, except per share amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$24,965	\$13,037
Contracts-in-transit and vehicle receivables, net	212,304	252,438
Accounts and notes receivable, net	151,655	157,768
Inventories, net	1,784,114	1,737,751
Prepaid expenses and other current assets	28,919	27,376
Total current assets	2,201,957	2,188,370
PROPERTY AND EQUIPMENT, net	1,081,232	1,033,981
GOODWILL	881,981	854,915
INTANGIBLE FRANCHISE RIGHTS	322,974	307,588
OTHER ASSETS	12,656	11,862
Total assets	\$4,500,800	\$4,396,716
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Floorplan notes payable - credit facility and other	\$1,239,220	\$1,265,719
Offset account related to floorplan notes payable - credit facility	(35,461 )	(110,759 )
Floorplan notes payable - manufacturer affiliates	397,295	389,071
Offset account related to floorplan notes payable - manufacturer affiliates	(27,500 )	(25,500 )
Current maturities of long-term debt and short-term financing	42,993	54,991
Accounts payable	313,219	280,423
Accrued expenses	182,108	185,323
Total current liabilities	2,111,874	2,039,268
LONG-TERM DEBT, net of current maturities	1,250,940	1,199,534
DEFERRED INCOME TAXES	140,462	136,644
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	49,438	31,153
OTHER LIABILITIES	80,534	71,865
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value, 1,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value, 50,000 shares authorized; 25,702 and 25,706 issued, respectively	257	257
Additional paid-in capital	284,887	291,092
Retained earnings	996,944	926,169
Accumulated other comprehensive loss	(154,404 )	(137,984 )
Treasury stock, at cost; 4,095 and 2,291 shares, respectively	(260,132 )	(161,282 )
Total stockholders' equity	867,552	918,252
Total liabilities and stockholders' equity	\$4,500,800	\$4,396,716

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended June 30, 2016      2015      Six Months Ended June 30, 2016      2015  
(Unaudited, in thousands, except per share amounts)

<b>REVENUES:</b>				
New vehicle retail sales	\$1,540,759	\$1,534,262	\$2,950,609	\$2,866,986
Used vehicle retail sales	715,778	682,294	1,403,949	1,305,487
Used vehicle wholesale sales	96,279	101,512	197,871	201,704
Parts and service sales	322,073	303,193	630,665	585,382
Finance, insurance and other, net	107,560	105,219	207,710	199,775
Total revenues	2,782,449	2,726,480	5,390,804	5,159,334
<b>COST OF SALES:</b>				
New vehicle retail sales	1,459,611	1,458,132	2,797,734	2,721,125
Used vehicle retail sales	667,513	636,235	1,306,484	1,213,307
Used vehicle wholesale sales	96,331	102,445	196,474	199,958
Parts and service sales	148,875	138,095	290,891	269,487
Total cost of sales	2,372,330	2,334,907	4,591,583	4,403,877
<b>GROSS PROFIT</b>	<b>410,119</b>	<b>391,573</b>	<b>799,221</b>	<b>755,457</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>299,022</b>	<b>280,568</b>	<b>592,687</b>	<b>552,037</b>
<b>DEPRECIATION AND AMORTIZATION EXPENSE</b>	<b>12,713</b>	<b>11,946</b>	<b>25,177</b>	<b>23,630</b>
<b>ASSET IMPAIRMENTS</b>	<b>1,024</b>	<b>1,039</b>	<b>1,956</b>	<b>1,039</b>
<b>INCOME FROM OPERATIONS</b>	<b>97,360</b>	<b>98,020</b>	<b>179,401</b>	<b>178,751</b>
<b>OTHER EXPENSE:</b>				
Floorplan interest expense	(11,593)	(10,015)	(22,603)	(19,362)
Other interest expense, net	(16,705)	(14,228)	(33,634)	(28,139)
<b>INCOME BEFORE INCOME TAXES</b>	<b>69,062</b>	<b>73,777</b>	<b>123,164</b>	<b>131,250</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>(22,482)</b>	<b>(27,467)</b>	<b>(42,293)</b>	<b>(49,126)</b>
<b>NET INCOME</b>	<b>\$46,580</b>	<b>\$46,310</b>	<b>\$80,871</b>	<b>\$82,124</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>\$2.12</b>	<b>\$1.91</b>	<b>\$3.57</b>	<b>\$3.38</b>
Weighted average common shares outstanding	21,057	23,312	21,753	23,377
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$2.12</b>	<b>\$1.91</b>	<b>\$3.57</b>	<b>\$3.38</b>
Weighted average common shares outstanding	21,070	23,315	21,762	23,380
<b>CASH DIVIDENDS PER COMMON SHARE</b>	<b>\$0.23</b>	<b>\$0.20</b>	<b>\$0.45</b>	<b>\$0.40</b>

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited, in thousands)			
NET INCOME	\$46,580	\$46,310	\$80,871	\$82,124
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustment	(6,068 )	9,999	(3,913 )	(20,595 )
Net unrealized gain (loss) on interest rate risk management activities:				
Unrealized gain (loss) arising during the period, net of tax benefit (provision) of \$3,373, (\$1,082), \$10,058 and \$2,825 respectively	(5,621 )	1,804	(16,763 )	(4,709 )
Reclassification adjustment for gain (loss) included in interest expense, net of tax provision of \$1,285, \$1,188, \$2,553 and \$2,368 respectively	2,141	1,980	4,256	3,947
Net unrealized gain (loss) on interest rate risk management activities, net of tax	(3,480 )	3,784	(12,507 )	(762 )
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	(9,548 )	13,783	(16,420 )	(21,357 )
COMPREHENSIVE INCOME	\$37,032	\$60,093	\$64,451	\$60,767

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Loss	Stock	
	(Unaudited, in thousands)						
BALANCE, December 31, 2015	25,706	\$ 257	\$291,092	\$926,169	\$ (137,984 )	\$(161,282)	\$918,252
Net income	—	—	—	80,871	—	—	80,871
Other comprehensive loss, net	—	—	—	—	(16,420 )	—	(16,420 )
Purchases of treasury stock	—	—	—	—	—	(115,246 )	(115,246 )
Net issuance of treasury shares to employee stock compensation plans	(4 )	—	(16,261 )	—	—	16,396	135
Stock-based compensation, including tax effect of \$85	—	—	10,056	—	—	—	10,056
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(10,096 )	—	—	(10,096 )
BALANCE, June 30, 2016	25,702	\$ 257	\$284,887	\$996,944	\$ (154,404 )	\$(260,132)	\$867,552

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2016	2015
	(Unaudited, in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$80,871	\$ 82,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,177	23,630
Deferred income taxes	7,984	8,100
Asset impairments	1,956	1,039
Stock-based compensation	10,169	9,453
Amortization of debt discount and issue costs	2,085	1,812
Gain on disposition of assets	(617 )	(1,507 )
Tax effect from stock-based compensation	85	(1,439 )
Other	499	2,278
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	15,473	31,197
Accounts and notes receivable	8,564	1,399
Inventories	(22,080 )	(88,738 )
Contracts-in-transit and vehicle receivables	44,667	3,243
Prepaid expenses and other assets	15,573	3,427
Floorplan notes payable - manufacturer affiliates	(17,268 )	4,876
Deferred revenues	(271 )	(319 )
Net cash provided by operating activities	172,867	80,575
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid in acquisitions, net of cash received	(54,739 )	(130,783 )
Proceeds from disposition of franchises, property and equipment	13,985	7,339
Purchases of property and equipment, including real estate	(70,272 )	(48,486 )
Other	3,156	6,294
Net cash used in investing activities	(107,870)	(165,636 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on credit facility - floorplan line and other	3,373,126	3,550,526
Repayments on credit facility - floorplan line and other	(3,325,917)	(3,466,772)
Borrowings on credit facility - acquisition line	150,020	346,050
Repayment on credit facility - acquisition line	(140,020)	(324,222 )
Borrowings on other debt	19,653	25,744
Principal payments on other debt	(22,248 )	(26,942 )
Borrowings on debt related to real estate, net of debt issue costs	30,754	22,430
Principal payments on debt related to real estate	(12,215 )	(14,359 )
Employee stock purchase plan purchases, net of employee tax withholdings	136	(1,113 )
Repurchases of common stock, amounts based on settlement date	(115,246)	(33,121 )
Tax effect from stock-based compensation	(85 )	1,439
Dividends paid	(10,124 )	(9,737 )
Other	(3,159 )	—
Net cash provided by (used in) financing activities	(55,325 )	69,923
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,256	(1,612 )



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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,928	(16,750 )
CASH AND CASH EQUIVALENTS, beginning of period	13,037	40,975
CASH AND CASH EQUIVALENTS, end of period	\$24,965	\$ 24,225
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable	\$21,241	\$ 5,731

The accompanying notes are an integral part of these consolidated financial statements.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL INFORMATION

Business and Organization

Group 1 Automotive, Inc., a Delaware corporation, is a leading operator in the automotive retailing industry with business activities in 14 states in the United States of America ("U.S."), 19 towns in the United Kingdom ("U.K.") and four states in Brazil. Group 1 Automotive, Inc. and its subsidiaries are collectively referred to as the "Company" in these Notes to Consolidated Financial Statements.

The Company, through its regions, sells new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. As of June 30, 2016, the Company's U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (a) the East (37 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, and South Carolina), and (b) the West (77 dealerships in California, Kansas, Louisiana, Oklahoma, and Texas). The U.S. regional vice presidents report directly to the Company's Chief Executive Officer and are responsible for the overall performance of their regions, as well as for overseeing the market directors and dealership general managers that report to them. In addition, as of June 30, 2016, the Company had two international regions: (a) the U.K. region, which consisted of 29 dealerships in the U.K. and (b) the Brazil region, which consisted of 18 dealerships in Brazil. The operations of the Company's international regions are structured similarly to the U.S. regions, each with a regional vice president reporting directly to the Company's Chief Executive Officer.

The Company's operating results are generally subject to seasonal variations, as well as changes in the economic environment. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some markets within the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, U.S. revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. For the U.K., the first and third calendar quarters tend to be stronger, driven by plate change months of March and September. For Brazil, the Company expects higher volumes in the third and fourth calendar quarters. The first quarter is generally the weakest, driven by heavy consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic condition, manufacturer incentive programs, or shifts in governmental taxes or regulations may exaggerate seasonal or cause counter-seasonal fluctuations in the Company's revenues and operating income.

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in the accompanying unaudited condensed Consolidated Financial Statements. Due to seasonality and other factors, the results of operations for the interim period are not necessarily indicative of the results that will be realized for any other interim period or for the entire fiscal year. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K").

All business acquisitions completed during the periods presented have been accounted for using the purchase method of accounting, and their results of operations are included from the effective dates of the closings of the acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed are assigned and recorded based on estimates of fair value and are subject to change within the purchase price allocation period (generally one year from the respective acquisition date). All intercompany balances and transactions have been eliminated in consolidation.

Business Segment Information

The Company, through its regions, conducts business in the automotive retailing industry including selling new and used cars and light trucks, arranging related vehicle financing, selling service and insurance contracts, providing automotive maintenance and repair services and selling vehicle parts. The Company has three reportable segments: the U.S., which includes the activities of the Company's corporate office, the U.K. and Brazil. The reportable segments are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by its chief operating decision maker to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer. See Note 14, "Segment Information," for additional details regarding the Company's reportable segments.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### Variable Interest Entity

In 2013, the Company entered into arrangements to provide a related-party entity, which owns and operates retail automotive dealerships, a fixed-interest-rate working capital loan and various administrative services for a variable fee, both of which constitute variable interests in the entity. The Company's exposure to loss as a result of its involvement in the entity includes the balance outstanding under the loan arrangement. The Company holds an 8% equity ownership interest in the entity. The Company has determined that the entity meets the criteria of a variable interest entity ("VIE"). The terms of the loan and services agreements provide the Company with the right to control the activities of the VIE that most significantly impact the VIE's economic performance, the obligation to absorb potentially significant losses of the VIE and the right to receive potentially significant benefits from the VIE. Accordingly, the Company qualified as the VIE's primary beneficiary and consolidated the assets and liabilities of the VIE as of June 30, 2016 and December 31, 2015, as well as the results of operations of the VIE beginning on the effective date of the variable interests arrangements to June 30, 2016. The floorplan notes payable liability of the VIE is securitized by the new and used vehicle inventory of the VIE. The carrying amounts and classification of assets (which can only be used to settle the liabilities of the VIE) and liabilities (for which creditors do not have recourse to the general credit of the Company) that are included in the Company's consolidated statements of financial position for the consolidated VIE as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	June 30, December 31,	
	2016	2015
Current assets	\$12,721	\$ 12,849
Non-current assets	13,489	11,022
Total assets	\$26,210	\$ 23,871
Current liabilities	\$9,783	\$ 8,257
Non-current liabilities	20,935	17,064
Total liabilities	\$30,718	\$ 25,321

### Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes. This update requires an entity to classify deferred tax liabilities and assets as non-current within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company elected to early adopt ASU 2015-17 during the first quarter of fiscal 2016, with retrospective application. Accordingly, deferred tax assets in the amount of \$14.1 million, which were previously classified as current assets at December 31, 2015, were reclassified to non-current deferred income tax liabilities on the Company's Consolidated Balance Sheets to conform to current year presentation.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The amendments in the accounting standard require debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. The amendments in this ASU were to be applied retrospectively and were effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-03 during the first quarter of fiscal 2016, with retrospective application. Accordingly, debt issuance costs in the amounts of \$0.5 million and \$3.6 million, which were previously classified as current and long-term assets, respectively, at December 31, 2015, were reclassified as a direct reduction from the carrying amount of the related debt liability on the Company's Consolidated Balance Sheets to conform to current year presentation.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments. The amendments in the accounting standard eliminate the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The amendments also require that the acquirer must recognize adjustments to provisional amounts that are identified during the

measurement period in the reporting period in which the adjustment amount is determined, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The amendments in this ASU were to be applied prospectively to adjustments to provisional amounts that occur after the effective date and were effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-16 during the first quarter of fiscal 2016. The adoption of this amendment did not materially impact the Company's financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) that amends the accounting guidance on revenue recognition. The amendments in this ASU are intended to provide a framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. The amendments in this accounting standard update are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the method of adoption and the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory. The amendments in the accounting standard replace the lower of cost or market test with a lower of cost and net realizable value test. The amendments in this ASU should be applied prospectively and are effective for interim and annual periods beginning after December 15, 2016. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company does not expect the adoption to materially impact its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU relate to the accounting of leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. The amendment addresses several aspects of the accounting for share-based payment award transactions, including: income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments. The amendment replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The standard will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted for periods after December 15, 2018. The Company is currently evaluating the impact that the adoption of the provisions of the ASU will have on its consolidated financial statements.

## 2. ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2016, the Company acquired 12 U.K. dealerships, inclusive of 17 franchises. The Company also acquired one dealership and opened two dealerships in Brazil for two acquired and two previously awarded franchises. Aggregate consideration paid for these dealerships totaled \$60.4 million, including the associated real estate and goodwill. Also, included in the consideration paid was \$3.9 million of cash received in the acquisition of the dealerships and a payable to sellers as of June 30, 2016 of \$1.8 million. The purchase price has been allocated based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The allocation of the purchase price is preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the respective acquisition date). In addition, during the six months ended June 30, 2016, the Company disposed of two U.S. dealerships and four dealerships in Brazil. As a result of these U.S. and Brazil dealership dispositions, a net pretax gain of \$0.7 million and a net pretax loss of \$1.4 million, respectively, were recognized for the six months ended June 30, 2016.

During the six months ended June 30, 2015, the Company acquired two U.S. dealerships, sold one U.S. dealership and terminated one U.S. dealership franchise. The Company also terminated two franchises in Brazil. As a result of these

dispositions, a net pretax gain of \$0.7 million, including related asset impairments, was recognized for the three and six months ended June 30, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### 3. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

The periodic interest rates of the Revolving Credit Facility (as defined in Note 8, "Credit Facilities") and certain variable-rate real estate related borrowings in the U.S. are indexed to the one-month London Inter Bank Offered Rate ("LIBOR"), plus an associated company credit risk rate. In order to minimize the earnings variability related to fluctuations in these rates, the Company employs an interest rate hedging strategy, whereby it enters into arrangements with various financial institutional counterparties with investment grade credit ratings, swapping its variable interest rate exposure for a fixed interest rate over terms not to exceed the related variable-rate debt.

The Company presents the fair value of all derivatives on its Consolidated Balance Sheets. The Company measures the fair value of its interest rate derivative instruments utilizing an income approach valuation technique, converting future amounts of cash flows to a single present value in order to obtain a transfer exit price within the bid and ask spread that is most representative of the fair value of its derivative instruments. In measuring fair value, the Company utilizes the option-pricing Black-Scholes present value technique for all of its derivative instruments. This option-pricing technique utilizes a one-month LIBOR forward yield curve, obtained from an independent external service provider, matched to the identical maturity term of the instrument being measured. Observable inputs utilized in the income approach valuation technique incorporate identical contractual notional amounts, fixed coupon rates, periodic terms for interest payments and contract maturity. The fair value estimate of the interest rate derivative instruments also considers the credit risk of the Company for instruments in a liability position or the counterparty for instruments in an asset position. The credit risk is calculated by using the spread between the one-month LIBOR yield curve and the relevant average 10 and 20-year rate according to Standard and Poor's. The Company has determined the valuation measurement inputs of these derivative instruments to maximize the use of observable inputs that market participants would use in pricing similar or identical instruments and market data obtained from independent sources, which is readily observable or can be corroborated by observable market data for substantially the full term of the derivative instrument. Further, the valuation measurement inputs minimize the use of unobservable inputs. Accordingly, the Company has classified the derivatives within Level 2 of the hierarchy framework as described by Accounting Standards Codification ("ASC") 820, Fair Value Measurement.

The related gains or losses on these interest rate derivatives are deferred in stockholders' equity as a component of accumulated other comprehensive loss. These deferred gains and losses are recognized in income in the period in which the related items being hedged are recognized in expense. However, to the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in other income or expense. Monthly contractual settlements of these swap positions are recognized as floorplan or other interest expense in the Company's accompanying Consolidated Statements of Operations. All of the Company's interest rate hedges are designated as cash flow hedges. At June 30, 2016, all of the Company's derivative contracts that were in effect were determined to be effective. The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Consolidated Statements of Operations for either the three or six months ended June 30, 2016 or 2015, respectively.

The Company held interest rate swaps in effect as of June 30, 2016 of \$616.7 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.6%. The Company records the majority of the impact of the periodic settlements of these swaps as a component of floorplan interest expense. For the three and six months ended June 30, 2016, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by \$2.9 million and \$5.6 million, respectively. For the three and six months ended June 30, 2015, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by \$2.8 million and \$5.5 million, respectively. Total floorplan interest expense was \$11.6 million and \$10.0 million for the three months ended June 30, 2016 and 2015, respectively, and \$22.6 million and \$19.4 million for the six months ended June 30, 2016 and 2015, respectively.

In addition to the \$616.7 million of swaps in effect as of June 30, 2016, the Company held 17 additional interest rate swaps with forward start dates between December 2016 and January 2019 and expiration dates between December 2019 and December 2021. The aggregate notional value of these 17 forward-starting swaps was \$850.0 million, and the weighted average interest rate was 2.3%. The combination of the interest rate swaps currently in effect and these



forward-starting swaps is structured such that the notional value in effect through March 2023 does not exceed \$908.6 million, which is less than the Company's expectation for variable rate debt outstanding during such period. As of June 30, 2016 and December 31, 2015, the Company reflected liabilities from interest rate risk management activities of \$51.1 million and \$31.2 million, respectively, in its Consolidated Balance Sheets. Included in Accumulated Other Comprehensive Loss at June 30, 2016 and 2015 were accumulated unrealized losses, net of income taxes, totaling \$32.0 million and \$18.7 million, respectively, related to these interest rate swaps.





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A summary of the restricted stock awards as of June 30, 2016, along with the changes during the six months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	893,360	\$ 69.16
Granted	224,520	53.82
Vested	(215,980)	57.59
Forfeited	(12,360 )	75.66
Nonvested at June 30, 2016	889,540	\$ 68.03

#### Employee Stock Purchase Plan

The Purchase Plan authorizes the issuance of up to 4.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after May 19, 2025. The Purchase Plan is available to all employees of the Company and its participating subsidiaries and is a qualified plan as defined by Section 423 of the Internal Revenue Code. At the end of each fiscal quarter (the “Option Period”) during the term of the Purchase Plan, employees can acquire shares of common stock from the Company at 85% of the fair market value of the common stock on the first or the last day of the Option Period, whichever is lower. As of June 30, 2016, there were 1,329,013 shares available for issuance under the Purchase Plan. During the six months ended June 30, 2016 and 2015, the Company issued 44,806 and 51,748 shares, respectively, of common stock to employees participating in the Purchase Plan. With respect to shares issued under the Purchase Plan, the Company's Board of Directors has authorized specific share repurchases to fund the shares issuable under the Purchase Plan.

The weighted average fair value of employee stock purchase rights issued pursuant to the Purchase Plan was \$14.11 and \$18.12 during the six months ended June 30, 2016 and 2015, respectively. The fair value of stock purchase rights is calculated using the grant date stock price, the value of the embedded call option and the value of the embedded put option.

#### Stock-Based Compensation

Total stock-based compensation cost was \$4.7 million and \$4.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$10.2 million and \$9.5 million for the six months ended June 30, 2016 and 2015, respectively. Cash received from Purchase Plan purchases was \$3.9 million and \$3.8 million for the six months ended June 30, 2016 and 2015, respectively. The effect of tax deductions for restricted stock vested was less than the associated book expense previously recognized, which reduced additional paid-in capital by \$0.1 million for the six months ended June 30, 2016. Comparatively, the tax benefit realized for the tax deductions from vesting of restricted shares totaled \$1.4 million and increased additional paid in capital for the six months ended June 30, 2015.

#### 5. EARNINGS PER SHARE

The two-class method is utilized for the computation of the Company's earnings per share (“EPS”). The two-class method requires a portion of net income to be allocated to participating securities, which are unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, including the Company’s restricted stock awards. Income allocated to these participating securities is excluded from net earnings available to common shares, as shown in the table below. Basic EPS is computed by dividing net income available to basic common shares by the weighted average number of basic common shares outstanding during the period. Diluted EPS is computed by dividing net income available to diluted common shares by the weighted average number of dilutive common shares outstanding during the period.

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The following table sets forth the calculation of EPS for the three and six months ended June 30, 2016 and 2015.

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Weighted average basic common shares outstanding	21,057	23,312	21,753	23,377
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	13	3	9	3
Weighted average dilutive common shares outstanding	21,070	23,315	21,762	23,380
Basic:				
Net Income	\$46,580	\$46,310	\$80,871	\$82,124
Less: Earnings allocated to participating securities	1,885	1,792	3,224	3,176
Earnings available to basic common shares	\$44,695	\$44,518	\$77,647	\$78,948
Basic earnings per common share	\$2.12	\$1.91	\$3.57	\$3.38
Diluted:				
Net Income	\$46,580	\$46,310	\$80,871	\$82,124
Less: Earnings allocated to participating securities	1,884	1,792	3,223	3,176
Earnings available to diluted common shares	\$44,696	\$44,518	\$77,648	\$78,948
Diluted earnings per common share	\$2.12	\$1.91	\$3.57	\$3.38

#### 6. INCOME TAXES

The Company is subject to U.S. federal income taxes and income taxes in numerous U.S. states. In addition, the Company is subject to income tax in the U.K. and Brazil relative to its foreign subsidiaries. The Company's effective income tax rate of 32.6% and 34.3% of pretax income for the three and six months ended June 30, 2016, respectively, was less than the U.S. federal statutory rate of 35.0% due primarily to the mix of pretax income between our U.S. and foreign jurisdictions in which the Company operates and the tax impact of a dealership disposition in Brazil, partially offset by taxes provided for in U.S. state jurisdictions and valuation allowances provided for net operating losses and other deferred tax assets in certain U.S. states and in Brazil.

For the three and six months ended June 30, 2016, the Company's effective tax rate decreased to 32.6% and 34.3%, respectively, as compared to 37.2% and 37.4% for the same periods in 2015. This decrease was primarily due to the mix effect resulting from proportionately more pretax income generated in the Company's U.K. region, as well as changes to valuation allowances provided for net operating losses and other deferred tax assets in certain U.S. states and in Brazil, in addition to the tax impact of a dealership disposition in Brazil during the period ended June 30, 2016. As of June 30, 2016 and December 31, 2015, the Company had no unrecognized tax benefits with respect to uncertain tax positions and did not incur any interest and penalties nor did it accrue any interest for the six months ended June 30, 2016. When applicable, consistent with prior practice, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Taxable years 2011 and subsequent remain open for examination by the Company's major taxing jurisdictions.

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## 7. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Accounts and notes receivable consisted of the following:

	June 30, 2016	December 31, 2015
	(unaudited)	
	(In thousands)	
Amounts due from manufacturers	\$87,125	\$93,206
Parts and service receivables	33,651	32,479
Finance and insurance receivables	21,381	22,374
Other	12,039	12,913
Total accounts and notes receivable	154,196	160,972
Less allowance for doubtful accounts	2,541	3,204
Accounts and notes receivable, net	\$151,655	\$157,768

Inventories consisted of the following:

	June 30, 2016	December 31, 2015
	(unaudited)	
	(In thousands)	
New vehicles	\$1,258,485	\$1,262,797
Used vehicles	316,070	275,508
Rental vehicles	142,626	134,509
Parts, accessories and other	74,964	72,917
Total inventories	1,792,145	1,745,731
Less lower of cost or market reserves	8,031	7,980
Inventories, net	\$1,784,114	\$1,737,751

New and used vehicles are valued at the lower of specific cost or market and are removed from inventory using the specific identification method. Parts and accessories are valued at lower of cost (determined on either a first-in, first-out or an average cost basis) or market.

Property and equipment consisted of the following:

	Estimated Useful Lives in Years	June 30, 2016	December 31, 2015
		(unaudited)	
		(dollars in thousands)	
Land	—	\$378,715	\$364,475
Buildings	30 to 50	525,097	505,414
Leasehold improvements	varies	160,866	155,585
Machinery and equipment	7 to 20	96,562	90,993
Furniture and fixtures	3 to 10	86,882	82,688
Company vehicles	3 to 5	11,789	11,603
Construction in progress	—	72,906	58,361
Total		1,332,817	1,269,119
Less accumulated depreciation		251,585	235,138
Property and equipment, net		\$1,081,232	\$1,033,981

During the six months ended June 30, 2016, the Company incurred \$50.9 million of capital expenditures for the construction of new or expanded facilities and the purchase of equipment and other fixed assets in the maintenance of the



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Company's dealerships and facilities, excluding \$32.7 million of capital expenditures accrued as of December 31, 2015. As of June 30, 2016, the Company had accrued \$21.2 million of capital expenditures. In addition, the Company purchased real estate (including land and buildings) during the six months ended June 30, 2016 associated with existing dealership operations totaling \$7.9 million. And, in conjunction with the acquisition of dealerships and franchises in the six months ended June 30, 2016, the Company acquired \$28.8 million of real estate and other property and equipment.

As of December 31, 2015, the Company determined that certain real estate investments qualified for held-for-sale treatment. As a result, the Company classified the carrying value after adjustment to estimated fair market value of the real estate, totaling \$1.4 million, in prepaid and other current assets in its Consolidated Balance Sheets.

#### 8. CREDIT FACILITIES

In the U.S., the Company has a \$1.8 billion revolving syndicated credit arrangement that matures on June 17, 2021 and is comprised of 24 financial institutions, including six manufacturer-affiliated finance companies ("Revolving Credit Facility"). The Company also has a \$300.0 million floorplan financing arrangement ("FMCC Facility") with Ford Motor Credit Company ("FMCC") for financing of new Ford vehicles in the U.S. and other floorplan financing arrangements with several other automobile manufacturers for financing of a portion of its U.S. rental vehicle inventory. In the U.K., the Company has financing arrangements with BMW Financial Services, Volkswagen Finance and FMCC for financing of its new and used vehicles. In Brazil, the Company has financing arrangements for new, used, and rental vehicles with several financial institutions, most of which are manufacturer affiliated. Within the Company's Consolidated Balance Sheets, Floorplan notes payable - credit facility and other primarily reflects amounts payable for the purchase of specific new, used and rental vehicle inventory (with the exception of new and rental vehicle purchases financed through lenders affiliated with the respective manufacturer) whereby financing is provided by the Revolving Credit Facility. Floorplan notes payable - manufacturer affiliates reflects amounts related to the purchase of vehicles whereby financing is provided by the FMCC Facility, the financing of a portion of the Company's rental vehicles in the U.S., as well as the financing of new, used, and rental vehicles in both the U.K. and Brazil. Payments on the floorplan notes payable are generally due as the vehicles are sold. As a result, these obligations are reflected in the accompanying Consolidated Balance Sheets as current liabilities.

##### Revolving Credit Facility

On June 17, 2016, the Company amended its Revolving Credit Facility principally to increase the total borrowing capacity from \$1.7 billion to \$1.8 billion and to extend the term from an expiration date of June 20, 2018 to June 17, 2021. The Revolving Credit Facility consists of two tranches, providing a maximum of \$1.75 billion for U.S. vehicle inventory floorplan financing ("Floorplan Line"), as well as a maximum of \$360.0 million and a minimum of \$50.0 million for working capital and general corporate purposes, including acquisitions ("Acquisition Line"). The capacity under these two tranches can be re-designated within the overall \$1.8 billion commitment, subject to the aforementioned limits. Up to \$125.0 million of the Acquisition Line can be borrowed in either euros or British pound sterling. The Revolving Credit Facility can be expanded to a maximum commitment of \$2.1 billion, subject to participating lender approval. The Floorplan Line bears interest at rates equal to the LIBOR plus 125 basis points for new vehicle inventory and the LIBOR plus 150 basis points for used vehicle inventory. The Acquisition Line bears interest at the LIBOR plus 150 basis points plus a margin that ranges from zero to 100 basis points, depending on the Company's total adjusted leverage ratio, for borrowings in U.S. dollars and a LIBOR equivalent plus 125 to 250 basis points, depending on the Company's total adjusted leverage ratio, on borrowings in euros or British pound sterling. The Floorplan Line requires a commitment fee of 0.15% per annum on the unused portion. Amounts borrowed by the Company under the Floorplan Line for specific vehicle inventory are to be repaid upon the sale of the vehicle financed, and in no case is a borrowing for a vehicle to remain outstanding for greater than one year. The Acquisition Line also requires a commitment fee ranging from 0.20% to 0.45% per annum, depending on the Company's total adjusted leverage ratio, based on a minimum commitment of \$50.0 million less outstanding borrowings. In conjunction with the Revolving Credit Facility, the Company has \$5.9 million of related unamortized costs as of June 30, 2016, which are included in Prepaid expenses and other current assets and Other Assets on the accompanying Consolidated Balance Sheets and amortized over the term of the facility.



After considering the outstanding balance of \$1,198.1 million at June 30, 2016, the Company had \$241.9 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$241.9 million available borrowings under the Floorplan Line was \$35.5 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.7% as of June 30, 2016 and December 31, 2015, excluding the impact of the Company's interest rate swaps. With regards to the Acquisition Line, borrowings outstanding as of June 30, 2016 and December 31, 2015 were \$10.0 million and zero, respectively. After considering \$37.1 million of outstanding letters of credit and other factors included in the Company's available borrowing base calculation, there was \$252.3 million of available borrowing capacity under the Acquisition Line as of June 30, 2016. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

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All of the U.S. dealership-owning subsidiaries are co-borrowers under the Revolving Credit Facility. The Company's obligations under the Revolving Credit Facility are secured by essentially all of the Company's U.S. personal property (other than equity interests in dealership-owning subsidiaries), including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries, excluding inventory financed directly with manufacturer-affiliates and other third-party financing institutions. The Revolving Credit Facility contains a number of significant covenants that, among other things, restrict the Company's ability to make disbursements outside of the ordinary course of business, dispose of assets, incur additional indebtedness, create liens on assets, make investments and engage in mergers or consolidations. The Company is also required to comply with specified financial tests and ratios defined in the Revolving Credit Facility, such as the fixed charge coverage and total adjusted leverage ratios. Further, the Revolving Credit Facility restricts the Company's ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations or securities ("Restricted Payments"). The Restricted Payments cannot exceed the sum of \$208.5 million plus (or minus if negative) (a) one-half of the aggregate consolidated net income for the period beginning on April 1, 2014 and ending on the date of determination and (b) the amount of net cash proceeds received from the sale of capital stock after June 2, 2014 and ending on the date of determination less (c) cash dividends and share repurchases after June 2, 2014 ("Credit Facility Restricted Payment Basket"). For purposes of the calculation of the Credit Facility Restricted Payment Basket, net income represents such amounts per the consolidated financial statements adjusted to exclude the Company's foreign operations, non-cash interest expense, non-cash asset impairment charges, and non-cash stock-based compensation. As of June 30, 2016, the Credit Facility Restricted Payment Basket totaled \$108.8 million. As of June 30, 2016, the Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility.

#### Ford Motor Credit Company Facility

The FMCC Facility provides for the financing of, and is collateralized by, the Company's Ford new vehicle inventory in the U.S., including affiliated brands. This arrangement provides for \$300.0 million of floorplan financing and is an evergreen arrangement that may be canceled with 30 days' notice by either party. As of June 30, 2016, the Company had an outstanding balance of \$159.0 million under the FMCC Facility with an available floorplan borrowing capacity of \$141.0 million. Included in the \$141.0 million available borrowings under the FMCC Facility was \$27.5 million of immediately available funds. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives. The interest rate on the FMCC Facility was 5.00% before considering the applicable incentives as of June 30, 2016.

#### Other Credit Facilities

The Company has credit facilities with BMW Financial Services, Volkswagen Finance and FMCC for the financing of new, used and rental vehicle inventories related to its U.K. operations. These facilities are denominated in British pound sterling and are evergreen arrangements that may be canceled with notice by either party and bear interest at a base rate, plus a surcharge that varies based upon the type of vehicle being financed. The annual interest rates charged on borrowings outstanding under these facilities range from 1.73% to 3.95%. As of June 30, 2016, borrowings outstanding under these facilities totaled \$83.8 million.

The Company has credit facilities with financial institutions in Brazil, most of which are affiliated with the manufacturers, for the financing of new, used and rental vehicle inventories related to its Brazil operations. These facilities are denominated in Brazilian real and have renewal terms ranging from one month to twelve months. They may be canceled with notice by either party and bear interest at a benchmark rate, plus a surcharge that varies based upon the type of vehicle being financed. The annual interest rates charged on borrowings outstanding under these facilities, after the grace period of zero to 90 days, range from 16.77% to 24.45%. As of June 30, 2016, borrowings outstanding under these facilities totaled \$16.7 million.

Excluding rental vehicles financed through the Revolving Credit Facility, financing for U.S. rental vehicles is typically obtained directly from the automobile manufacturers. These financing arrangements generally require small monthly payments and mature in varying amounts over a period of two years. The interest rate charged on borrowings related to the Company's rental vehicle fleet varies up to 5.00%. Rental vehicles are typically transferred to used vehicle inventory when they are removed from service and repayment of the borrowing is required at that time. As of

June 30, 2016, borrowings outstanding under these facilities totaled \$116.0 million.

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## 9. LONG-TERM DEBT

The Company carries its long-term debt at face value, net of applicable discounts and capitalized debt issuance costs. Long-term debt consisted of the following:

	June 30, 2016	December 31, 2015
	(dollars in thousands)	
5.00% Senior Notes (aggregate principal of \$550,000 at June 30, 2016 and December 31, 2015)	\$ 539,690	\$ 538,933
5.25% Senior Notes (aggregate principal of \$300,000 at June 30, 2016 and December 31, 2015)	295,320	295,156
Acquisition Line	10,000	—
Real Estate Related and Other Long-Term Debt	389,593	365,564
Capital lease obligations related to real estate, maturing in varying amounts through June 2034 with a weighted average interest rate of 9.8%	49,727	51,902
	1,284,330	1,251,555
Less current maturities of other long-term debt	33,390	52,021
	\$ 1,250,940	\$ 1,199,534

Included in current maturities of long-term debt and short-term financing in the Company's Consolidated Balance Sheets as of June 30, 2016, and December 31, 2015, was \$9.6 million and \$3.0 million, respectively, of short-term financing that was due within one year.

### 5.00% Senior Notes

On June 2, 2014, the Company issued \$350.0 million aggregate principal amount of its 5.00% Senior Notes due 2022 ("5.00% Notes"). Subsequently, on September 9, 2014, the Company issued an additional \$200.0 million of 5.00% Notes at a discount of 1.5% from face value. The 5.00% Notes will mature on June 1, 2022 and pay interest semiannually, in arrears, in cash on each June 1 and December 1, beginning December 1, 2014. Using proceeds of certain equity offerings, the Company may redeem up to 35.0% of the 5.00% Notes prior to June 1, 2017, subject to certain conditions, at a redemption price equal to 105% of principal amount of the 5.00% Notes plus accrued and unpaid interest. Otherwise, the Company may redeem some or all of the 5.00% Notes prior to June 1, 2017 at a redemption price equal to 100% of the principal amount of the 5.00% Notes redeemed, plus an applicable premium, and plus accrued and unpaid interest. On or after June 1, 2017, the Company may redeem some or all of the 5.00% Notes at specified prices, plus accrued and unpaid interest. The Company may be required to purchase the 5.00% Notes if it sells certain assets or triggers the change in control provisions defined in the 5.00% Notes indenture. The 5.00% Notes are senior unsecured obligations and rank equal in right of payment to all of the Company's existing and future senior unsecured debt and senior in right of payment to all of its future subordinated debt. The 5.00% Notes are guaranteed by substantially all of the Company's U.S. subsidiaries. The U.S. subsidiary guarantees rank equally in the right of payment to all of the Company's U.S. subsidiary guarantor's existing and future subordinated debt. In addition, the 5.00% Notes are structurally subordinated to the liabilities of its non-guarantor subsidiaries and are subject to customary covenants, including a restricted payment basket and debt limitations. The restricted payment basket calculation under the terms of the 5.00% Notes is the same as under the Credit Facility Restricted Payment Basket. The 5.00% Notes were registered with the Securities and Exchange Commission in June 2015.

The underwriters' fees, discount and capitalized debt issuance costs relative to the 5.00% Notes totaled \$13.1 million. These amounts are included as a direct reduction of the 5.00% Notes on the accompanying Consolidated Balance Sheets and are being amortized over a period of eight years in conjunction with the term of the 5.00% Notes. The 5.00% Notes are presented net of unamortized underwriters' fees, discount and debt issuance costs of \$10.3 million as of June 30, 2016.

### 5.25% Senior Notes

On December 8, 2015, the Company issued 5.25% senior unsecured notes with a face amount of \$300.0 million due to mature on December 15, 2023 ("5.25% Notes"). The 5.25% Notes pay interest semiannually, in arrears, in cash on each

June 15 and December 15, beginning June 15, 2016. Using proceeds of certain equity offerings, the Company may redeem up to 35.0% of the 5.25% Notes prior to December 15, 2018, subject to certain conditions, at a redemption price equal to 105.25% of principal amount of the 5.25% Notes plus accrued and unpaid interest. Otherwise, the Company may redeem some or all of the 5.25% Notes prior to December 15, 2018 at a redemption price equal to 100% of the principal amount of the 5.25% Notes redeemed, plus an applicable make-whole premium, and plus accrued and unpaid interest. On or after December 15, 2018, the Company may redeem some or all of the 5.25% Notes at specified prices, plus accrued and unpaid interest. The Company may be required to purchase the 5.25% Notes if it sells certain assets or triggers the change in control provisions defined in the 5.25% Notes indenture. The 5.25% Notes are senior unsecured obligations and rank equal in right of

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payment to all of the Company's existing and future senior unsecured debt and senior in right of payment to all of its future subordinated debt. The 5.25% Notes are guaranteed by substantially all of the Company's U.S. subsidiaries. The U.S. subsidiary guarantees rank equally in the right of payment to all of the Company's U.S. subsidiary guarantor's existing and future subordinated debt. In addition, the 5.25% Notes are structurally subordinated to the liabilities of its non-guarantor subsidiaries and are subject to customary covenants, including a restricted payment basket and debt limitations. The restricted payment basket calculation under the terms of the 5.25% Notes is the same as under the Credit Facility Restricted Payment Basket.

The underwriters' fees and capitalized debt issuance costs relative to the 5.25% Notes totaled \$5.0 million. These amounts are included as a direct reduction of the 5.25% Notes on the accompanying Consolidated Balance Sheets and are being amortized over a period of eight years in conjunction with the term of the 5.25% Notes. The 5.25% Notes are presented net of unamortized underwriters' fees and debt issuance costs of \$4.7 million as of June 30, 2016.

#### Acquisition Line

See Note 8, "Credit Facilities," for further discussion on the Company's Revolving Credit Facility and Acquisition Line.

#### Real Estate Related and Other Long-Term Debt

The Company, as well as certain of its wholly-owned subsidiaries, has entered into separate term mortgage loans in the U.S. with three of its manufacturer-affiliated finance partners, Toyota Motor Credit Corporation ("TMCC"), BMW Financial Services NA, LLC ("BMWFS") and FMCC, as well as several third-party financial institutions (collectively, "Real Estate Notes"). The Real Estate Notes may be expanded for borrowings related to specific buildings and/or properties and are guaranteed by the Company. Each loan was made in connection with, and is secured by mortgage liens on, the real property owned by the Company that is mortgaged under the Real Estate Notes. The Real Estate Notes bear interest at fixed rates between 3.00% and 4.69%, and at variable indexed rates plus a spread between 1.50% and 2.50% per annum. The Company capitalized \$2.7 million of related debt issuance costs related to the Real Estate Notes which are included as a direct reduction to the Real Estate Notes on the accompanying Consolidated Balance Sheets and are being amortized over the terms of the notes, \$0.7 million of which remained unamortized as of June 30, 2016.

The Real Estate Notes consist of 54 term loans for an aggregate principal amount of \$351.1 million. As of June 30, 2016, borrowings outstanding under these notes totaled \$318.8 million, with \$23.6 million classified as a current maturity of long-term debt. For the six months ended June 30, 2016, the Company made additional net borrowings and principal payments of \$30.3 million and \$7.7 million, respectively. The agreements provide for monthly payments based on 15 or 20-year amortization schedules and mature between May 2017 and December 2024. These Real Estate Notes are cross-collateralized and cross-defaulted with each other.

The Company has entered into 13 separate term mortgage loans in the U.K. with other third-party financial institutions which are secured by the Company's U.K. properties. These mortgage loans (collectively, "U.K. Notes") are denominated in British pound sterling and are being repaid in monthly installments that will mature by September 2034. As of June 30, 2016, borrowings under the U.K. Notes totaled \$57.1 million, with \$4.7 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the six months ended June 30, 2016, the Company assumed \$8.3 million of term mortgage loans in conjunction with U.K. dealership acquisitions, made no additional borrowings and made principal payments of \$2.4 million associated with the U.K. Notes.

The Company has a separate term mortgage loan in Brazil with a third-party financial institution (the "Brazil Note"). The Brazil Note is denominated in Brazilian real and is secured by one of the Company's Brazilian properties, as well as a guarantee from the Company. The Brazil Note is being repaid in monthly installments that will mature by April 2025. As of June 30, 2016, borrowings under the Brazil Note totaled \$4.1 million, with \$0.4 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the six months ended June 30, 2016, the Company made no additional borrowings and made principal payments of \$0.1 million associated with the Brazil Note.

The Company also has working capital loan agreements with third-party financial institutions in Brazil. The principal balance on these loans is due by February 2017 with interest only payments being made until the due date. As of June 30, 2016, borrowings under the Brazilian third-party loans totaled \$6.8 million. For the six months ended June 30, 2016, the Company made no additional borrowings.

Fair Value of Long-Term Debt

The Company's outstanding 5.00% Notes had a fair value of \$543.1 million and \$545.9 million as of June 30, 2016 and December 31, 2015, respectively. The Company's outstanding 5.25% Notes had a fair value of \$296.3 million and \$297.8 million as of June 30, 2016 and December 31, 2015, respectively. The Company's fixed interest rate borrowings included in real estate related and other long-term debt totaled \$97.3 million and \$100.7 million as of June 30, 2016 and December 31, 2015, respectively. The fair value of such fixed interest rate borrowings was \$98.5 million and \$102.4 million as of June 30, 2016 and

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of June 30, 2016 and December 31, 2015. The Company determined the estimated fair value of its long-term debt using available market information and commonly accepted valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on estimated fair values. The carrying value of the Company's variable rate debt approximates fair value due to the short-term nature of the interest rates.

#### 10. FAIR VALUE MEASUREMENTS

ASC 820 defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; requires disclosure of the extent to which fair value is used to measure financial and non-financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date; and establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date:

- Level 1 — unadjusted, quoted prices for identical assets or liabilities in active markets;
- Level 2 — quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation; and
- Level 3 — unobservable inputs based upon the reporting entity's internally developed assumptions that market participants would use in pricing the asset or liability.

The Company's financial instruments consist primarily of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, investments in debt and equity securities, accounts payable, credit facilities, long-term debt and interest rate swaps. The fair values of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, accounts payable, and credit facilities approximate their carrying values due to the short-term nature of these instruments or the existence of variable interest rates. The Company evaluated its assets and liabilities for those that met the criteria of the disclosure requirements and fair value framework of ASC 820 and identified demand obligations, interest rate derivative instruments, and investment balances in certain financial institutions as having met such criteria.

The Company periodically invests in unsecured, corporate demand obligations with manufacturer-affiliated finance companies, which bear interest at a variable rate and are redeemable on demand by the Company. Therefore, the Company has classified these demand obligations as cash and cash equivalents in the accompanying Consolidated Balance Sheets. The Company determined that the valuation measurement inputs of these instruments include inputs other than quoted market prices, that are observable or that can be corroborated by observable data by correlation. Accordingly, the Company has classified these instruments within Level 2 of the hierarchy framework.

In addition, the Company maintains an investment balance with certain of the financial institutions in Brazil that provide credit facilities for the financing of new, used and rental vehicle inventories. The investment balances bear interest at a variable rate and are redeemable by the Company in the future under certain conditions. The Company has classified these investment balances as other current and long-term assets in the accompanying Consolidated Balance Sheets. The Company determined that the valuation measurement inputs of these instruments include inputs other than quoted market prices, that are observable or that can be corroborated by observable data by correlation. Accordingly, the Company has classified these instruments within Level 2 of the hierarchy framework.

The Company's derivative financial instruments are recorded at fair market value. See Note 3, "Derivative Instruments and Risk Management Activities" for further details regarding the Company's derivative financial instruments. See Note 9, "Long-term Debt" for details regarding the fair value of the Company's long-term debt.





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Assets and liabilities recorded at fair value in the accompanying balance sheets as of June 30, 2016 and December 31, 2015, respectively, were as follows:

	As of June 30, 2016	
	Level 2	Total
	(In thousands)	
Assets:		
Investments	\$2,765	\$2,765
Demand obligations	\$132	\$132
Total	\$2,897	\$2,897
Liabilities:		
Interest rate derivative financial instruments	\$51,134	\$51,134
Total	\$51,134	\$51,134
	As of December 31, 2015	
	Level 2	Total
	(In thousands)	
Assets:		
Investments	\$4,235	\$4,235
Demand obligations	\$131	\$131
Interest rate derivative financial instruments	\$31	\$31
Total	\$4,397	\$4,397
Liabilities:		
Interest rate derivative financial instruments	\$31,153	\$31,153
Total	\$31,153	\$31,153

#### 11. COMMITMENTS AND CONTINGENCIES

From time to time, the Company's dealerships are named in various types of litigation involving customer claims, employment matters, class action claims, purported class action claims, as well as claims involving the manufacturer of automobiles, contractual disputes and other matters arising in the ordinary course of business. Due to the nature of the automotive retailing business, the Company may be involved in legal proceedings or suffer losses that could have a material adverse effect on the Company's business. In the normal course of business, the Company is required to respond to customer, employee and other third-party complaints. Amounts that have been accrued or paid related to the settlement of litigation are included in selling, general and administrative expenses in the Company's Consolidated Statements of Operations. In addition, the manufacturers of the vehicles that the Company sells and services have audit rights allowing them to review the validity of amounts claimed for incentive, rebate or warranty-related items and charge the Company back for amounts determined to be invalid payments under the manufacturers' programs, subject to the Company's right to appeal any such decision. Amounts that have been accrued or paid related to the settlement of manufacturer chargebacks of recognized incentives and rebates are included in cost of sales in the Company's Consolidated Statements of Operations, while such amounts for manufacturer chargebacks of recognized warranty-related items are included as a reduction of revenues in the Company's Consolidated Statements of Operations.

#### Legal Proceedings

Currently, the Company is not party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's results of operations, financial condition, or cash flows, including class action lawsuits. However, the results of current, or future, matters cannot be predicted with certainty, and an unfavorable resolution of one or more of such matters could have a material adverse effect on the Company's results of operations, financial condition, or cash flows.



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Other Matters

The Company, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by the Company's subsidiaries of their respective dealership premises. Pursuant to these leases, the Company's subsidiaries generally agree to indemnify the lessor and other parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, the Company enters into agreements in connection with the sale of assets or businesses in which it agrees to indemnify the purchaser, or other parties, from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, the Company enters into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships and continue to be primarily obligated on the lease. In these situations, the Company's subsidiaries retain primary responsibility for the performance of certain obligations under such leases. To the extent that the Company remains primarily responsible under such leases, a quantification of such lease obligations is included in the Company's disclosure of future minimum lease payments for non-cancelable operating leases in Note 18, Operating Leases of the 2015 Form 10-K.

In certain instances, also in connection with dealership dispositions, the Company's subsidiaries assign to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships. The Company's subsidiaries may retain secondary responsibility for the performance of certain obligations under such leases to the extent that the assignee does not perform, if such performance is required following the assignment of the lease. Additionally, the Company and its subsidiaries may remain subject to the terms of a guaranty made by the Company and its subsidiaries in connection with such leases. In these circumstances, the Company generally has indemnification rights against the assignee in the event of non-performance under these leases, as well as certain defenses. The Company and its subsidiaries also may be called on to perform other obligations under these leases, such as environmental remediation of the leased premises or repair of the leased premises upon termination of the lease. However, potential environmental liabilities are generally known at the time of the sale of the dealership if not previously remediated. The Company does not have any known material environmental commitments or contingencies and presently has no reason to believe that it or its subsidiaries will be called on to so perform. Although not estimated to be material, the Company's exposure under these leases is difficult to estimate and there can be no assurance that any performance of the Company or its subsidiaries required under these leases would not have a material adverse effect on the Company's business, financial condition, or cash flows.

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## 12. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

The following is a roll-forward of the Company's intangible franchise rights and goodwill accounts by reportable segment:

	Intangible Franchise Rights			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2015	\$285,659	\$7,773	\$14,156	\$307,588
Additions through acquisitions	—	14,087	—	14,087
Currency translation	—	(1,903 )	3,202	1,299
BALANCE, June 30, 2016	\$285,659	\$19,957	\$17,358	\$322,974
	Goodwill			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2015	\$809,775	\$35,320	\$9,820	\$854,915 <sup>(1)</sup>
Additions through acquisitions	—	30,755	1,018	31,773
Purchase price allocation adjustments	39	1,077	—	1,116
Disposals	(2,035 )	—	(191 )	(2,226 )
Currency translation	—	(5,902 )	2,305	(3,597 )
BALANCE, June 30, 2016	\$807,779	\$61,250	\$12,952	\$881,981 <sup>(1)</sup>

<sup>(1)</sup> Net of accumulated impairment of \$97.8 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the balances of each component of accumulated other comprehensive loss for the six months ended June 30, 2016 and 2015 were as follows:

	Six Months Ended June 30, 2016		
	Accumulated foreign currency translation loss	Accumulated loss on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2015	\$(118,532)	\$ (19,452 )	\$(137,984)
Other comprehensive loss before reclassifications:			
Pre-tax	(3,913 )	(26,821 )	(30,734 )
Tax effect	—	10,058	10,058
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	5,623	5,623
Other interest expense	—	1,186	1,186
Tax effect	—	(2,553 )	(2,553 )
Net current period other comprehensive loss	(3,913 )	(12,507 )	(16,420 )
Balance, June 30, 2016	\$(122,445)	\$ (31,959 )	\$(154,404)
	Six Months Ended June 30, 2015		
	Accumulated foreign currency translation loss	Accumulated loss on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2014	\$(64,075)	\$ (17,909 )	\$(81,984 )
Other comprehensive loss before reclassifications:			
Pre-tax	(20,595 )	(7,534 )	(28,129 )
Tax effect	—	2,825	2,825
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	5,470	5,470
Other interest expense	—	845	845
Tax effect	—	(2,368 )	(2,368 )
Net current period other comprehensive loss	(20,595 )	(762 )	(21,357 )
Balance, June 30, 2015	\$(84,670)	\$ (18,671 )	\$(103,341)

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## 14. SEGMENT INFORMATION

As of June 30, 2016, the Company had three reportable segments: (1) the U.S., (2) the U.K., and (3) Brazil. Each of the reportable segments is comprised of retail automotive franchises, which sell new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. The vast majority of the Company's corporate activities are associated with the operations of the U.S. operating segments and therefore the corporate financial results are included within the U.S. reportable segment.

Reportable segment revenue, income (loss) before income taxes, (provision) benefit for income taxes and net income (loss) were as follows for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016				Six Months Ended June 30, 2016			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	\$2,207,381	\$467,792	\$107,276	\$2,782,449	\$4,289,014	\$899,688	\$202,102	\$5,390,804
Income (loss) before income taxes	61,784	7,929	(651)	69,062	111,989	13,449	(2,274)	123,164
(Provision) benefit for income taxes	(22,854)	(1,586)	1,958	(22,482)	(41,685)	(2,756)	2,148	(42,293)
Net income (loss) <sup>(1)</sup>	\$38,930	\$6,343	\$1,307	\$46,580	70,304	10,693	(126)	80,871
	Three Months Ended June 30, 2015				Six Months Ended June 30, 2015			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	\$2,287,446	\$308,167	\$130,867	\$2,726,480	\$4,285,946	\$607,708	\$265,680	\$5,159,334
Income (loss) before income taxes	69,431	4,831	(485)	73,777	122,589	9,951	(1,290)	131,250
Provision for income taxes	(26,288)	(1,010)	(169)	(27,467)	(46,651)	(2,009)	(466)	(49,126)
Net income (loss)	\$43,143	\$3,821	\$(654)	\$46,310	75,938	7,942	(1,756)	82,124

<sup>(1)</sup> Includes the following, after tax: loss due to catastrophic events of \$1.7 million and \$3.4 million for the three and six months ended June 30, 2016, respectively, in the U.S. segment; and foreign deferred income tax benefit of \$1.7 million for the three and six months ended June 30, 2016 in the Brazil segment.

Reportable segment total assets as of June 30, 2016 and December 31, 2015 were as follows:

	As of June 30, 2016			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total assets	\$3,874,447	\$485,596	\$140,757	\$4,500,800
	As of December 31, 2015			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total assets	\$3,923,001	\$358,476	\$115,239	\$4,396,716





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### 15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following tables include condensed consolidating financial information as of June 30, 2016 and December 31, 2015, and for the three and six months ended June 30, 2016 and 2015, for Group 1 Automotive, Inc.'s (as issuer of the 5.00% Notes), guarantor subsidiaries and non-guarantor subsidiaries (representing foreign entities). The condensed consolidating financial information includes certain allocations of balance sheet, statement of operations and cash flows items that are not necessarily indicative of the financial position, results of operations or cash flows of these entities had they operated on a stand-alone basis. In accordance with Rule 3-10 of Regulation S-X, condensed consolidated financial statements of non-guarantors are not required. The Company has no assets or operations independent of its subsidiaries. Obligations under the 5.00% Senior Notes are fully and unconditionally and jointly and severally guaranteed on a senior unsecured basis by the Company's current 100%-owned domestic subsidiaries and certain of the Company's future domestic subsidiaries, with the exception of the Company's "minor" subsidiaries (as defined by Rule 3-10 of Regulation S-X). There are no significant restrictions on the ability of the Company or subsidiary guarantors for the Company to obtain funds from its subsidiary guarantors by dividend or loan. None of the subsidiary guarantors' assets represent restricted assets pursuant to SEC Rule 4-08(e)(3) of Regulation S-X.

#### CONDENSED CONSOLIDATED BALANCE SHEET

June 30, 2016

	Group 1 Automotive, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$—	\$5,495	\$ 19,470	\$—	\$24,965
Contracts-in-transit and vehicle receivables, net	—	173,024	39,280	—	212,304
Accounts and notes receivable, net	—	116,770	34,885	—	151,655
Intercompany accounts receivable	—	4,386	—	(4,386)	—
Inventories, net	—	1,532,707	251,407	—	1,784,114
Prepaid expenses and other current assets	684	8,643	19,592	—	28,919
Total current assets	684	1,841,025	364,634	(4,386)	2,201,957
PROPERTY AND EQUIPMENT, net	—	938,378	142,854	—	1,081,232
GOODWILL	—	807,781	74,200	—	881,981
INTANGIBLE FRANCHISE RIGHTS	—	285,659	37,315	—	322,974
INVESTMENT IN SUBSIDIARIES	2,584,017	—	—	(2,584,017)	—
OTHER ASSETS	—	8,126	4,530	—	12,656
Total assets	\$2,584,701	\$3,880,969	\$ 623,533	\$(2,588,403)	\$4,500,800
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	—	\$1,233,518	\$ 5,702	\$—	\$1,239,220
Offset account related to floorplan notes payable - credit facility	—	(35,461)	—	—	(35,461)
Floorplan notes payable — manufacturer affiliates	—	302,504	94,791	—	397,295
Offset account related to floorplan notes payable - manufacturer affiliates	—	(27,500)	—	—	(27,500)
Current maturities of long-term debt and short-term financing	—	28,246	14,747	—	42,993
Accounts payable	—	158,500	154,719	—	313,219
Intercompany accounts payable	718,412	—	4,386	(722,798)	—

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Accrued expenses	—	156,948	25,160	—	182,108
Total current liabilities	718,412	1,816,755	299,505	(722,798 )	2,111,874
LONG-TERM DEBT, net of current maturities	845,010	340,094	65,836	—	1,250,940
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	49,438	—	—	49,438
DEFERRED INCOME TAXES AND OTHER LIABILITIES	(678 )	212,649	9,025	—	220,996
STOCKHOLDERS' EQUITY:					
Group 1 stockholders' equity	1,021,957	2,180,445	249,167	(2,584,017 )	867,552
Intercompany note receivable	—	(718,412 )	—	718,412	—
Total stockholders' equity	1,021,957	1,462,033	249,167	(1,865,605 )	867,552
Total liabilities and stockholders' equity	\$2,584,701	\$3,880,969	\$ 623,533	\$(2,588,403)	\$4,500,800

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2015

	Group 1 Automotive, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$—	\$6,338	\$ 6,699	\$—	\$13,037
Contracts-in-transit and vehicle receivables, net	—	233,275	19,163	—	252,438
Accounts and notes receivable, net	—	132,078	25,690	—	157,768
Intercompany accounts receivable	—	1,192	—	(1,192)	—
Inventories, net	—	1,533,166	204,585	—	1,737,751
Prepaid expenses and other current assets	5,312	8,946	13,118	—	27,376
Total current assets	5,312	1,914,995	269,255	(1,192)	2,188,370
PROPERTY AND EQUIPMENT, net	—	916,338	117,643	—	1,033,981
GOODWILL	—	809,775	45,140	—	854,915
INTANGIBLE FRANCHISE RIGHTS	—	285,659	21,929	—	307,588
INVESTMENT IN SUBSIDIARIES	2,388,081	—	—	(2,388,081)	—
OTHER ASSETS	—	5,950	5,912	—	11,862
Total assets	\$2,393,393	\$3,932,717	\$ 459,879	\$(2,389,273)	\$4,396,716
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$—	\$1,261,606	\$ 4,113	\$—	\$1,265,719
Offset account related to floorplan notes payable - credit facility	—	(110,759)	—	—	(110,759)
Floorplan notes payable — manufacturer affiliates	—	303,810	85,261	—	389,071
Offset account related to floorplan notes payable - manufacturer affiliates	—	(25,500)	—	—	(25,500)
Current maturities of long-term debt and short-term financing	—	47,015	7,976	—	54,991
Accounts payable	—	178,544	101,879	—	280,423
Intercompany accounts payable	503,333	—	1,192	(504,525)	—
Accrued expenses	—	167,509	17,814	—	185,323
Total current liabilities	503,333	1,822,225	218,235	(504,525)	2,039,268
LONG-TERM DEBT, net of current maturities	834,090	300,788	64,656	—	1,199,534
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	31,153	—	—	31,153
DEFERRED INCOME TAXES AND OTHER LIABILITIES	(265)	203,824	4,950	—	208,509
<b>STOCKHOLDERS' EQUITY:</b>					
Group 1 stockholders' equity	1,056,235	2,078,060	172,038	(2,388,081)	918,252
Intercompany note receivable	—	(503,333)	—	503,333	—
Total stockholders' equity	1,056,235	1,574,727	172,038	(1,884,748)	918,252
Total liabilities and stockholders' equity	\$2,393,393	\$3,932,717	\$ 459,879	\$(2,389,273)	\$4,396,716



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## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended June 30, 2016

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	\$—	\$2,207,383	\$ 575,066	\$—	\$2,782,449
COST OF SALES:	—	1,862,787	509,543	—	2,372,330
GROSS PROFIT	—	344,596	65,523	—	410,119
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	605	243,312	55,105	—	299,022
DEPRECIATION AND AMORTIZATION EXPENSE	—	10,642	2,071	—	12,713
ASSET IMPAIRMENTS	—	1,024	—	—	1,024
INCOME (LOSS) FROM OPERATIONS	(605 )	89,618	8,347	—	97,360
OTHER EXPENSE:					
Floorplan interest expense	—	(10,402 )	(1,191 )	—	(11,593 )
Other interest expense, net	—	(16,072 )	(633 )	—	(16,705 )
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(605 )	63,144	6,523	—	69,062
BENEFIT (PROVISION) FOR INCOME TAXES	227	(23,081 )	372	—	(22,482 )
EQUITY IN EARNINGS OF SUBSIDIARIES	46,958	—	—	(46,958 )	—
NET INCOME (LOSS)	\$46,580	\$40,063	\$ 6,895	\$ (46,958 )	\$46,580
OTHER COMPREHENSIVE LOSS, NET OF TAXES	—	(3,480 )	(6,068 )	—	(9,548 )
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$46,580	\$36,583	\$ 827	\$ (46,958 )	\$37,032

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## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Six Months Ended June 30, 2016

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	\$—	\$4,289,016	\$ 1,101,788	\$—	\$5,390,804
COST OF SALES:	—	3,611,709	979,874	—	4,591,583
GROSS PROFIT	—	677,307	121,914	—	799,221
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,808	486,327	104,552	—	592,687
DEPRECIATION AND AMORTIZATION EXPENSE	—	21,238	3,939	—	25,177
ASSET IMPAIRMENTS	—	1,533	423	—	1,956
INCOME (LOSS) FROM OPERATIONS	(1,808 )	168,209	13,000	—	179,401
OTHER EXPENSE:					
Floorplan interest expense	—	(20,450 )	(2,153 )	—	(22,603 )
Other interest expense, net	—	(32,124 )	(1,510 )	—	(33,634 )
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(1,808 )	115,635	9,337	—	123,164
BENEFIT (PROVISION) FOR INCOME TAXES	677	(42,362 )	(608 )	—	(42,293 )
EQUITY IN EARNINGS OF SUBSIDIARIES	82,002	—	—	(82,002 )	—
NET INCOME (LOSS)	\$80,871	\$73,273	\$ 8,729	\$(82,002 )	\$80,871
OTHER COMPREHENSIVE LOSS, NET OF TAXES	—	(12,507 )	(3,913 )	—	(16,420 )
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$80,871	\$60,766	\$ 4,816	\$(82,002 )	\$64,451

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended June 30, 2015

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	\$—	\$2,287,447	\$ 439,033	\$—	\$2,726,480
COST OF SALES:	—	1,945,263	389,644	—	2,334,907
GROSS PROFIT	—	342,184	49,389	—	391,573
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	848	237,716	42,004	—	280,568
DEPRECIATION AND AMORTIZATION EXPENSE	—	10,357	1,589	—	11,946
ASSET IMPAIRMENTS	—	498	541	—	1,039
INCOME FROM OPERATIONS	(848 )	93,613	5,255	—	98,020
OTHER EXPENSE:					
Floorplan interest expense	—	(8,959 )	(1,056 )	—	(10,015 )
Other interest expense, net	605	(13,073 )	(1,760 )	—	(14,228 )
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(243 )	71,581	2,439	—	73,777
BENEFIT (PROVISION) FOR INCOME TAXES	92	(26,382 )	(1,177 )	—	(27,467 )
EQUITY IN EARNINGS OF SUBSIDIARIES	46,461	—	—	(46,461 )	—
NET INCOME (LOSS)	\$46,310	\$45,199	\$ 1,262	\$(46,461 )	\$46,310
OTHER COMPREHENSIVE INCOME, NET OF TAXES	—	3,784	9,999	—	13,783
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$46,310	\$48,983	\$ 11,261	\$(46,461 )	\$60,093

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Six Months Ended June 30, 2015

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	\$—	\$4,285,947	\$ 873,387	\$—	\$5,159,334
COST OF SALES:	—	3,629,275	774,602	—	4,403,877
GROSS PROFIT	—	656,672	98,785	—	755,457
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,079	465,188	84,770	—	552,037
DEPRECIATION AND AMORTIZATION EXPENSE	—	20,475	3,155	—	23,630
ASSET IMPAIRMENTS	—	498	541	—	1,039
INCOME FROM OPERATIONS	(2,079 )	170,511	10,319	—	178,751
OTHER EXPENSE:					
Floorplan interest expense	—	(17,477 )	(1,885 )	—	(19,362 )
Other interest expense, net	1,197	(25,796 )	(3,540 )	—	(28,139 )
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(882 )	127,238	4,894	—	131,250
BENEFIT (PROVISION) FOR INCOME TAXES	331	(46,985 )	(2,472 )	—	(49,126 )
EQUITY IN EARNINGS OF SUBSIDIARIES	82,675	—	—	(82,675 )	—
NET INCOME (LOSS)	\$82,124	\$80,253	\$ 2,422	\$(82,675 )	\$82,124
OTHER COMPREHENSIVE LOSS, NET OF TAXES	—	(762 )	(20,595 )	—	(21,357 )
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$82,124	\$79,491	\$(18,173 )	\$(82,675 )	\$60,767



Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2016

	Group 1 Automotive Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by operating activities	\$80,872	\$ 88,538	\$ 3,457	\$ 172,867
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	—	(54,739 )	(54,739 )
Proceeds from disposition of franchises, property and equipment	—	12,728	1,257	13,985
Purchases of property and equipment, including real estate	—	(59,894 )	(10,378 )	(70,272 )
Other	—	3,007	149	3,156
Net cash used in investing activities	—	(44,159 )	(63,711 )	(107,870 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	3,373,126	—	3,373,126
Repayments on credit facility - floorplan line and other	—	(3,325,917 )	—	(3,325,917 )
Borrowings on credit facility - acquisition line	150,020	—	—	150,020
Repayment on credit facility - acquisition line	(140,020)	—	—	(140,020 )
Borrowings on other debt	—	—	19,653	19,653
Principal payments on other debt	—	(461 )	(21,787 )	(22,248 )
Borrowings on debt related to real estate, net of debt issue costs	—	30,754	—	30,754
Principal payments on debt related to real estate	—	(9,611 )	(2,604 )	(12,215 )
Employee stock purchase plan purchases, net of employee tax withholdings	136	—	—	136
Repurchases of common stock, amounts based on settlement date	(115,246)	—	—	(115,246 )
Tax effect from stock-based compensation	(85 )	—	—	(85 )
Dividends paid	(10,124 )	—	—	(10,124 )
Other	(2,736 )	(423 )	—	(3,159 )
Borrowings (repayments) with subsidiaries	233,120	(236,314 )	3,194	—
Investment in subsidiaries	(195,937)	123,624	72,313	—
Distributions to parent	—	—	—	—
Net cash provided by (used in) financing activities	(80,872 )	(45,222 )	70,769	(55,325 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	2,256	2,256
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	(843 )	12,771	11,928
CASH AND CASH EQUIVALENTS, beginning of period	—	6,338	6,699	13,037
CASH AND CASH EQUIVALENTS, end of period	\$—	\$ 5,495	\$ 19,470	\$ 24,965

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2015

	Group 1 Automotive Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by (used in) operating activities	\$82,124	\$ (6,018 )	\$ 4,469	\$ 80,575
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	(130,783 )	—	(130,783 )
Proceeds from disposition of franchises, property and equipment	—	6,845	494	7,339
Purchases of property and equipment, including real estate	—	(39,305 )	(9,181 )	(48,486 )
Other	—	6,294	—	6,294
Net cash used in investing activities	—	(156,949 )	(8,687 )	(165,636 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	3,550,526	—	3,550,526
Repayments on credit facility - floorplan line and other	—	(3,466,772)	—	(3,466,772)
Borrowings on credit facility - acquisition line	346,050	—	—	346,050
Repayment on credit facility - acquisition line	(324,222)	—	—	(324,222 )
Borrowings on other debt	—	138	25,606	25,744
Principal payments on other debt	—	(989 )	(25,953 )	(26,942 )
Borrowings on debt related to real estate, net of debt issue costs	—	—	22,430	22,430
Principal payments on debt related to real estate	—	(12,846 )	(1,513 )	(14,359 )
Employee stock purchase plan purchases, net of employee tax withholdings	(1,113 )	—	—	(1,113 )
Repurchases of common stock, amounts based on settlement date	(33,121 )	—	—	(33,121 )
Tax effect from stock-based compensation	—	1,439	—	1,439
Dividends paid	(9,737 )	—	—	(9,737 )
Borrowings (repayments) with subsidiaries	80,027	(54,206 )	(25,821 )	—
Investment in subsidiaries	(140,008)	124,918	15,090	—
Distributions to parent	—	—	—	—
Net cash provided by (used in) financing activities	(82,124 )	142,208	9,839	69,923
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	(1,612 )	(1,612 )
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	(20,759 )	4,009	(16,750 )
CASH AND CASH EQUIVALENTS, beginning of period	—	25,379	15,596	40,975
CASH AND CASH EQUIVALENTS, end of period	\$—	\$ 4,620	\$ 19,605	\$ 24,225

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

16. SUBSEQUENT EVENTS

Subsequent to June 30, 2016, the Company repurchased 244,205 of its common shares for \$12.4 million under its current share repurchase program.

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#### CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Form 10-Q") includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Forward-looking statements may appear throughout this report including, but not limited to, the following sections: "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk." This information includes statements regarding our plans, goals or current expectations with respect to, among other things:

- our future operating performance;
- our ability to maintain or improve our margins;
- operating cash flows and availability of capital;
- the completion of future acquisitions;
- the future revenues of acquired dealerships;
- future stock repurchases, refinancing of debt, and dividends;
- future capital expenditures;
- changes in sales volumes and availability of credit for customer financing in new and used vehicles and sales volumes in the parts and service markets;
- business trends in the retail automotive industry, including the level of manufacturer incentives, new and used vehicle retail sales volume, customer demand, interest rates and changes in industry-wide inventory levels; and
- availability of financing for inventory, working capital, real estate and capital expenditures.

Although we believe that the expectations reflected in these forward-looking statements are reasonable when and as made, we cannot assure you that these expectations will prove to be correct. When used in this Form 10-Q, the words "anticipate," "believe," "estimate," "expect," "intend," "may" and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Actual results may differ materially from anticipated results in the forward-looking statements for a number of reasons, including:

- future deterioration in the economic environment, including consumer confidence, interest rates, the prices of oil and gasoline, the level of manufacturer incentives and the availability of consumer credit may affect the demand for new and used vehicles, replacement parts, maintenance and repair services and finance and insurance products;
- adverse domestic and international developments such as war, terrorism, political conflicts or other hostilities may adversely affect the demand for our products and services;
- the existing and future regulatory environment, including legislation related to the Dodd-Frank Wall Street Reform and Consumer Protection Act, climate control changes legislation, and unexpected litigation or adverse legislation, including changes in state franchise laws, may impose additional costs on us or otherwise adversely affect us;
- a concentration of risk associated with our principal automobile manufacturers, especially Toyota, Nissan, Honda, BMW, Ford, Daimler, General Motors, Chrysler, and Volkswagen, because of financial distress, bankruptcy, natural disasters that disrupt production or other reasons, may not continue to produce or make available to us vehicles that are in high demand by our customers or provide financing, insurance, advertising or other assistance to us;
- restructuring by one or more of our principal manufacturers, up to and including bankruptcy may cause us to suffer financial loss in the form of uncollectible receivables, devalued inventory or loss of franchises;
- requirements imposed on us by our manufacturers may require dispositions, limit our acquisitions or increases in the level of capital expenditures related to our dealership facilities;
- our existing and/or new dealership operations may not perform at expected levels or achieve expected improvements;



- our failure to achieve expected future cost savings or future costs may be higher than we expect;
- manufacturer quality issues, including the recall of vehicles, may negatively impact vehicle sales and brand reputation;
- available capital resources, increases in cost of financing (such as higher interest rates) and our various debt agreements may limit our ability to complete acquisitions, complete construction of new or expanded facilities, repurchase shares or pay dividends;
- our ability to refinance or obtain financing in the future may be limited and the cost of financing could increase significantly;
- foreign exchange controls and currency fluctuations;
- new accounting standards could materially impact our reported earnings per share;
- our ability to acquire new dealerships and successfully integrate those dealerships into our business;
- the impairment of our goodwill, our indefinite-lived intangibles and our other long-lived assets;
- natural disasters and adverse weather events;
- our foreign operations and sales in the U.K. and Brazil, which pose additional risks;
- the inability to adjust our cost structure to offset any reduction in the demand for our products and services;
- loss of our key personnel;
- competition in our industry may impact our operations or our ability to complete additional acquisitions;
- the failure to achieve expected sales volumes from our new franchises;
- insurance costs could increase significantly and all of our losses may not be covered by insurance; and
- our inability to obtain inventory of new and used vehicles and parts, including imported inventory, at the cost, or in the volume, we expect.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K"), as well as "Management's Discussion and Analysis" and "Quantitative and Qualitative Disclosures About Market Risk."

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility to publicly release the result of any revision of our forward-looking statements after the date they are made.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements because of various factors. See "Cautionary Statement about Forward-Looking Statements."

In the preparation of our financial statements and reporting of our operating results in accordance with United States generally accepted accounting principles ("U.S. GAAP"), certain non-core business items are required to be presented. Examples of items that we consider non-core include non-cash asset impairment charges, gains and losses on dealership, franchise or real estate transactions, and catastrophic weather events such as hail storms, hurricanes, and snow storms. In order to improve the transparency of our disclosures, provide a meaningful presentation of results from our core business operations and improve period-over-period comparability, we have included certain adjusted financial measures that exclude the impact of these non-core business items. These adjusted measures are not measures of financial performance under U.S. GAAP, but are instead considered non-GAAP financial performance measures. Our management uses these adjusted measures in conjunction with U.S. GAAP financial measures to assess our business, including communication with our Board of Directors, investors and industry analysts concerning financial performance. Therefore, we believe these adjusted financial measures are relevant and useful to users of the following financial information. For further explanation and reconciliation to the most directly comparable GAAP measures, see "Non-GAAP Financial Measures" below.

#### Overview

We are a leading operator in the automotive retail industry. Through our dealerships, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Our operations are aligned into four geographic regions: the East and West Regions in the United States ("U.S."), the United Kingdom ("U.K.") Region, and the Brazil Region. Our U.S. regional vice presidents report directly to our Chief Executive Officer and are responsible for the overall performance of their regions, as well as for overseeing the dealership operations management that report to them. Further, the East and West Regions of the U.S. are economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. As a result, we aggregate the East and West Regions of the U.S. into one reportable segment. The operations of our international regions are structured similarly to the U.S. regions, each with a regional vice president reporting directly to our Chief Executive Officer. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K. and Brazil. As of June 30, 2016, we owned and operated 212 franchises, representing 33 brands of automobiles, at 161 dealership locations and 37 collision centers worldwide. We own 149 franchises at 114 dealerships and 28 collision centers in the U.S., 40 franchises at 29 dealerships and eight collision centers in the U.K., and 23 franchises at 18 dealerships and one collision center in Brazil. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, Oklahoma, South Carolina and Texas in the U.S., in 19 towns of the U.K. and in key metropolitan markets in the states of Sao Paulo, Parana, Mato Grosso do Sul and Santa Catarina in Brazil.

#### Outlook

During the three months ended June 30, 2016, industry new vehicle registrations in the U.S. remained flat as compared to the same period a year ago. In response, and particularly given the headwinds we are experiencing in most of our energy-dependent markets, we are focused on opportunities to enhance our operating results by: (a) improving our new and used vehicle gross profit per unit sold; (b) continuing to focus on our higher margin parts and service business, implementing strategic selling methods, and improving operational efficiencies; (c) investing capital where necessary to support our anticipated growth, particularly in our parts and service business; and (d) further leveraging our revenue and gross profit growth through the continued implementation of cost efficiencies. In terms of GDP, the U.K. economy represents the fifth largest economy in the world. Industry new vehicle registrations in the U.K. increased 3.2% in the six months ended June 30, 2016, as compared to the same period a year ago.

The majority vote in favor of the Referendum of the United Kingdom's Membership of the European Union (E.U.) (referred to as Brexit), advising for the exit of the United Kingdom from the European Union, could have an adverse effect on our operations and financial results. While the initial announcement created much uncertainty in the global markets, we may not know for many months what the Brexit effect may be to the Company and the global markets, especially the U.K. Additionally, there is much uncertainty surrounding the effects Brexit may have on the regulatory environment of the U.K. and the overall European Union and its remaining individual members. Currently, automotive dealers in the U.K. rely on the legislative doctrine of "Block Exemption" to govern market representation activities of competing dealers and dealer groups. To date, there has been no clear indication of how such legislation may be affec



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ted by Brexit. The Company continues to monitor all effects, both economic and legislative, of Brexit. In addition, the announcement of Brexit initially caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against the British pound sterling in which we conduct business in the U.K. The strengthening of the U.S. dollar relative to the British pound sterling has and may continue to adversely affect our results of operations. Please see the update below in "Critical Accounting Policies and Accounting Estimates" for further information on potential impact to the Company.

In terms of GDP, the Brazilian economy represents the ninth largest economy in the world. At present, the Brazilian economy is in recession and is facing many challenges. Industry new vehicle registrations in Brazil declined 25.1% for the six months ended June 30, 2016 as compared to the same period a year ago. We expect macro-economic conditions in Brazil to remain challenged in the near term and automobile industry sales to continue to be under pressure for the remainder of 2016 and into 2017. Longer term, we expect improvements in industry sales volumes and are utilizing a strategy of aligning with growing brands. In conjunction with this strategy, we added four franchises in Brazil during the six months ended June 30, 2016. These franchises are expected to generate approximately \$20 million in annual revenues. In addition, since December 31, 2015, we have disposed of four franchises in Brazil. These four franchises combined to generate roughly \$35 million in trailing twelve month revenues. We expect that the net impact to our profitability of this adjustment to our portfolio will be positive.

In September 2015, Volkswagen admitted that certain of its diesel models were intentionally programmed to meet various regulatory emissions standards only during laboratory emissions testing. In late June 2016, Volkswagen agreed to pay up to an aggregate of \$14.7 billion to settle claims stemming from the diesel emissions scandal. The proposed settlement with the U.S. federal government and owners of about 475,000 Volkswagen vehicles, includes a maximum of \$10 billion to buy back affected cars at their pre-scandal values, and additional cash compensation for certain Volkswagen vehicle owners. Volkswagen will also pay \$2.7 billion into an Environmental Protection Agency fund, to compensate for the environmental impact of its cars, which were fitted with software that enabled them to pass emissions tests but exceed legal pollution limits in on-the-road driving. Volkswagen has also agreed to spend \$2 billion on new cleaner-vehicle projects. All told, the civil settlement would be the largest yet by an automobile company. As part of the settlement, a class of Volkswagen dealers has been established in the principal settlement with government officials to make claims for damages related to the emissions scandal, including costs incurred in decreased sales of certain Volkswagen products and reimbursement for certain current vehicles in inventory. While we anticipate that we will generate revenues to repair affected vehicles under the settlement, and while the total amount to be awarded to the dealership class and then to our various individual Volkswagen dealerships is not known at this time, we do not anticipate that these amounts will be material. The Volkswagen brand represented 1.6% of our total new vehicle retail unit sales for the six months ended June 30, 2016.

In addition, several other manufacturers have issued stop sales on a number of vehicle models due to recall campaigns. As disclosed in "Item 1A. Risk Factors" of our 2015 Form 10-K, adverse publicity, product defects, vehicle recall campaigns, litigation and unappealing vehicle design related to events such as these may have an adverse impact on the vehicle manufacturer and on our business, dealerships related to those manufacturers, results of operations and financial condition. Currently, we do not believe that the impact of these issues will be material to us. However, we continue to monitor the development of these issues, because the full extent of the impact on us is not known at this time.

We expect that our operations will continue to consistently generate positive cash flow in the future and we are focused on maximizing the return that we generate from our invested capital, as well as positioning our balance sheet to take advantage of investment opportunities as they arise. We remain committed to our growth-by-acquisition strategy and, over the long term, we believe that significant opportunities exist to enhance our portfolio with dealership acquisitions in the U.S., U.K. and Brazil that provide satisfactory returns on our investment. However, our capital allocation strategy is dynamic and dependent on a variety of market conditions. Currently, based upon our stock price, we believe that stock repurchases offer a very attractive alternative for capital allocation, relative to dealership acquisitions. We will continue to pursue dealership investment opportunities that we believe will add value for our stockholders and will continue to monitor the relative value of dealership acquisitions, share repurchases and shareholder dividends in the future.

We continue to closely scrutinize all planned future capital spending and work closely with our manufacturer partners to make prudent capital investment decisions that are expected to generate an adequate return and/or improve the customer experience. We anticipate that our capital spending for the year of 2016 will be less than \$135 million.

#### Financial and Operational Highlights

Our operating results reflect the combined performance of each of our interrelated business activities, which include the sale of new vehicles, used vehicles, finance and insurance products, and parts, as well as maintenance, repair and collision restoration services. Historically, each of these activities has been directly or indirectly impacted by a variety of supply/demand factors, including vehicle inventories, consumer confidence, discretionary spending levels, availability and affordability of consumer credit, manufacturer incentives, weather patterns, fuel prices and interest rates. For example, during periods of

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sustained economic downturn or significant supply/demand imbalances, new vehicle sales may be negatively impacted as consumers tend to shift their purchases to used vehicles. Some consumers may even delay their purchasing decisions altogether, electing instead to continue to maintain and repair their existing vehicles. In such cases, however, we believe the new vehicle sales impact on our overall business is mitigated by our ability to offer other products and services, such as used vehicles and parts, as well as maintenance, repair and collision restoration services. In addition, our ability to expediently adjust our cost structure in response to changes in new vehicle sales volumes also tempers the negative impact of such volume changes.

In the U.S., we generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, our U.S. revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. For the U.K., the first and third calendar quarters tend to be stronger, driven by the vehicle license plate change months of March and September. For Brazil, we expect higher volumes in the third and fourth calendar quarters. The first quarter is generally the weakest, driven by heavy consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic condition, manufacturer incentive programs and changes in currency exchange rates, may exaggerate seasonal or cause counter-seasonal fluctuations in our reported consolidated revenues and consolidated operating income.

Our operating results as reported on a U.S. GAAP basis for the three months ended June 30, 2016 were negatively impacted by the following non-core items: \$2.8 million related to vehicle inventory losses from hail and flooding in Texas on a pre-tax basis (\$1.7 million on an after-tax basis), \$1.0 million of non-cash impairment charges on a pre-tax basis (\$0.6 million on an after-tax basis), and \$0.3 million of net losses related to real estate and dealership transactions on a pre-tax basis (\$0.2 million on an after-tax basis), partially offset by a \$1.7 million related to a foreign deferred income tax benefit on an after-tax basis. For the six months ended June 30, 2016, our operating results were negatively impacted by the following non-core items: \$5.4 million of losses related to catastrophic events on a pre-tax basis (\$3.4 million on an after-tax basis), \$1.5 million of non-cash impairment charges on a pre-tax basis (\$0.9 million on an after-tax basis), \$0.6 million of acquisition costs on both a pre-tax and after-tax basis, and \$0.1 million of net losses related to real estate and dealership transactions on a pre-tax basis (\$0.4 million on an after-tax basis), partially offset by a \$1.7 million related to a foreign deferred income tax benefit on an after-tax basis. On a comparable basis, our operating results as reported on a U.S. GAAP basis for the three and six months ended June 30, 2015 were negatively impacted by the following non-core items: \$1.0 million of non-cash impairment charges on a pre-tax basis (\$0.8 million on an after-tax basis), \$1.0 million charge related to vehicle inventory losses from flooding in Houston, Texas, on a pre-tax basis (\$0.6 million on an after-tax basis), \$1.0 million legal settlement on a pre-tax basis (\$0.6 million on an after-tax basis), and \$0.2 million in severance costs on both a pre-tax and after-tax basis, partially offset by \$1.1 million net gains related to real estate and dealership transactions on a pre-tax basis (\$0.6 million on an after-tax basis). These non-core items have been excluded from our U.S. GAAP results in the following discussion of "adjusted" results. Please see "Non-GAAP Financial Measures" for further explanation and reconciliation of the U.S. GAAP and non-GAAP data.

For the three months ended June 30, 2016, our total revenues increased 2.1% from 2015 levels to \$2.8 billion, reflecting a 51.8% increase in the U.K., partially offset by decreases of 3.5% and 18.0% in the U.S. and Brazil, respectively. Both the British pound sterling and the Brazilian real weakened versus the U.S. Dollar for the three-month period ended June 30, 2016, as compared to the same period a year ago, further tempering our 2016 results. The increase in all of our financial results in the U.K. for the three and six months ended June 30, 2016 compared to 2015 were primarily explained by the incremental number of dealerships owned and operated, due to the acquisition of a dealership group in early February 2016. Total gross profit improved \$18.5 million, or 4.7%, to \$410.1 million for the second quarter of 2016 over the prior year period, primarily as a result of a \$20.4 million, or 60.2% increase in our U.K. operations. Our U.K. gross profit growth results were primarily driven by a 57.9% increase in our new vehicle retail sales business, 60.0% improvement in our parts and service business, and a 66.1% growth in our finance and insurance business. For the six months ended June 30, 2016, total revenues increased 4.5%

from 2015 levels to \$5.4 billion, primarily driven by a 48.0% increase in our U.K. segment. Also for the six months ended June 30, 2016, gross profit increased 5.8% over the prior year period to \$799.2 million, primarily as a result of \$33.0 million, or 48.5%, increase in our U.K. operations, coupled with a \$20.6 million, or 3.1% increase in our U.S. operations. Selling, General and Administrative expenses ("SG&A") rose 6.6% in the second quarter of 2016, as compared to the prior year period, primarily as a result of a 58.1% increase in our U.K. segment. The increase in U.K. SG&A is primarily the result of the incremental number of dealerships owned and operated in the U.K. For the six months ended June 30, 2016, SG&A rose 7.4% over the prior year period, driven by increases of 4.6% and 49.0% in our U.S. and U.K. segments, respectively. The increase in the U.S. was primarily driven by increases in other variable costs associated with vehicle inventory levels, as well as the expansion of our fixed operations business. The increase in the U.K. is explained by the general correlation of variable costs, including salesperson commission payments, and vehicle sales, as well as the incremental number of dealerships owned and operated in the U.K. On an adjusted basis, SG&A rose 5.9% and 6.5% for the three and six months ended June 30, 2016, respectively. For the three months ended June 30, 2016, we generated a 0.6% increase in net income to \$46.6 million and an 11.0% increase in diluted income per share to \$2.12 as compared to the three months ended June 30, 2015. For the six months

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ended June 30, 2016, we experienced a 1.5% decrease in net income to \$80.9 million and a 5.6% increase in diluted income per share to \$3.57 as compared to the six months ended June 30, 2015. On an adjusted basis for the three months ended June 30, 2016, we realized a 1.1% decrease in net income to \$47.4 million and a 9.1% increase in diluted income per share to \$2.16 as compared to the three months ended June 30, 2015. On an adjusted basis for the six months ended June 30, 2016, we experienced a 0.9% increase in net income to \$84.5 million and an 8.4% increase in diluted income per share to \$3.73. The increases in our diluted income per share can be attributed to decreases of 9.6% and 6.9% in our weighted average diluted common shares outstanding for the three and six months ended June 30, 2016, respectively, over the prior year periods. The decreases in weighted average dilutive common shares outstanding were primarily the result of the repurchase of 2,808,685 shares of our common stock over the last twelve months. For the six months ended June 30, 2016, our net cash provided by operations increased \$92.2 million over the prior year period to \$172.9 million, primarily driven by a \$90.4 million increase in the net change in operating assets and liabilities. On an adjusted basis, our net cash provided by operations increased \$15.0 million over the prior year period to \$152.1 million, primarily driven by a \$13.3 million increase in the net change in operating assets and liabilities. See "Liquidity and Capital Resources" and "Non-GAAP Financial Measures" for details regarding adjustments to cash flow.

## Performance Indicators

## Consolidated Statistical Data

The following table highlights certain of the key performance indicators we use to manage our business.

	Three Months		Six Months Ended		
	Ended June 30,		June 30,		
	2016	2015	2016	2015	
Unit Sales					
Retail Sales					
New Vehicle	43,644	44,765	84,425	84,004	
Used Vehicle	32,951	31,439	65,742	61,422	
Total Retail Sales	76,595	76,204	150,167	145,426	
Wholesale Sales	13,684	14,627	28,050	28,567	
Total Vehicle Sales	90,279	90,831	178,217	173,993	
Gross Margin					
New Vehicle Retail Sales	5.3	% 5.0	% 5.2	% 5.1	%
Total Used Vehicle Sales	5.9	% 5.8	% 6.2	% 6.2	%
Parts and Service Sales	53.8	% 54.5	% 53.9	% 54.0	%
Total Gross Margin	14.7	% 14.4	% 14.8	% 14.6	%
SG&A <sup>(1)</sup> as a % of Gross Profit	72.9	% 71.7	% 74.2	% 73.1	%
Adjusted SG&A <sup>(1)</sup> as a % of Gross Profit <sup>(2)</sup>	72.2	% 71.4	% 73.4	% 72.9	%
Operating Margin	3.5%	3.6%	3.3%	3.5%	
Adjusted Operating Margin <sup>(2)</sup>	3.6%	3.7%	3.5%	3.5%	
Pretax Margin	2.5%	2.7%	2.3%	2.5%	
Adjusted Pretax Margin <sup>(2)</sup>	2.6%	2.8%	2.4%	2.6%	
Finance and Insurance Revenues per Retail Unit Sold	\$ 1,404	\$ 1,381	\$ 1,383	\$ 1,374	

<sup>(1)</sup> Selling, general and administrative expenses.

<sup>(2)</sup> See "Non-GAAP Financial Measures" for more details.

The following discussion briefly highlights certain of the results and trends occurring within our business. Throughout the following discussion, references may be made to Same Store results and variances which are discussed in more detail in the "Results of Operations" section that follows. Our results are impacted by changes in exchange rates relating to our U.K. and Brazil segments. As exchange rates fluctuate, our results of operations as reported in U.S. dollars fluctuate. For example, if the British pound sterling were to weaken against the U.S. dollar, our U.K. results of

operations would translate into less U.S. dollar reported results. The British pound sterling weakened against the U.S. dollar as the average exchange rate during the three and six months ended June 30, 2016 decreased 6.7% and 6.3%, respectively, compared to the same periods in 2015. The Brazilian real weakened against the U.S. dollar, as well, as the average exchange rate during the three and six months ended June 30, 2016 declined 14.1% and 24.9%, respectively, as compared to the same periods in 2015.

Our consolidated revenues from new vehicle retail sales increased 0.4% and 2.9% for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. For the second quarter of 2016, this growth was driven

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by our U.K. operations. Our new vehicle retail unit sales in the U.K. rose 67.9% and 65.6%, respectively, for the three and six months ended June 30, 2016, as compared to the same periods in 2015, primarily reflecting the acquisition of a dealership group in early February and the improved industry conditions, as well as the continued successful execution by our operating team on key initiatives. Excluding the impact of acquisitions, for the three and six months ended June 30, 2016, new vehicle retail unit sales increased 4.2% and 8.8%, respectively, in the U.K., outpacing the growth in industry sales. The improvements in our new vehicle unit sales in the U.K. were partially offset by declines in both the U.S. and Brazil. During the three months ended June 30, 2016, industry new vehicle registrations in the U.S. remained flat as compared to the same period a year ago. Our U.S. new vehicle retail unit sales decreased 10.0% and 6.3% for the three and six months ended June 30, 2016, respectively, from the same periods a year ago, primarily due to softness in our energy-dependent markets of Texas and Oklahoma. As a result, our U.S. revenues from new vehicle retail sales declined 6.0% and 2.7% for the three and six month periods of 2016, respectively, partially offset by increases in our average new vehicle retail sales price of 4.5% and 3.9%, respectively. The increases in our average sales price were primarily due to the shift in the mix of total new retail units sold, as our truck unit sales increased to 55.6% of total new vehicle retail units sold for the three months ended June 30, 2016 as compared to 49.6% last year, generally correlating with lower gas prices. For the six months ended June 30, 2016, our truck unit sales increased to 55.3% of total new vehicle retail units sold as compared to 50.4% for the same period a year ago. For the second quarter and first half of 2016, Brazil new vehicle retail unit sales declined 19.1% and 19.8% and, on a U.S. dollar basis, new vehicle retail revenues declined 20.1% and 26.7%, respectively, when compared to the same periods in 2015, reflecting decreased consumer confidence and higher interest rates, as well as dealership dispositions. But, our operating team's sales execution outpaced an industry in Brazil that was down 21.8% for the second quarter of 2016 and 25.1% for the first half of 2016 compared to 2015. Consolidated new vehicle retail gross margin improved 30 and 10 basis points to 5.3% and 5.2% for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, driven by a 50 and 20 basis point increase in the U.S. as a result of our operating team's disciplined new vehicle pricing that focused on increased gross profit per unit. In the U.S., we improved new vehicle gross profit per retail unit "PRU" sold 15.3% and 9.2% for the three and six months ended June 30, 2016, respectively, as compared to last year. The increase in the U.S. was partially offset by the competitive selling environment in the U.K., the worsening economic conditions in Brazil, and the impact of the change in exchange rates between periods. Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory. Our total revenues from used vehicle retail sales increased 4.9% and 7.5% for the three and six months ended June 30, 2016, respectively, as compared to the same period in 2015, primarily due to acquisition activity and the improving industry conditions in the U.K. For the three and six months ended June 30, 2016, the U.S. generated increases in used vehicle retail revenues of 0.5% and 4.6%, respectively, while the U.K. generated increases in used vehicle retail revenues of 34.7% and 29.2%, respectively. These increases were partially offset by declines of 4.9% and 9.1% in Brazil, respectively, as the result of weaker exchange rates in 2016. On a local currency basis for the three and six months ended June 30, 2016, Brazil's used vehicle retail revenues increased 8.5% and 14.7%, respectively, as compared to the same periods a year ago. This improvement in Brazil was the result of operational management focus placed on used vehicle retail sales that is designed to mitigate the impact of the weakened new vehicle sales environment. Total used vehicle retail gross profit increased for the three and six months ended June 30, 2016, primarily as a result of growth in used vehicle retail unit sales of 4.8% and 7.0%, reflecting increases in the U.S., U.K. and Brazil. For the three months ended June 30, 2016, used vehicle retail gross profit PRU was flat when compared to a year ago as a 1.8% and 26.1% improvement in the U.K. and Brazil, respectively, was offset by 0.4% decline in the U.S. For the six months ended June 30, 2016, the improvements in used vehicle retail unit sales were partially offset by a decline in used vehicle retail gross profit PRU of 1.2%, reflecting declines of 4.0% and 13.7% in the U.K. and Brazil, respectively, as compared to the same period in 2015. The declines in the U.K. and Brazil were driven by the change in the exchange rates between periods as on a local currency basis, used vehicle retail gross profit PRU increased 1.9% in the U.K. and increased 6.7% in Brazil. In the U.S., used vehicle gross profit PRU was relatively flat for the six months ended June 30, 2016 when compared to a year ago.

Our parts and service sales increased 6.2% and 7.7% for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. This growth was driven by increases in all aspects of our business: warranty parts and service, wholesale parts, customer-pay parts and service, and collision. Primarily, these increases were due to the execution of key management initiatives, dealership acquisition activity, an increase in the number of units being recalled, and an increase in the number of the late-model vehicles in operation, which tend to more consistently return to the dealership for warranty, maintenance and repair services. During the first six months of 2016, our warranty parts and service revenues were bolstered from high volume recall campaigns by manufacturers in the U.S. and Brazil, particularly in our Toyota, Honda, and Ford brands. Additionally, as manufacturer paid maintenance programs continue to expand in the U.S., there has been an ongoing shift of business from our customer-pay to our warranty parts and service business. The increase in our collision sales was the result of enhanced operational processes, the addition of technicians to add operating capacity, and the expansion of our relationships with insurance providers. The increase in our customer-pay parts and service and wholesales parts revenues was



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driven by the U.S., primarily as a result of the execution of management initiatives and the incremental number of dealerships owned and operated in the U.S. Our parts and service gross margin decreased 70 and 10 basis points for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, driven primarily by declines in the U.S. parts and service gross margin of 80 and 10 basis points for the three and six month periods of 2016, as compared to 2015. The declines in our U.S. parts and service gross margin were primarily the result of less lucrative, OEM paid recall warranty campaigns in 2016 as compared to those in 2015. Additionally, we experienced a mix shift in our U.S. parts and service gross margin as our relatively lower margin wholesale parts business grew in relation to our internal work, due to the decline in total retail vehicles sales volumes in the second quarter of 2016 compared to 2015.

Our consolidated finance and insurance revenues PRU sold increased 1.7% for the three months ended June 30, 2016, as compared to the same period in 2015, as we experienced a 4.4% increase to \$1,602 in the U.S., a 7.3% increase in the U.K., and a 20.1% improvement in Brazil, partially offset by the mix effect of a relatively greater contribution from our U.K. segment. In total, our increase in income per contract and penetration rates on many of our product offerings were partially offset by an increase in our overall chargeback experience. For the six months ended June 30, 2016, our consolidated finance insurance revenues PRU sold remained relatively flat when compared to the same period a year ago.

Our total consolidated gross margin increased 30 basis points for the three months ended June 30, 2016 to 14.7%, as compared to the same period in 2015. Declines in the parts and service sector of our business were more than offset by improvements in our new and used vehicle results. For the six months ended June 30, 2016, our total consolidated gross margin increased 20 basis points directly as a result of improved new vehicle margins.

Our consolidated SG&A expenses increased in absolute dollars by 6.6% and 7.4% for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, primarily as a result of the incremental number of dealerships owned and operated in the U.S. and U.K. and increased personnel costs primarily driven by commission payments as a result of higher new vehicle margins, as well as higher insurance deductible charges relating to catastrophic weather events in the U.S. In addition, during 2016, we have experienced additional loaner vehicle costs as we continued to service a large amount of customers affected by recalled vehicles. Further, as a result of the stop sale on a number of vehicle models due to recall campaigns, we have experienced higher costs due to increased vehicle inventory levels during 2016. Our consolidated SG&A expenses as a percentage of gross profit increased 120 basis points to 72.9% and 110 basis points to 74.2% for the second quarter and first half of 2016, respectively, as compared to the same periods a year ago. On an adjusted basis, our consolidated SG&A expenses as a percentage of gross profit increased by 80 and 50 basis points to 72.2% and 73.4% for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. These increases were partially due to the mix effect of increased U.K. operations which inherently have a higher cost structure and the lack of leveraging the increased gross profit in 2016 due to the higher costs as discussed above.

The combination of all of these factors resulted in an operating margin of 3.5% and 3.3% for the three and six months ended June 30, 2016, respectively. This reflects a 10 and 20 basis-point decline compared to the same periods in 2015. On an adjusted basis, operating margin declined 10 basis points for the three months ended June 30, 2016 to 3.6% and remained flat at 3.5% for the first six months of 2016, as compared to the same periods in 2015.

For the three and six months ended June 30, 2016, floorplan interest expense increased 15.8% and 16.7%, respectively, as compared to the same periods in 2015. The increases were primarily driven by the U.S. and U.K. due to an increase in our weighted average floorplan borrowings from increased inventory levels. During the first quarter of 2016, we experienced an increase in our supply of luxury brand units, as our OEM partners have redirected additional supply to the U.S. and U.K. to offset weakness in other global markets. Additionally, during the first half of 2016, several manufacturers have issued stop sales on a number of vehicle models due to recall campaigns, which has contributed to an increase in our new and used inventory. These increases in the U.S. and U.K. were offset by a decline in Brazil as a result of improvements in vehicle inventory management processes and the change in exchange rates between periods. Other interest expense, net increased 17.4% and 19.5% for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, primarily attributable to interest incurred on our 5.25% Notes offerings. As a partial offset, the vast majority of the proceeds from the 5.25% Notes offerings were used

to fund the outstanding borrowings of the Company's acquisition line of credit, pay off certain mortgages, contribute to the Company's floorplan offset accounts, and for general corporate purposes.

We address these items further, and other variances between the periods presented, in the "Results of Operations" section below.

#### Critical Accounting Policies and Accounting Estimates

The preparation of our Consolidated Financial Statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions. The majority vote in favor of Brexit has created uncertainty in the global markets and in the regulatory environment in the U.K., as well as the overall European Union. The impact on our financial results and operations m

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ay not be known for some time, but could be adverse. In addition, automotive dealers in the U.K. rely on the legislative doctrine of "Block Exemption" to govern market representation activities of competing dealers and dealer groups. To date, there has been no clear indication of how such legislation may be effected by Brexit, but a change to such legislation could be adverse. If, as a result of the clarification of any of these uncertainties, the assumptions utilized in our annual impairment test for goodwill and intangible franchise rights change or fail to materialize, the resulting decline in the estimated fair market value of such assets could result in a material non-cash impairment charge.

We disclosed certain critical accounting policies and estimates in our 2015 Form 10-K, and no other significant changes have occurred since that time.

## Results of Operations

The "Same Store" amounts presented below include the results of dealerships for the identical months in each period presented in comparison, commencing with the first full month in which the dealership was owned by us and, in the case of dispositions, ending with the last full month it was owned by us. The following table summarizes our combined Same Store results for the three and six months June 30, 2016, as compared to 2015. Same Store results also include the activities of our corporate headquarters.

## Total Same Store Data

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	% Change	2015	2016	% Change
					2015
Revenues					
New Vehicle Retail	\$1,419,708	(5.2)%	\$1,497,389	\$2,715,616	(3.3)%
Used Vehicle Retail	672,138	0.5%	668,999	1,321,197	3.1%
Used Vehicle Wholesale					
				1,280,904	