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

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 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 jurisdiction of incorporation or organization)	(I.R.S. Employer Identification 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 þ 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 þ 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):

Large accelerated filerþ ¨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 þ
As of October 27, 2016, the registrant had 21,371,172 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

	September 30, 2016	December 31, 2015
	(Unaudited, in thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$22,918	$13,037
Contracts-in-transit and vehicle receivables, net	206,292	252,438
Accounts and notes receivable, net	156,294	157,768
Inventories, net	1,687,379	1,737,751
Prepaid expenses and other current assets	25,555	27,376
Total current assets	2,098,438	2,188,370
PROPERTY AND EQUIPMENT, net	1,118,785	1,033,981
GOODWILL	880,393	854,915
INTANGIBLE FRANCHISE RIGHTS	310,513	307,588
OTHER ASSETS	12,935	11,862
Total assets	$4,421,064	$4,396,716
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility and other	$1,110,104	$1,265,719
Offset account related to floorplan notes payable - credit facility	(59,684)	(110,759)
Floorplan notes payable - manufacturer affiliates	387,770	389,071
Offset account related to floorplan notes payable - manufacturer affiliates	(22,500)	(25,500)
Current maturities of long-term debt and short-term financing	62,349	54,991
Accounts payable	354,957	280,423
Accrued expenses	193,553	185,323
Total current liabilities	2,026,549	2,039,268
LONG-TERM DEBT, net of current maturities	1,232,717	1,199,534
DEFERRED INCOME TAXES	148,001	136,644
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	45,040	31,153
OTHER LIABILITIES	81,785	71,865
STOCKHOLDERS’ EQUITY:		
Preferred stock, $0.01 par value, 1,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value, 50,000 shares authorized; 25,678 and 25,706 issued, respectively	257	257
Additional paid-in capital	287,018	291,092
Retained earnings	1,027,393	926,169
Accumulated other comprehensive loss	(157,446)	(137,984)
Treasury stock, at cost; 4,305 and 2,291 shares, respectively	(270,250)	(161,282)
Total stockholders’ equity	886,972	918,252
Total liabilities and stockholders’ equity	$4,421,064	$4,396,716

The accompanying notes are an integral part of these consolidated financial statements.
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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Unaudited, in thousands, except per share amounts)			
REVENUES:				
New vehicle retail sales	$1,587,952	$1,601,213	$4,538,562	$4,468,200
Used vehicle retail sales	702,620	687,637	2,106,569	1,993,124
Used vehicle wholesale sales	104,218	100,483	302,089	302,186
Parts and service sales	319,676	303,557	950,341	888,939
Finance, insurance and other, net	108,710	107,679	316,419	307,454
Total revenues	2,823,176	2,800,569	8,213,980	7,959,903
COST OF SALES:				
New vehicle retail sales	1,507,517	1,521,721	4,305,252	4,242,847
Used vehicle retail sales	656,652	641,055	1,963,136	1,854,361
Used vehicle wholesale sales	106,077	102,318	302,551	302,276
Parts and service sales	146,262	137,093	437,153	406,580
Total cost of sales	2,416,508	2,402,187	7,008,092	6,806,064
GROSS PROFIT	406,668	398,382	1,205,888	1,153,839
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	299,006	289,012	891,692	841,050
DEPRECIATION AND AMORTIZATION EXPENSE	12,891	11,811	38,067	35,441
ASSET IMPAIRMENTS	10,855	916	12,812	1,955
INCOME FROM OPERATIONS	83,916	96,643	263,317	275,393
OTHER EXPENSE:				
Floorplan interest expense	(11,135)	(9,685)	(33,737)	(29,046)
Other interest expense, net	(17,094)	(13,922)	(50,729)	(42,061)
INCOME BEFORE INCOME TAXES	55,687	73,036	178,851	204,286
PROVISION FOR INCOME TAXES	(20,321)	(27,775)	(62,614)	(76,901)
NET INCOME	$35,366	$45,261	$116,237	$127,385
BASIC EARNINGS PER SHARE	$1.65	$1.88	$5.23	$5.26
Weighted average common shares outstanding	20,568	23,132	21,355	23,294
DILUTED EARNINGS PER SHARE	$1.65	$1.88	$5.22	$5.26
Weighted average common shares outstanding	20,578	23,137	21,364	23,298
CASH DIVIDENDS PER COMMON SHARE	$0.23	$0.21	$0.68	$0.61

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Unaudited, in thousands)			
NET INCOME	$35,366	$45,261	$116,237	$127,385
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustment	(6,341)	(36,307)	(10,254)	(56,902)
Net unrealized gain (loss) on interest rate risk management activities:				
Unrealized gain (loss) arising during the period, net of tax benefit (provision) of $(713), $4,919, $9,345 and $7,744, respectively	1,188	(8,199)	(15,575)	(12,907)
Reclassification adjustment for loss included in interest expense, net of tax benefit of $1,267, $1,224, $3,822 and $3,593, respectively	2,112	2,041	6,367	5,988
Unrealized gain (loss) on interest rate risk management activities, net of tax	3,300	(6,158)	(9,208)	(6,919)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	(3,041)	(42,465)	(19,462)	(63,821)
COMPREHENSIVE INCOME	$32,325	$2,796	$96,775	$63,564

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	Shares	Amount					
	(Unaudited, in thousands)						
BALANCE, December 31, 2015	25,706	$ 257	$291,092	$926,169	$ (137,984)	$(161,282)	$918,252
Net income	—	—	—	116,237	—	—	116,237
Other comprehensive loss, net	—	—	—	—	(19,462)	—	(19,462)
Purchases of treasury stock	—	—	—	—	—	(129,187)	(129,187)
Net issuance of treasury shares to employee stock compensation plans	(32)	—	(18,767)	—	—	20,219	1,452
Stock-based compensation, including tax effect of $145	—	—	14,693	—	—	—	14,693
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(15,013)	—	—	(15,013)
BALANCE, September 30, 2016	25,674	$ 257	$287,018	$1,027,393	$ (157,446)	$(270,250)	$886,972

The accompanying notes are an integral part of these consolidated financial statements.
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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$116,237	$127,385
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,067	35,441
Deferred income taxes	14,347	13,135
Asset impairments	12,812	1,955
Stock-based compensation	14,879	14,167
Amortization of debt discount and issue costs	2,783	2,727
Gain on disposition of assets	(1,812)	(1,469)
Tax effect from stock-based compensation	148	(1,827)
Other	891	3,435
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	78,905	30,858
Accounts and notes receivable	370	(6,821)
Inventories	60,839	(68,454)
Contracts-in-transit and vehicle receivables	49,581	29,470
Prepaid expenses and other assets	17,957	1,501
Floorplan notes payable - manufacturer affiliates	(19,064)	49,986
Deferred revenues	(328)	(621)
Net cash provided by operating activities	386,612	230,868
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(57,327)	(212,252)
Proceeds from disposition of franchises, property and equipment	23,072	9,684
Purchases of property and equipment, including real estate	(125,692)	(78,339)
Other	2,924	6,047
Net cash used in investing activities	(157,023)	(274,860)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - floorplan line and other	5,040,726	5,529,338
Repayments on credit facility - floorplan line and other	(5,147,766)	(5,479,152)
Borrowings on credit facility - acquisition line	220,020	584,643
Repayment on credit facility - acquisition line	(220,020)	(515,944)
Borrowings on other debt	37,786	33,375
Principal payments on other debt	(31,832)	(42,929)
Borrowings on debt related to real estate, net of debt issue costs	42,654	22,430
Principal payments on debt related to real estate	(18,845)	(21,041)
Employee stock purchase plan purchases, net of employee tax withholdings	1,452	(789)
Repurchases of common stock, amounts based on settlement date	(127,606)	(66,746)
Tax effect from stock-based compensation	(148)	1,827
Dividends paid	(15,054)	(14,781)
Other	(3,420)	
Net cash provided by (used in) financing activities	(222,053)	30,231
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,345	(5,246)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,881	(19,007)
CASH AND CASH EQUIVALENTS, beginning of period	13,037	40,975
CASH AND CASH EQUIVALENTS, end of period	$22,918	$21,968
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable	$19,920	$3,225
Purchases of common stock accrued in accounts payable	$—	$4,375

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 September 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 (36 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, and South Carolina), and (b) the West (76 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 September 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 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.

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 September 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 September 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 September 30, 2016 and December 31, 2015, are as follows (in thousands):

	September 30, 2016	December 31, 2015
Current assets	$ 16,491	$ 12,849
Non-current assets	13,478	11,022
Total assets	$ 29,969	$ 23,871
Current liabilities	$ 15,563	$ 8,257
Non-current liabilities	20,684	17,064
Total liabilities	$ 36,247	$ 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. 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 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.

Recently Issued 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 standard can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of

the date of adoption. The Company is currently evaluating the method of adoption, the impact that the adoption of the provisions of the ASU and the additional disclosure requirements will have on its consolidated financial statements. However, at this time, the Company does not expect the adoption to materially impact its consolidated financial statements and, therefore, expects to adopt as a cumulative effect adjustment as of the date of adoption.

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 for 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 in the process of evaluating the impact that adoption will have on its consolidated balance sheet and statement of income. However, the Company expects that the adoption of the provisions of the ASU will have a significant impact on its consolidated balance sheet, as currently about half of its real estate is rented, not owned, via operating leases. Adoption of this ASU is required to be done using a modified retrospective approach.

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.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendment addresses several specific cash flow issues with the objective of reducing the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard will be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. 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 nine months ended September 30, 2016, the Company acquired 12 U.K. dealerships, inclusive of 17 franchises. In Brazil, the Company acquired one dealership, representing one franchise, and opened two other dealerships for one previously awarded franchises. Aggregate consideration paid for these dealerships totaled $61.2 million, including the associated real estate and goodwill, as well as $3.9 million of cash received in the acquisition of the dealerships. 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 nine months ended

September 30, 2016, the Company disposed of four U.S. dealerships and four dealerships in Brazil. As a result of these U.S. and Brazil dealership dispositions, a net pretax gain of $1.8 million and a net pretax loss of $0.8 million, respectively, were recognized for the nine months ended September 30, 2016.

During the nine months ended September 30, 2015, the Company acquired three 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 nine months ended September 30, 2015.

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 September 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 nine months ended September 30, 2016 or 2015, respectively.

The Company held interest rate swaps in effect as of September 30, 2016 of $616.0 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 nine months ended September 30, 2016, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by $2.8 million and $8.4 million, respectively. For the three and nine months ended September 30, 2015, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by $2.8 million and $8.3 million, respectively. Total floorplan interest expense was $11.1 million and $9.7 million for the three months ended September 30, 2016 and 2015, respectively, and $33.7 million and $29.0 million for the nine months ended September 30, 2016 and 2015, respectively.

In addition to the $616.0 million of swaps in effect as of September 30, 2016, the Company held 19 additional interest rate swaps with forward start dates between December 2016 and December 2020 and expiration dates between December 2019 and December 2030. The aggregate notional value of these 19 forward-starting swaps was $975.0 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 December 2030 does not exceed $908.6 million, which is less than the Company's expectation for variable rate debt outstanding during such period.

As of September 30, 2016 and December 31, 2015, the Company reflected liabilities from interest rate risk management activities of $45.9 million and $31.2 million, respectively, in its Consolidated Balance Sheets. Included in Accumulated Other Comprehensive Loss at September 30, 2016 and 2015 were accumulated unrealized losses, net of income taxes, totaling $28.7 million and $24.8 million, respectively, related to these interest rate swaps.

The following table presents the impact during the current and comparative prior year periods for the Company's derivative financial instruments on its Consolidated Statements of Operations and Consolidated Balance Sheets.

Derivatives in Cash Flow Hedging Relationship	Amount of Unrealized Loss, Net of Tax, Recognized in Other Comprehensive Income (Loss)	
	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Interest rate swap contracts	$ (15,575)	$ (12,907)

Location of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	Amount of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	
	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Floorplan interest expense	$ (8,414)	$ (8,306)
Other interest expense	(1,775)	(1,275)

The amount expected to be reclassified out of other comprehensive income (loss) into earnings as additional floorplan interest expense or other interest expense in the next twelve months is $12.8 million.

4. STOCK-BASED COMPENSATION PLANS

The Company provides stock-based compensation benefits to employees and non-employee directors pursuant to its 2014 Long Term Incentive Plan (the "Incentive Plan"), as well as to employees pursuant to its Employee Stock Purchase Plan, as amended (the "Purchase Plan", formerly named the 1998 Employee Stock Purchase Plan).

Long Term Incentive Plan

The Incentive Plan provides for the grant of options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 and options that are non-qualified), restricted stock, performance awards, bonus stock, and phantom stock to the Company's employees, consultants, non-employee directors and officers. The Incentive Plan expires on May 21, 2024. The terms of the awards (including vesting schedules) are established by the Compensation Committee of the Company’s Board of Directors. As of September 30, 2016, there were 1,232,361 shares available for issuance under the Incentive Plan.

Restricted Stock Awards

Under the Incentive Plan, the Company grants to non-employee directors and certain employees restricted stock awards or, at their election, restricted stock units at no cost to the recipient. Restricted stock awards qualify as participating securities as each award contains non-forfeitable rights to dividends. As such, the two-class method is required for the computation of earnings per share. See Note 5, “Earnings Per Share,” for further details. Restricted stock awards are considered outstanding at the date of grant but are subject to vesting periods upon issuance up to five years. Restricted stock units are considered vested at the time of issuance, however, since they convey no voting rights, they are not considered outstanding when issued. Restricted stock units settle in cash upon the termination of the grantees’ employment or directorship. In the event an employee or non-employee director terminates his or her employment or directorship with the Company prior to the lapse of the restrictions, the shares, in most cases, will be forfeited to the Company. The Company issues new shares or treasury shares, if available, when restricted stock vests. Compensation expense for restricted stock awards is calculated based on the market price of the Company’s common stock at the date of grant and recognized over the requisite service period. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted annually based on the extent to which actual or expected forfeitures differ from the previous estimate.

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

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	893,360	$ 69.16
Granted	244,820	54.35
Vested	(243,730)	58.48
Forfeited	(29,380)	73.22
Nonvested at September 30, 2016	865,070	$ 67.87

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 September 30, 2016, there were 1,289,527 shares available for issuance under the Purchase Plan. During the nine months ended September 30, 2016 and 2015, the Company issued 125,154 and 76,694 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 $13.05 and $18.66 during the nine months ended September 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 $4.7 million for the three months ended September 30, 2016 and 2015, respectively, and $14.9 million and $14.2 million for the nine months ended September 30, 2016 and 2015, respectively. Cash received from Purchase Plan purchases was $5.6 million and $5.6 million for the nine months ended September 30, 2016 and 2015, respectively. The tax deductions for restricted stock vested were less than the associated book expense previously recognized, which resulted in a reduction of additional paid-in capital of $0.1 million for the nine months ended September 30, 2016. Comparatively, the tax benefit realized for the tax deductions from vesting of restricted shares totaled $1.8 million and resulted in an increase of additional paid in capital for the nine months ended September 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Weighted average basic common shares outstanding	20,568	23,132	21,355	23,294
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	10	5	9	4
Weighted average dilutive common shares outstanding	20,578	23,137	21,364	23,298
Basic:				
Net Income	$35,366	$45,261	$116,237	$127,385
Less: Earnings allocated to participating securities	1,427	1,729	4,652	4,906
Earnings available to basic common shares	$33,939	$43,532	$111,585	$122,479
Basic earnings per common share	$1.65	$1.88	$5.23	$5.26
Diluted:				
Net Income	$35,366	$45,261	$116,237	$127,385
Less: Earnings allocated to participating securities	1,426	1,729	4,651	4,905
Earnings available to diluted common shares	$33,940	$43,532	$111,586	$122,480
Diluted earnings per common share	$1.65	$1.88	$5.22	$5.26

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 36.5% for the three months ended September 30, 2016 was more than the U.S. federal statutory rate 35.0%, due primarily to 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, partially offset by taxes provided for in the U.K. at the applicable statutory rate. The Company's effective income tax rate of 35.0% of pretax income for the nine months ended September 30, 2016, was approximately equal to the U.S. federal statutory rate of 35.0%, as 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 were offset by taxes provided for in the U.K. at the applicable statutory rate and the tax impact of a dealership disposition in Brazil.

For the three and nine months ended September 30, 2016, the Company's effective tax rate decreased to 36.5% and 35.0%, respectively, as compared to 38.0% and 37.6% 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 nine months ended September 30, 2016.

As of September 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 nine months ended September 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.

7. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Accounts and notes receivable consisted of the following:

	September 30, 2016	December 31, 2015
	(unaudited)	
	(In thousands)	
Amounts due from manufacturers	$92,700	$93,206
Parts and service receivables	35,548	32,479
Finance and insurance receivables	21,318	22,374
Other	9,464	12,913
Total accounts and notes receivable	159,030	160,972
Less allowance for doubtful accounts	2,736	3,204
Accounts and notes receivable, net	$156,294	$157,768

Inventories consisted of the following:

	September 30, 2016	December 31, 2015
	(unaudited)	
	(In thousands)	
New vehicles	$1,166,128	$1,262,797
Used vehicles	315,277	275,508
Rental vehicles	137,600	134,509
Parts, accessories and other	75,986	72,917
Total inventories	1,694,991	1,745,731
Less lower of cost or market reserves	7,612	7,980
Inventories, net	$1,687,379	$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	September 30, 2016	December 31, 2015
	(unaudited)		
		(dollars in thousands)	
Land	—	$395,358	$364,475
Buildings	25 to 50	545,669	505,414
Leasehold improvements	varies	169,742	155,585
Machinery and equipment	7 to 20	98,341	90,993
Furniture and fixtures	3 to 10	87,603	82,688
Company vehicles	3 to 5	11,714	11,603
Construction in progress	—	69,511	58,361
Total		1,377,938	1,269,119
Less accumulated depreciation		259,153	235,138
Property and equipment, net		$1,118,785	$1,033,981

During the nine months ended September 30, 2016, the Company incurred $78.9 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

Company’s dealerships and facilities, excluding $32.7 million of capital expenditures accrued as of December 31, 2015. As of September 30, 2016, the Company had accrued $19.9 million of capital expenditures. In addition, the Company purchased real estate (including land and buildings) during the nine months ended September 30, 2016 associated with existing dealership operations totaling $34.0 million. And, in conjunction with the acquisition of dealerships and franchises in the nine months ended September 30, 2016, the Company acquired $28.8 million of real estate and other property and equipment. The Company recognized $2.0 million in asset impairments related to property and equipment for the nine months ended September 30, 2016.
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 $5.7 million of related unamortized costs as of

September 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 $1,043.8 million at September 30, 2016, the Company had $396.2 million of available floorplan borrowing capacity under the Floorplan Line. Included in the $396.2 million available borrowings under the Floorplan Line was $59.7 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.7% as of September 30, 2016 and December 31, 2015, excluding the impact of the Company’s interest rate swaps. With regards to the Acquisition Line, there were no borrowings outstanding as of September 30, 2016 and December 31, 2015. After considering $37.1 million of outstanding letters of credit and other factors included in the Company’s available borrowing base

calculation, there was $313.9 million of available borrowing capacity under the Acquisition Line as of September 30, 2016. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

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 September 30, 2016, the Credit Facility Restricted Payment Basket totaled $112.9 million. The Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility as of September 30, 2016.

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 September 30, 2016, the Company had an outstanding balance of $145.9 million under the FMCC Facility with an available floorplan borrowing capacity of $154.1 million. Included in the $154.1 million available borrowings under the FMCC Facility was $22.5 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 September 30, 2016.

Other Credit Facilities

The Company has credit facilities with BMW Financial Services, Volkswagen Finance , FMCC, and another third-party financial institution 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 1.10% to 3.50%. As of September 30, 2016, borrowings outstanding under these facilities totaled $94.4 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 Brazilian 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 September 30, 2016, borrowings outstanding under these facilities totaled $23.1 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 September 30, 2016, borrowings outstanding under these facilities totaled $108.6 million.

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:

	September 30, 2016	December 31, 2015
	(dollars in thousands)	
5.00% Senior Notes (aggregate principal of $550,000 at September 30, 2016 and December 31, 2015)	$540,075	$538,933
5.25% Senior Notes (aggregate principal of $300,000 at September 30, 2016 and December 31, 2015)	295,455	295,156
Real Estate Related and Other Long-Term Debt	393,813	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%	48,679	51,902
	1,278,022	1,251,555
Less current maturities of other long-term debt	45,305	52,021
	$1,232,717	$1,199,534

Included in current maturities of long-term debt and short-term financing in the Company's Consolidated Balance Sheets as of September 30, 2016, and December 31, 2015, was $17.0 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 $9.9 million as of September 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 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 $4.5 million as of September 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. These mortgage loans may be expanded for borrowings related to specific buildings and/or properties and are guaranteed by the Company. Each mortgage 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 loans. The mortgage loans 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 mortgage loans that are included as a direct reduction to the mortgage loans on the accompanying Consolidated Balance Sheets and are being amortized over the terms of the mortgage loans. As of September 30, 2016, $0.7 million remained unamortized .

The mortgage loans consist of 55 term loans for an aggregate principal amount of $363.0 million. As of September 30, 2016, borrowings outstanding under these notes totaled $326.3 million, with $28.8 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2016, the Company made additional net borrowings and principal payments of $42.2 million and $12.1 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 mortgage loans 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 September 30, 2016, borrowings under the U.K. Notes totaled $54.1 million, with $4.5 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the nine months ended September 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 $3.6 million associated with the U.K. Notes.

The Company also has a working capital loan agreement with a third-party financial institution in the U.K. As of September 30, 2016, borrowings under the U.K. third-party loan totaled $7.7 million and were due in October 2016. For the nine months ended September 30, 2016, the Company made $7.8 million of additional borrowings and made principal payments of $3.0 million.

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 September 30, 2016, borrowings under the Brazil Note totaled $4.0 million, with $0.4 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the nine months ended September 30, 2016, the Company made no additional borrowings and made principal payments of $0.3 million

associated with the Brazil Note.
The Company also has a working capital loan agreement with a third-party financial institution in Brazil. The principal balance on this loan is due by February 2017 with interest only payments being made until the due date. As of September 30, 2016, borrowings under the Brazilian third-party loan totaled $6.8 million. For the nine months ended September 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 $552.8 million and $545.9 million as of September 30, 2016 and December 31, 2015, respectively. The Company's outstanding 5.25% Notes had a fair value of $302.1 million and $297.8

million as of September 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 $95.6 million and $100.7 million as of September 30, 2016 and December 31, 2015, respectively. The fair value of such fixed interest rate borrowings was $96.5 million and $102.4 million as of September 30, 2016 and December 31, 2015, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of September 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 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.

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

	As of September 30, 2016	
	Level 2	Total
	(In thousands)	
Assets:		
Investments	$3,019	$3,019
Demand obligations	$12	$12
Total	$3,031	$3,031
Liabilities:		
Interest rate derivative financial instruments	$45,854	$45,854
Total	$45,854	$45,854

	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

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. On October 25, 2016, a U.S. Federal judge approved this settlement. On or about September 30, 2016, Volkswagen agreed to allocate $1.21 billion among its 652 dealers for a class settlement in exchange for their agreement not to sue Volkswagen. In October 2016, the Company received notification from Volkswagen that it is entitled to receive, in the

aggregate, approximately $13.2 million in connection with the Company's current and prior ownership of seven Volkswagen dealerships in the U.S. The Company will receive half of the compensation immediately in a lump sum amount, and the rest of the compensation in 18 monthly installments. The Volkswagen brand represented 1.7% of the Company's total new vehicle retail unit sales for the nine months ended September 30, 2016.

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.

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 to "Item 8. Financial Statements and Supplementary Data" 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.

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	—	12,833	—	12,833
Impairments	(10,578)	—	—	(10,578)
Currency translation	—	(2,392)	3,062	670
BALANCE, September 30, 2016	$275,081	$18,214	$17,218	$310,513

	Goodwill			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2015	$809,775	$35,320	$9,820	$854,915 [1]
Additions through acquisitions	—	31,644	1,855	33,499
Purchase price allocation adjustments	34	1,024	—	1,058
Disposals	(3,128)	—	(191)	(3,319)
Currency translation	—	(8,045)	2,285	(5,760)
BALANCE, September 30, 2016	$806,681	$59,943	$13,769	$880,393 [1]

[1] Net of accumulated impairment of $97.8 million.

The Company evaluates intangible franchise rights and goodwill assets for impairment annually or more frequently if events or circumstances indicate possible impairment. During the three months ended September 30, 2016, the Company identified circumstances indicating possible impairment of some individual franchise rights and requiring a quantitative assessment. The Company did not identify any such circumstances relative to the goodwill for each of its reporting units. Based on the results of the Company's assessment, the Company determined that the fair values of the franchise rights on two U.S. franchises were below their respective carrying values, resulting in franchise asset impairment charges of $10.6 million. This was recognized as an asset impairment in the Company's Consolidated Statements of Operations during the three months ended September 30, 2016.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Nine Months Ended September 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	(10,254)	(24,920)	(35,174)
Tax effect	—	9,345	9,345
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	8,414	8,414
Other interest expense	—	1,775	1,775
Tax effect	—	(3,822)	(3,822)
Net current period other comprehensive loss	(10,254)	(9,208)	(19,462)
Balance, September 30, 2016	$(128,786)	$ (28,660)	$(157,446)

	Nine Months Ended September 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	(56,902)	(20,651)	(77,553)
Tax effect	—	7,744	7,744
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	8,306	8,306
Other interest expense	—	1,275	1,275
Tax effect	—	(3,593)	(3,593)
Net current period other comprehensive loss	(56,902)	(6,919)	(63,821)
Balance, September 30, 2015	$(120,977)	$ (24,828)	$(145,805)

14. SEGMENT INFORMATION

As of September 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 nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016				Nine Months Ended September 30, 2016			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	$2,274,723	$435,976	$112,477	$2,823,176	$6,563,739	$1,335,663	$314,578	$8,213,980
Income (loss) before income taxes	52,619	3,922	(854)	55,687	164,607	17,371	(3,127)	178,851
(Provision) benefit for income taxes	(19,722)	(702)	103	(20,321)	(61,406)	(3,458)	2,250	(62,614)
Net income (loss) [1]	32,897	3,220	(751)	35,366	103,201	13,913	(877)	116,237

	Three Months Ended September 30, 2015				Nine Months Ended September 30, 2015			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	$2,343,566	$327,431	$129,572	$2,800,569	$6,629,513	$935,139	$395,251	$7,959,903
Income (loss) before income taxes	67,182	5,328	526	73,036	189,773	15,278	(765)	204,286
Provision for income taxes	(26,432)	(1,207)	(136)	(27,775)	(73,085)	(3,215)	(601)	(76,901)
Net income (loss)	40,750	4,121	390	45,261	116,688	12,063	(1,366)	127,385

[1] Includes the following, after tax: asset impairment charges of $6.7 million and $7.7 million for the three and nine months ended September 30, 2016, respectively, in the U.S. segment; loss due to catastrophic events of $0.3 million and $3.7 million for the three and nine months ended September 30, 2016, respectively, in the U.S. segment; gain on real estate and dealership transactions of $0.7 million and $1.1 million for the three and nine months ended September 30, 2016, respectively, in the U.S. segment; and foreign deferred income tax benefit of $1.7 million for the nine months ended September 30, 2016 in the Brazil segment.

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

	As of September 30, 2016			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total assets	$3,768,063	$514,005	$138,996	$4,421,064

	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

15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following tables include condensed consolidating financial information as of September 30, 2016 and December 31, 2015, and for the three and nine months ended September 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
September 30, 2016

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$—	$5,145	$ 17,773	$—	$22,918
Contracts-in-transit and vehicle receivables, net	—	159,965	46,327	—	206,292
Accounts and notes receivable, net	—	116,666	39,628	—	156,294
Intercompany accounts receivable	—	6,048	—	(6,048)	—
Inventories, net	—	1,416,388	270,991	—	1,687,379
Prepaid expenses and other current assets	261	7,033	18,261	—	25,555
Total current assets	261	1,711,245	392,980	(6,048)	2,098,438
PROPERTY AND EQUIPMENT, net	—	977,038	141,747	—	1,118,785
GOODWILL	—	806,681	73,712	—	880,393
INTANGIBLE FRANCHISE RIGHTS	—	275,080	35,433	—	310,513
INVESTMENT IN SUBSIDIARIES	2,601,015	—	—	(2,601,015)	—
OTHER ASSETS	—	8,218	4,717	—	12,935
Total assets	$2,601,276	$3,778,262	$ 648,589	$(2,607,063)	$4,421,064
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Floorplan notes payable — credit facility and other	$—	$1,103,490	$ 6,614	$—	$1,110,104
Offset account related to floorplan notes payable - credit facility	—	(59,684)	—	—	(59,684)
Floorplan notes payable — manufacturer affiliates	—	276,934	110,836	—	387,770
Offset account related to floorplan notes payable - manufacturer affiliates	—	(22,500)	—	—	(22,500)
Current maturities of long-term debt and short-term financing	—	33,529	28,820	—	62,349
Accounts payable	—	189,766	165,191	—	354,957

Intercompany accounts payable	722,169	—	6,048	(728,217)	—
Accrued expenses	—	168,707	24,846	—	193,553
Total current liabilities	722,169	1,690,242	342,355	(728,217)	2,026,549
LONG-TERM DEBT, net of current maturities	835,530	341,222	55,965	—	1,232,717
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	45,040	—	—	45,040
DEFERRED INCOME TAXES AND OTHER LIABILITIES	(840)	223,154	7,472	—	229,786
STOCKHOLDERS' EQUITY:					
Group 1 stockholders' equity	1,044,417	2,200,773	242,797	(2,601,015)	886,972
Intercompany note receivable	—	(722,169)	—	722,169	—
Total stockholders' equity	1,044,417	1,478,604	242,797	(1,878,846)	886,972
Total liabilities and stockholders' equity	$2,601,276	$3,778,262	$ 648,589	$(2,607,063)	$4,421,064

CONDENSED CONSOLIDATED BALANCE SHEET
December 31, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
ASSETS					
CURRENT ASSETS:					
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
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
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
STOCKHOLDERS' EQUITY:					
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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended September 30, 2016

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	$—	$2,274,723	$ 548,453	$—	$2,823,176
COST OF SALES:	—	1,927,997	488,511	—	2,416,508
GROSS PROFIT	—	346,726	59,942	—	406,668
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	435	244,450	54,121	—	299,006
DEPRECIATION AND AMORTIZATION EXPENSE	—	11,061	1,830	—	12,891
ASSET IMPAIRMENTS	—	10,855	—	—	10,855
INCOME (LOSS) FROM OPERATIONS	(435)	80,360	3,991	—	83,916
OTHER EXPENSE:					
Floorplan interest expense	—	(9,979)	(1,156)	—	(11,135)
Other interest expense, net	—	(16,376)	(718)	—	(17,094)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(435)	54,005	2,117	—	55,687
BENEFIT (PROVISION) FOR INCOME TAXES	164	(19,884)	(601)	—	(20,321)
EQUITY IN EARNINGS OF SUBSIDIARIES	35,637	—	—	(35,637)	—
NET INCOME (LOSS)	$35,366	$34,121	$ 1,516	$(35,637)	$35,366
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	—	(6,341)	3,300	—	(3,041)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	$35,366	$27,780	$ 4,816	$(35,637)	$32,325

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Nine Months Ended September 30, 2016

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	$—	$6,563,739	$ 1,650,241	$—	$8,213,980
COST OF SALES:	—	5,539,707	1,468,385	—	7,008,092
GROSS PROFIT	—	1,024,032	181,856	—	1,205,888
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,243	730,776	158,673	—	891,692
DEPRECIATION AND AMORTIZATION EXPENSE	—	32,298	5,769	—	38,067
ASSET IMPAIRMENTS	—	12,389	423	—	12,812
INCOME (LOSS) FROM OPERATIONS	(2,243)	248,569	16,991	—	263,317
OTHER EXPENSE:					
Floorplan interest expense	—	(30,428)	(3,309)	—	(33,737)
Other interest expense, net	—	(48,501)	(2,228)	—	(50,729)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(2,243)	169,640	11,454	—	178,851
BENEFIT (PROVISION) FOR INCOME TAXES	841	(62,246)	(1,209)	—	(62,614)
EQUITY IN EARNINGS OF SUBSIDIARIES	117,639	—	—	(117,639)	—
NET INCOME (LOSS)	$116,237	$107,394	$ 10,245	$(117,639)	$116,237
OTHER COMPREHENSIVE LOSS, NET OF TAXES	—	(9,208)	(10,254)	—	(19,462)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	$116,237	$98,186	$ (9)	$(117,639)	$96,775

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended September 30, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	$—	$2,343,567	$ 457,002	$—	$2,800,569
COST OF SALES:	—	1,995,252	406,935	—	2,402,187
GROSS PROFIT	—	348,315	50,067	—	398,382
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	555	247,054	41,403	—	289,012
DEPRECIATION AND AMORTIZATION EXPENSE	—	10,372	1,439	—	11,811
ASSET IMPAIRMENTS	—	204	712	—	916
INCOME (LOSS) FROM OPERATIONS	(555)	90,685	6,513	—	96,643
OTHER EXPENSE:					
Floorplan interest expense	—	(8,963)	(722)	—	(9,685)
Other interest expense, net	648	(12,738)	(1,832)	—	(13,922)
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	93	68,984	3,959	—	73,036
PROVISION FOR INCOME TAXES	(35)	(26,398)	(1,342)	—	(27,775)
EQUITY IN EARNINGS OF SUBSIDIARIES	45,203	—	—	(45,203)	—
NET INCOME (LOSS)	$45,261	$42,586	$ 2,617	$(45,203)	$45,261
OTHER COMPREHENSIVE LOSS, NET OF TAXES	—	(6,158)	(36,307)	—	(42,465)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	$45,261	$36,428	$ (33,690)	$(45,203)	$2,796

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Nine Months Ended September 30, 2015

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	$—	$6,629,514	$ 1,330,389	$—	$7,959,903
COST OF SALES:	—	5,624,527	1,181,537	—	6,806,064
GROSS PROFIT	—	1,004,987	148,852	—	1,153,839
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,612	712,265	126,173	—	841,050
DEPRECIATION AND AMORTIZATION EXPENSE	—	30,847	4,594	—	35,441
ASSET IMPAIRMENTS	—	702	1,253	—	1,955
INCOME (LOSS) FROM OPERATIONS	(2,612)	261,173	16,832	—	275,393
OTHER EXPENSE:					
Floorplan interest expense	—	(26,439)	(2,607)	—	(29,046)
Other interest expense, net	1,845	(38,534)	(5,372)	—	(42,061)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(767)	196,200	8,853	—	204,286
BENEFIT (PROVISION) FOR INCOME TAXES	288	(73,375)	(3,814)	—	(76,901)
EQUITY IN EARNINGS OF SUBSIDIARIES	127,864	—	—	(127,864)	—
NET INCOME (LOSS)	$127,385	$122,825	$ 5,039	$(127,864)	$127,385
OTHER COMPREHENSIVE LOSS, NET OF TAXES	—	(6,919)	(56,902)	—	(63,821)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	$127,385	$115,906	$ (51,863)	$(127,864)	$63,564

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2016

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
	(In thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net cash provided by operating activities	$116,237	$269,096	$1,279	$386,612
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash paid in acquisitions, net of cash received	—	—	(57,327)	(57,327)
Proceeds from disposition of franchises, property and equipment	—	21,735	1,337	23,072
Purchases of property and equipment, including real estate	—	(110,495)	(15,197)	(125,692)
Other	—	2,653	271	2,924
Net cash used in investing activities	—	(86,107)	(70,916)	(157,023)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings on credit facility - floorplan line and other	—	5,040,726	—	5,040,726
Repayments on credit facility - floorplan line and other	—	(5,147,766)	—	(5,147,766)
Borrowings on credit facility - acquisition line	220,020	—	—	220,020
Repayment on credit facility - acquisition line	(220,020)	—	—	(220,020)
Borrowings on other debt	—	—	37,786	37,786
Principal payments on other debt	—	(692)	(31,140)	(31,832)
Borrowings on debt related to real estate, net of debt issue costs	—	42,654	—	42,654
Principal payments on debt related to real estate	—	(14,941)	(3,904)	(18,845)
Employee stock purchase plan purchases, net of employee tax withholdings	1,452	—	—	1,452
Repurchases of common stock, amounts based on settlement date	(127,606)	—	—	(127,606)
Tax effect from stock-based compensation	(148)	—	—	(148)
Dividends paid	(15,054)	—	—	(15,054)
Other	(2,997)	(423)	—	(3,420)
Borrowings (repayments) with subsidiaries	241,050	(245,906)	4,856	—
Investment in subsidiaries	(212,934)	142,166	70,768	—
Distributions to parent	—	—	—	—
Net cash provided by (used in) financing activities	(116,237)	(184,182)	78,366	(222,053)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	2,345	2,345
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	(1,193)	11,074	9,881
CASH AND CASH EQUIVALENTS, beginning of period	—	6,338	6,699	13,037
CASH AND CASH EQUIVALENTS, end of period	$—	$5,145	$17,773	$22,918

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 2015

	Group 1 Automotive Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
	(In thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net cash provided by operating activities	$127,385	$ 93,518	$ 9,965	$230,868
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash paid in acquisitions, net of cash received	—	(212,252)	—	(212,252)
Proceeds from disposition of franchises, property and equipment	—	8,986	698	9,684
Purchases of property and equipment, including real estate	—	(61,052)	(17,287)	(78,339)
Other	—	6,047	—	6,047
Net cash used in investing activities	—	(258,271)	(16,589)	(274,860)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings on credit facility - floorplan line and other	—	5,529,338	—	5,529,338
Repayments on credit facility - floorplan line and other	—	(5,479,152)	—	(5,479,152)
Borrowings on credit facility - acquisition line	584,643	—	—	584,643
Repayment on credit facility - acquisition line	(515,944)	—	—	(515,944)
Borrowings on other debt	—	460	32,915	33,375
Principal payments on other debt	—	(1,157)	(41,772)	(42,929)
Borrowings on debt related to real estate, net of debt issue costs	—	—	22,430	22,430
Principal payments on debt related to real estate	—	(18,348)	(2,693)	(21,041)
Employee stock purchase plan purchases, net of employee tax withholdings	(789)	—	—	(789)
Repurchases of common stock, amounts based on settlement date	(66,746)	—	—	(66,746)
Tax effect from stock-based compensation	—	1,827	—	1,827
Dividends paid	(14,781)	—	—	(14,781)
Borrowings (repayments) with subsidiaries	85,465	(73,365)	(12,100)	—
Investment in subsidiaries	(199,233)	184,168	15,065	—
Distributions to parent	—	—	—	—
Net cash provided by (used in) financing activities	(127,385)	143,771	13,845	30,231
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	(5,246)	(5,246)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	(20,982)	1,975	(19,007)
CASH AND CASH EQUIVALENTS, beginning of period	—	25,379	15,596	40,975
CASH AND CASH EQUIVALENTS, end of period	$—	$ 4,397	$ 17,571	$21,968

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, adverse weather events and other catastrophic 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 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.

In addition, management evaluates the Company's results of operations on both an as reported and a constant currency basis. The constant currency presentation,which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our underlying business and results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our current period reported results for entities reporting in currencies other than United States dollars using comparative period exchange rates rather than the actual exchange rates in effect during the respective periods. The constant currency performance measures should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP.

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 September 30, 2016, we owned and operated 210 franchises, representing 32 brands of automobiles, at 159 dealership locations and 37 collision centers worldwide. We own 147 franchises at 112 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 September 30, 2016, industry new vehicle registrations in the U.S. declined 1.3% 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.

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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 1.4% and 2.6% in the three and nine months ended September 30, 2016, respectively, 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, created much uncertainty in the U.K., as well as the global markets. The U.K. industry's new vehicle sales experienced more volatility than normal following the Brexit vote. We expect industry sales to remain volatile in the near future and overall flat to slightly down in 2017. In addition, the announcement of Brexit initially caused significant exchange rate fluctuations that resulted in the weakening of the British pound sterling, in which we conduct business in the U.K., against the U.S. dollar and other global currencies. The weakening of the British pound sterling has and may continue to adversely affect our results of operations, as well as have a negative impact on the pricing and affordability of the vehicles in the U.K. Volatility in exchange rates is expected to continue in the short term.

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 22.5% for the nine months ended September 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 nine months ended September 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.

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. 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. However, our capital allocation strategy is dynamic and dependent on a variety of market conditions.

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 $125 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 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 calendar quarters and higher in the second and third calendar 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 calendar 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 September 30, 2016 were negatively impacted by the following non-core items: $10.8 million of non-cash impairment charges on a pre-tax basis ($6.7 million on an after-tax basis), $0.5 million of losses related to vehicle inventory losses from catastrophic events in Texas and Louisiana on a pre-tax basis ($0.3 million on an after-tax basis), and a $0.3 million charge for a foreign transaction tax in Brazil on both a pre-tax and after-tax basis, partially offset by a $1.1 million pre-tax gain related to real estate and dealership transactions ($0.7 million on an after-tax basis). For the nine months ended September 30, 2016, our operating results as reported on a U.S. GAAP basis were negatively impacted by the following non-core items: $12.3 million of non-cash impairment charges on a pre-tax basis ($7.7 million on an after-tax basis), $5.9 million of losses related to catastrophic events on a pre-tax basis ($3.7 million on an after-tax basis), $0.6 million of acquisition costs on both a pre-tax and after-tax basis, and a $0.3 million charge for a foreign transaction tax in Brazil on both a pre-tax and after-tax basis, partially offset by a $1.7 million benefit related to foreign deferred income taxes on an after-tax basis and $1.0 million of net gains related to real estate and dealership transactions on a pre-tax basis ($0.3 million on an after-tax basis). On a comparable basis, our operating results as reported on a U.S. GAAP basis for the three months ended September 30, 2015 were negatively impacted by the following non-core item: $0.9 million of non-cash impairment charges on a pre-tax basis ($0.8 million on an after-tax basis). For the nine months ended September 30, 2015, our operating results as reported on a U.S. GAAP basis were negatively impacted by the following non-core items: $2.0 million of non-cash impairment charges on a pre-tax basis ($1.6 million on an after-tax basis), a $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), a $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 of 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 and nine months ended September 30, 2016, all of our financial results were bolstered from growth in the U.K., primarily as a result of the acquisition of a group of dealerships in February 2016. Partially offsetting these improvements in the U.K. for both the three and nine months ended September 30, 2016, the British pound sterling significantly weakened versus the U.S. Dollar, as compared to the same periods a year ago. In total for the three months ended September 30, 2016, our revenues increased 0.8% from 2015 levels to $2.8 billion, reflecting a 33.2% increase in the U.K., partially offset by decreases of 2.9% and 13.2% in the U.S. and Brazil, respectively. In the U.S., a 2.5% improvement in parts and service revenues was more than offset by a 5.5% decline in new vehicle retail revenues and a 1.7% decline in finance and insurance revenues. For Brazil, the 13.2% decrease in total revenues is primarily explained by a 17.0% decline in new vehicle retail revenues. For the nine months ended September 30, 2016, our total revenues improved 3.2% to $8.2 billion, reflecting a 42.8% increase in the U.K., partially offset by a 1.0% decline in the U.S. and a 20.4% decrease in Brazil. In the U.S., improvements of 4.4% and 2.9% in parts and service and retail used vehicle revenues, respectively, were more than offset by a 3.7% decline in new vehicle retail revenues. In Brazil, the 20.4% decline in total revenues is primarily explained by a 23.5% decrease in new vehicle retail revenues, as well as a weakening in the Brazilian real versus the U.S. Dollar for the nine-months ended September 30, 2016 compared to the comparable prior period. Total gross profit improved $8.3 million, or 2.1%, to $406.7 million for the third quarter of 2016 over the prior year period, primarily as a result of a $11.2 million, or 31.0% increase in our U.K. operations. In the U.S., total gross profit decreased 0.5%, as a 1.5% improvement in our parts and service business was more than offset by declines of 0.9%, 4.5% and 1.7% in our new vehicle retail, used vehicle retail and finance and insurance businesses, respectively. In Brazil, we realized a 9.8% decline in total gross profit, which was more than explained by a 24.7% decrease in our new vehicle retail business. For the nine months ended September 30, 2016, gross profit increased 4.5% over the prior year period to $1.2 billion, primarily as a result of $44.2 million, or 42.4%, increase in our U.K. operations, coupled with a $19.0 million, or 1.9% increase in our U.S. operations. In the U.S., the 1.9% improvement primarily reflects a 3.9% growth in our parts and service business, coupled with a 1.2% improvement in our new vehicle retail business. In Brazil, total gross profit declined 25.2% for the nine months ended September 30, 2016, reflecting decreases of 35.3% and 25.1% in our new vehicle retail and

parts and service businesses, respectively, as well as a further weakening in the Brazilian real versus the U.S. Dollar for the nine months ended September 30, 2016 compared to prior period. Selling, General and Administrative expenses ("SG&A") rose 3.5% to $299.0 million in the third quarter of 2016, as compared to the prior year period, primarily as a result of a 40.8% increase in our U.K. segment, as well as a 6.4% increase in Brazil. As a partial offset, SG&A in our U.S. segment declined 0.9%, as we responded to declining revenues and gross profit by continuing to leverage our structure and execute on cost savings initiatives. For the nine months ended September 30, 2016, SG&A rose 6.0% over the prior year period, driven by increases of 2.7% and 46.2% 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. On an adjusted basis, total SG&A rose 3.6% and 5.5% for the three and nine months ended September 30, 2016, respectively. For the three months ended September 30, 2016, net income decreased 21.9% to $35.4 million and diluted income per share decreased 12.2% to $1.65, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, net income

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decreased 8.8% to $116.2 million and diluted income per share declined 0.8% to $5.22, as compared to the nine months ended September 30, 2015. On an adjusted basis for the three months ended September 30, 2016, net income decreased 8.8% to $42.0 million, but diluted income per share improved 2.6% to $1.96 as compared to the three months ended September 30, 2015. On an adjusted basis for the nine months ended September 30, 2016, net income decreased 2.6% to $126.4 million, but diluted income per share grew 6.0% to $5.68. The increases in our adjusted diluted income per share for both the three and nine months ended September 30, 2016 can be attributed to decreases of 11.1% and 8.3% in our weighted average diluted common shares outstanding, respectively, over the prior year periods. The decreases in weighted average dilutive common shares outstanding were primarily the result of the repurchase of 2,609,443 shares of our common stock over the last twelve months. For the nine months ended September 30, 2016, our net cash provided by operations increased $155.7 million over the prior year period to $386.6 million, primarily driven by a $152.3 million increase in the net change in operating assets and liabilities. On an adjusted basis, our net cash provided by operations increased $8.0 million over the prior year period to $237.8 million, primarily driven by a $4.6 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 Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Unit Sales				
Retail Sales				
New Vehicle	45,597	47,126	130,022	131,130
Used Vehicle	33,012	32,491	98,754	93,913
Total Retail Sales	78,609	79,617	228,776	225,043
Wholesale Sales	15,027	14,926	43,077	43,493
Total Vehicle Sales	93,636	94,543	271,853	268,536
Gross Margin				
New Vehicle Retail Sales	5.1 %	5.0 %	5.1 %	5.0 %
Total Used Vehicle Sales	5.5 %	5.7 %	5.9 %	6.0 %
Parts and Service Sales	54.2 %	54.8 %	54.0 %	54.3 %
Total Gross Margin	14.4 %	14.2 %	14.7 %	14.5 %
SG&A [(1)] as a % of Gross Profit	73.5 %	72.5 %	73.9 %	72.9 %
Adjusted SG&A [(1)] as a % of Gross Profit [(2)]	73.6 %	72.5 %	73.5 %	72.8 %
Operating Margin	3.0%	3.5%	3.2%	3.5%
Adjusted Operating Margin [(2)]	3.3%	3.5%	3.4%	3.5%
Pretax Margin	2.0%	2.6%	2.2%	2.6%
Adjusted Pretax Margin [(2)]	2.3%	2.6%	2.4%	2.6%
Finance and Insurance Revenues per Retail Unit Sold	$1,383	$1,352	$1,383	$1,366

(1) Selling, general and administrative expenses.

(2) 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 nine months ended September 30, 2016 decreased 18.0% and 10.2%, respectively, compared to the same periods in 2015. The Brazilian real strengthened against the U.S. dollar for the three months ended September 30, 2016 as the average exchange rate increased 8.1% but weakened by 12.6% for the nine months ended September 30, 2016, as compared to the same periods in 2015.

Management evaluates the Company's results of operations on both an as reported and a constant currency basis. Constant currency,which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We

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believe providing constant currency information provides valuable supplemental information regarding our underlying business and results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our current period reported results for entities reporting in currencies other than United States dollars using comparative period exchange rates rather than the actual exchange rates in effect during the respective periods. The constant currency performance measures should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP.

Our consolidated revenues from new vehicle retail sales declined 0.8% for the three months ended September 30, 2016 and increased 1.6% for the nine months ended September 30, 2016 as compared to the same periods in 2015. For the third quarter of 2016, growth in our U.K. segment was more than offset by declines in the U.S. and Brazil. During the third quarter of 2016, the U.K. experienced more volatility than normal following the Brexit vote. Following a decline of nearly 1.0% in June 2016, and flat industry sales in July, industry sales of new vehicles grew 3.0% in August, and 1.6% in September 2016 over 2015 levels, aided by increased fleet sales. Our new vehicle retail unit sales in the U.K. rose 62.4% and 64.5%, respectively, for the three and nine months ended September 30, 2016, as compared to the same periods in 2015, primarily reflecting the acquisition of a dealership group in early February, as well as the continued successful execution by our operating team on key initiatives. Excluding the impact of acquisitions, for the three and nine months ended September 30, 2016, new vehicle retail unit sales increased 1.5% and 6.2%, respectively, in the U.K.. During the three months ended September 30, 2016, industry new vehicle registrations in the U.S. declined 1.3% compared to the same period a year ago. Our U.S. new vehicle retail unit sales decreased 9.5% and 7.5% for the three and nine months ended September 30, 2016, respectively, from the same periods a year ago. The decline in our new vehicle retail unit sales was driven by our over-weight exposure to many energy-dependent markets in Texas and Oklahoma, which have been particularly soft as a result of depressed oil prices. For the three and nine months ended September 30, 2016, our new vehicle unit sales in Texas were down 10.4% and 7.9%, while our Oklahoma unit sales were down 17.7% and 10.9%, respectively, when compared to the same periods a year ago. As a result, our U.S. revenues from new vehicle retail sales declined 5.5% and 3.7% for the three and nine month periods of 2016, respectively, reflecting a partial offset to the reduced volumes with increases in our average new vehicle retail sales price of 4.4% and 4.1%, respectively. The increases in our average sales price were primarily due to the shift in the mix of new retail units sold, as our truck unit sales increased to 55.9% of total new vehicle retail units sold for the three months ended September 30, 2016 as compared to 50.7% last year, generally correlating with lower gas prices. For the nine months ended September 30, 2016, our truck unit sales increased to 55.5% of total new vehicle retail units sold as compared to 50.5% for the same period a year ago. For the three and nine months ended September 30, 2016, Brazil new vehicle retail unit sales declined 32.2% and 24.2% and, on a U.S. dollar basis, new vehicle retail revenues declined 17.0% and 23.5%, respectively, when compared to the same periods in 2015, reflecting decreased consumer confidence and higher interest rates. Consolidated new vehicle retail gross margin improved 10 basis points to 5.1% for the three and nine months ended September 30, 2016, as compared to the same periods in 2015, driven by a 20 basis point increase in the U.S. for the three and nine month periods of 2016. Our U.S. operating team took a more disciplined approach to new vehicle pricing that focused on increased gross profit per unit. As a result, we improved new vehicle gross profit per retail unit “PRU” sold in the U.S. by 9.5% and 9.4% for the three and nine months ended September 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 2.2% and 5.7% for the three and nine months ended September 30, 2016, respectively, as compared to the same period in 2015, primarily due to acquisition activity particularly in the U.K. In the U.S., used vehicle retail revenues was relatively flat for the three months ended September 30, 2016, as a 1.7% decline in retail used vehicle units sold was essentially offset by a 1.4% increase in the average retail used vehicle sales price per unit. Revenue from used vehicle retail sales improved 2.9% in the U.S. for the nine months ended September 30, 2016, as compared to the same period in 2015, resulting from the combination of a 1.6%

increase in retail used vehicle units sold and a 1.3% improvement in our average retail used vehicles sales price per unit. The U.K. generated increases in used vehicle retail revenues of 19.6% and 26.0%, respectively, primarily reflecting the acquisition of a dealership group in early February. The increases in the U.K. were dampened by the impact of exchange rates between periods. In Brazil, our used vehicle retail revenues declined by 3.2%, primarily as a result of an 18.8% decrease in the number of retail used vehicle units sold that reflects the continued weakening in economic conditions. Used vehicle retail revenues in Brazil decreased 7.1%, for the nine months ended September 30, 2016, due to the impact of the change in the currency rates between periods. On a constant currency basis, used vehicle retail sales increased 5.2% for the first nine months of 2016 compared to the same period in 2015. Total used vehicle retail gross profit decreased 1.3% for the three months ended September 30, 2016. The growth in used vehicle retail unit sales of 1.6% for the third quarter of 2016 was more than offset by a 2.9% decline in used vehicle retail gross profit PRU compared to a year ago. We generated a 107.2% improvement in used vehicle retail gross profit PRU for our Brazil operations that was offset by a 2.9%

decline in the U.S. and a 15.2% decline in the U.K. The decline in the U.K. was the result of the change in exchange rates between periods as on a constant currency basis, used vehicle retail gross profit PRU was flat with the prior year period. Total used vehicle retail gross profit increased 3.4% for the nine months ended September 30, 2016, as improvements in used vehicle retail unit sales were partially offset by a decline in used vehicle retail gross profit PRU of 1.8%. The decline in used vehicle retail gross profit PRU primarily reflects a decline of 7.7% in the U.K., as compared to the same period in 2015, that was driven by the change in the exchange rates between periods. On a constant currency basis, used vehicle retail gross profit PRU in the U.K. increased 1.3%. In Brazil, used vehicle retail gross profit PRU increased 19.3%. The improvement in used vehicle retail gross profit PRU for the three and nine months ended September 30, 2016 in Brazil was primarily due to improved sales processes. In the U.S., used vehicle gross profit PRU was relatively flat for the nine months ended September 30, 2016 when compared to a year ago.

Our parts and service sales increased 5.3% and 6.9% for the three and nine months ended September 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 nine 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, Ford, Nissan and Mercedes-Benz 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 driven by the U.S., primarily as a result of the execution of management initiatives. Our parts and service gross margin decreased 60 and 30 basis points for the three and nine months ended September 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 60 and 20 basis points, respectively. The declines in our U.S. parts and service gross margin were primarily the result of less lucrative, Original Equipment Manufacturer ("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, which is relatively lower margin, grew in relation to our internal work. The decline in internal work in the U.S. was the result of a decrease in total retail vehicles sales volumes in 2016 compared to 2015.

Our consolidated finance and insurance revenues PRU sold increased 2.3% for the three months ended September 30, 2016, as compared to the same period in 2015. We generated a 4.8% increase in finance and insurance revenues PRU to $1,588 in the U.S. and a 46.3% improvement in Brazil. These improvements were partially offset by a 5.3% decline in finance and insurance revenues PRU in the U.K, coupled with the mix effect of a relatively greater contribution from our U.K. segment. The decline in the U.K. was directly related to the change in exchange rates between periods, as on a constant currency basis our finance and insurance revenues PRU improved 11.5%. For the nine months ended September 30, 2016, our consolidated finance insurance revenues PRU increased 1.2%, when compared to the same period in 2015. In total for both the three and nine months ended September 30, 2016, the increases in our income per contract and penetration rates on many of our product offerings were partially offset by an increase in our overall chargeback experience.

Our total consolidated gross margin increased 20 basis points for the three months ended September 30, 2016 to 14.4%, as compared to the same period in 2015. Declines in the parts and service and used vehicle sectors of our business were more than offset by improvements in our new vehicle results. For the nine months ended September 30, 2016, our total consolidated gross margin increased 20 basis points directly as a result of improved new vehicle margins, compared to the same period 2015.

Our consolidated SG&A expenses increased in absolute dollars by 3.5% and 6.0% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in 2015, primarily as a result of the incremental number of dealerships owned and operated and increased personnel costs primarily driven by commission

payments as a result of higher new vehicle margins, as well as higher insurance deductible charges in the U.S. relating to catastrophic events. In addition, during 2016, we experienced additional loaner vehicle costs as we continued to service a large amount of customers affected by recalled vehicles. For the three and nine months ended September 30, 2016, our consolidated SG&A expenses as a percentage of gross profit increased 100 basis points to 73.5% and 73.9%, 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 110 and 70 basis points to 73.6% and 73.5% for the three and nine months ended September 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 that inherently have a higher cost structure, as well as the additional dealerships acquired in 2016.

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The combination of all of these factors resulted in an operating margin of 3.0% and 3.2% for the three and nine months ended September 30, 2016, respectively. This reflects a 50 and 30 basis-point decline compared to the same periods in 2015. On an adjusted basis, operating margin declined 20 and 10 basis points for the three months and nine months ended September 30, 2016 to 3.3% and 3.4%, respectively, as compared to the same periods in 2015.

For the three and nine months ended September 30, 2016, floorplan interest expense increased 15.0% and 16.2%, respectively, as compared to the same periods in 2015. For the third quarter of 2016, the increases were primarily driven by the U.S. and U.K., due to a higher LIBOR interest rate in the U.S. and the impact of acquisitions in the U.K. when compared to 2015. For the nine months ended September 30, 2016, the increase in our consolidated floorplan interest expense was also attributable to an increase in our supply of luxury brand units during the first quarter, as our OEM partners redirected additional supply to the U.S. and U.K to offset weakness in other global markets. 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. Other interest expense, net increased 22.8% and 20.6% for the three and nine months ended September 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. In particular, to evaluate the carrying value of goodwill and intangible franchise rights for impairment, we must estimate the fair market value of the net assets of each of our reporting units and our intangible franchise rights, using estimates, assumptions and unobservable inputs that require us to use our knowledge of (1) the industry, (2) recent transactions and (3) reasonable performance expectations for our operations. On June 23, 2016, the British Citizens voted on a referendum in favor of exiting the E.U. 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 may 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 estimates, assumptions and inputs 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. While we are not aware of any changes in circumstances that has resulted in a decline in fair value of these assets at this time, we continue to closely monitor the situation.

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 nine months ended September 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 September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Revenues						
New Vehicle Retail	$1,476,098	(5.8)%	$1,566,527	$4,191,715	(4.2)%	$4,373,969
Used Vehicle Retail	665,275	(1.2)%	673,302	1,986,471	1.7%	1,954,206
Used Vehicle Wholesale	95,536	(1.6)%	97,082	272,485	(7.1)%	293,430
Parts and Service	303,418	2.6%	295,689	898,003	3.7%	865,549
Finance, Insurance and Other	104,547	(1.4)%	106,058	302,730	(0.2)%	303,240
Total Revenues	$2,644,874	(3.4)%	$2,738,658	$7,651,404	(1.8)%	$7,790,394
Cost of Sales						
New Vehicle Retail	$1,401,406	(5.8)%	$1,488,181	$3,976,495	(4.3)%	$4,153,144
Used Vehicle Retail	620,950	(1.1)%	627,573	1,849,437	1.7%	1,817,717
Used Vehicle Wholesale	97,003	(1.7)%	98,692	272,370	(7.1)%	293,295
Parts and Service	139,052	4.3%	133,297	413,720	4.7%	395,299
Total Cost of Sales	$2,258,411	(3.8)%	$2,347,743	$6,512,022	(2.2)%	$6,659,455
Gross Profit	$386,463	(1.1)%	$390,915	$1,139,382	0.7%	$1,130,939
SG&A	$281,098	0.3%	$280,286	$835,506	2.3%	$816,735
Adjusted SG&A (1)	$280,374	—%	$280,286	$828,383	1.7%	$814,212
Depreciation and Amortization Expenses	$12,079	5.9%	$11,408	$35,798	5.2%	$34,021
Floorplan Interest Expense	$10,439	10.5%	$9,445	$31,632	10.7%	$28,567
Gross Margin						
New Vehicle Retail	5.1 %		5.0 %	5.1 %		5.0 %
Total Used Vehicle	5.6 %		5.7 %	6.1 %		6.1 %
Parts and Service	54.2 %		54.9 %	53.9 %		54.3 %
Total Gross Margin	14.6 %		14.3 %	14.9 %		14.5 %
SG&A as a % of Gross Profit	72.7 %		71.7 %	73.3 %		72.2 %
Adjusted SG&A as a % of Gross Profit (1)	72.5 %		71.7 %	72.7 %		72.0 %
Operating Margin	3.1%		3.6%	3.3%		3.6%
Adjusted Operating Margin (1)	3.6%		3.6%	3.6%		3.6%
Finance and Insurance Revenues per Retail Unit Sold	$1,421	4.0%	$1,366	$1,414	2.6%	$1,378

(1)See "Non-GAAP Financial Measures" for more details.

The discussion that follows provides explanation for the variances noted above. Each table presents by primary income statement line item comparative financial and non-financial data of our Same Store locations, those locations acquired or disposed of (“Transactions”) during the periods and the consolidated company for the three and nine months ended September 30, 2016 and 2015.

Our Same Store operating results as reported on a U.S. GAAP basis for the three months ended September 30, 2016 were negatively impacted by the following non-core items (on a pre-tax basis): $10.8 million of non-cash impairment charges, $0.5 million of losses related to catastrophic events and $0.3 million of foreign transaction tax. For the nine months ended September 30, 2016, our Same Store operating results as reported on a U.S. GAAP basis were negatively impacted by the following non-core items (on a pre-tax basis): $5.9 million of losses related to catastrophic events, $12.3 million of non-cash impairment charges, $0.6 million of acquisition costs, $0.8 million of net losses related to real estate and dealership transactions, and $0.3 million of foreign transaction tax. On a comparable basis, our same store operating results as reported on a U.S. GAAP basis for the three months ended September 30, 2015 were negatively impacted by the following non-core items (on a pre-tax basis): $0.8 million of non-cash impairment

charges. Our same store operating results as reported on a U.S. GAAP basis for the nine months ended September 30, 2015 were impacted by the following non-core items (on a pre-tax basis): $1.3 million of non-cash impairment charges, $1.0 million charge related to vehicle inventory losses from flooding in Ho

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uston, Texas, a legal settlement of $1.0 million, $0.2 million in severance costs and $0.4 million loss on real estate and dealership transactions. 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 Same Store U.S. GAAP and non-GAAP data.

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New Vehicle Retail Data
(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Retail Unit Sales						
Same Stores						
U.S.	34,435	(7.9)%	37,403	97,163	(7.0)%	104,424
U.K.	5,293	1.5%	5,213	15,296	6.2%	14,408
Brazil	2,261	(30.5)%	3,254	7,265	(20.7)%	9,165
Total Same Stores	41,989	(8.5)%	45,870	119,724	(6.5)%	127,997
Transactions	3,608		1,256	10,298		3,133
Total	45,597	(3.2)%	47,126	130,022	(0.8)%	131,130
Retail Sales Revenues						
Same Stores						
U.S.	$1,240,952	(4.4)%	$1,297,598	$3,483,544	(3.6)%	$3,615,137
U.K.	163,396	(9.7)%	180,967	503,611	2.3%	492,424
Brazil	71,750	(18.4)%	87,962	204,560	(23.2)%	266,408
Total Same Stores	1,476,098	(5.8)%	1,566,527	4,191,715	(4.2)%	4,373,969
Transactions	111,854		34,686	346,847		94,231
Total	$1,587,952	(0.8)%	$1,601,213	$4,538,562	1.6%	$4,468,200
Gross Profit						
Same Stores						
U.S.	$60,920	(1.2)%	$61,638	$173,001	0.6%	$171,974
U.K.	9,559	(13.6)%	11,059	30,430	(1.2)%	30,796
Brazil	4,213	(25.4)%	5,649	11,789	(34.7)%	18,055
Total Same Stores	74,692	(4.7)%	78,346	215,220	(2.5)%	220,825
Transactions	5,743		1,146	18,090		4,528
Total	$80,435	1.2%	$79,492	$233,310	3.5%	$225,353
Gross Profit per Retail Unit Sold						
Same Stores						
U.S.	$1,769	7.3%	$1,648	$1,781	8.1%	$1,647
U.K.	$1,806	(14.9)%	$2,121	$1,989	(6.9)%	$2,137
Brazil	$1,863	7.3%	$1,736	$1,623	(17.6)%	$1,970
Total Same Stores	$1,779	4.2%	$1,708	$1,798	4.2%	$1,725
Transactions	$1,592		$912	$1,757		$1,445
Total	$1,764	4.6%	$1,687	$1,794	4.4%	$1,719
Gross Margin						
Same Stores						
U.S.	4.9%		4.8%	5.0%		4.8%
U.K.	5.9%		6.1%	6.0%		6.3%
Brazil	5.9%		6.4%	5.8%		6.8%
Total Same Stores	5.1%		5.0%	5.1%		5.0%
Transactions	5.1%		3.3%	5.2%		4.8%
Total	5.1%		5.0%	5.1%		5.0%

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Same Store New Vehicle Unit Sales

The following table sets forth our Same Store new vehicle retail unit sales volume by manufacturer.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Toyota/Scion/Lexus	11,443	(6.3)%	12,214	31,896	(6.2)%	33,999
BMW/MINI	5,070	(4.7)%	5,322	14,856	(0.8)%	14,969
Ford/Lincoln	4,932	(9.3)%	5,439	14,382	(5.1)%	15,153
Honda/Acura	4,497	(13.6)%	5,205	13,317	(6.6)%	14,256
Volkswagen/Audi/Porsche	3,361	(2.5)%	3,446	8,635	0.1%	8,630
Chevrolet/GMC/Buick/Cadillac	3,342	(8.3)%	3,643	9,859	0.2%	9,840
Nissan	3,201	(10.5)%	3,575	9,059	(13.6)%	10,490
Hyundai/Kia	1,908	(20.0)%	2,384	5,725	(23.2)%	7,459
Chrysler/Dodge/Jeep/RAM	1,861	(14.0)%	2,163	5,294	(12.6)%	6,060
Mercedes-Benz/smart/Sprinter	1,707	6.6%	1,602	4,671	(2.1)%	4,770
Other	667	(23.9)%	877	2,030	(14.4)%	2,371
Total	41,989	(8.5)%	45,870	119,724	(6.5)%	127,997

In total, our Same Store new vehicle retail unit sales decreased 8.5% for the three months ended September 30, 2016, as compared to the same period in 2015. The decrease was primarily driven by decreases of 7.9% and 30.5% in our Same Store U.S. and Brazil segments, respectively. The decline in our U.S. new vehicle retail unit sales was primarily due to softness in the energy markets, as well as an overall decline in new vehicle retail demand in the industry. For the three months ended September 30, 2016, our unit sales in our energy-dependent markets of Texas and Oklahoma were down 10.4% and 17.7% respectively, when compared to the same period a year ago as a result of depressed oil prices. Overall, the U.S. seasonally adjusted annual selling rate declined 1.7% from 18.0 million units in September 2015 to 17.7 million units in September 2016, and has declined from an average of 17.7 million units for the three months ended September 30, 2015 to 17.5 million units for the three months ended September 30, 2016. In addition, our U.S. operating team has placed a heightened focus on improving new vehicle margins, resulting in lower unit sales volumes. The 30.5% decline in our Same Store new vehicle retail unit sales in Brazil reflected the decrease in total Brazil industry sales, as well as the continued local economic challenges. Partially offsetting the declines in the U.S. and Brazil was a 1.5% increase in our U.K. Same Store new vehicle retail unit sales for the three months ended September 30, 2016 compared to a year ago. During the third quarter of 2016, the U.K. experienced more volatility than normal following the Brexit vote, however industry results for the month of September 2016 increased 1.6% over 2015 levels. For the quarter ended September 30, 2016, U.K. industry sales increased 1.4% as compared to the same period last year. The increase of 1.5% in our U.K new vehicle retail units sales reflects growth of 6.9% in our BMW/MINI brands and 2.0% in our Audi brands for the three months ended September 30, 2016 as compared to the same period last year, primarily due to enhanced sales processes, as well as an increase in overall U.K. industry sales.

For the nine months ended September 30, 2016, as compared to the same period in 2015, total Same Store new vehicle retail unit sales decreased 6.5%, primarily driven by decreases of 7.0% in the U.S. and 20.7% in Brazil, partially offset by a 6.2% increase in the U.K., where industry sales reached a record level surpassing 2.0 million registrations in the first nine months of 2016, which was an increase of 2.6% over last year.

Our total Same Store revenues from new vehicle retail sales revenue decreased 5.8% for the three months ended September 30, 2016, as compared to the same period in 2015, reflecting declines in all of our segments. The 4.4% decrease in U.S. Same Store new vehicle revenue was primarily due to the decline in new vehicle retail units of 7.9%, which was partially offset by a 3.9% increase in the average new vehicle retail sales price to $36,038. The increase in U.S. Same Store average new vehicle retail sales price was primarily due to a mix shift in sales from cars to trucks, generally driven by lower gas prices. For the third quarter of 2016, U.S. Same Store new vehicle retail truck sales represented 55.9% of total Same Store new vehicle retail units sold, as compared to 51.3% for the same period last year. Our U.K. Same Store new vehicle revenues decreased 9.7% for the three months ended September 30, 2016, as compared to the same period last year, explained by the change in exchange rate between the periods. On a constant

currency basis, our U.K. Same Store new vehicle retail revenues increased 6.1% for the third quarter of 2016, primarily as a result of the increase in new vehicle retail units and a 4.5% increase in the average new vehicle retail sales price when compared to 2015 on a constant currency basis. Our Brazil Same Store new vehicle retail sales revenue decreased 18.4% for the three months ended September 30, 2016, reflecting a 30.5% decline in new vehicle retail units partially offset by a 17.4% increase in the average new vehicle retail sales price as compared to last year.
For the nine months ended September 30, 2016, as compared to the same period a year ago, total Same Store new vehicle sales revenue declined by 4.2%, primarily driven by a 3.6% decrease in the U.S. and a 23.2% decrease in Brazil. The decreases in new vehicle sales revenues in the U.S. and Brazil primarily relate to a decrease of 7.0% and 20.7% in new vehicle retail units,

respectively. The decrease in our total Same Store new vehicle retail sales revenue was partially offset by a 2.3% increase in the U.K., reflecting a 6.2% increase in new vehicle retail units sold. The level of retail sales, as well as our own ability to retain or grow market share during any future period, is difficult to predict.

Our total Same Store new vehicle gross profit decreased 4.7% for the three months ended September 30, 2016, as compared to the same period in 2015, reflecting declines in all of our segments. In the U.S., Same Store new vehicle gross profit decreased 1.2%, explained by a the 7.9% decrease is new vehicle retail units, partially offset by a 7.3% increase in gross profit PRU to $1,769 as a result of our operating team's disciplined new vehicle pricing that focused on increasing gross profit per retail unit. Our Same Store new vehicle gross profit in the U.K. decreased 13.6%, primarily due to the decrease in gross profit PRU of 14.9% to $1,806. Both of which can be explained by the change in the currency exchange rates between periods. On a constant currency basis, our Same Store U.K. gross profit increased 1.3% and gross profit PRU remained relatively flat, as compared to the same period in 2015. In Brazil, Same Store new vehicle gross profit declined 25.4% for the three months ended September 30, 2016. The decrease in gross profit in Brazil is primarily explained by the 30.5% decline in new units sold, partially offset by an increase of 7.3% in gross profit PRU to $1,863. Our total Same Store new vehicle gross margin for the three months ended September 30, 2016, as compared to the same period in 2015, increased 10 basis points from 5.0% to 5.1%. For the nine months ended September 30, 2016, as compared to the same period a year ago, total Same Store gross new vehicle profit decreased by 2.5%, driven by a decrease of 34.7% in Brazil coupled with a 1.2% decrease in the U.K., and partially offset by an increase of 0.6% in the U.S. For the nine months ended September 30, 2016, our total Same Store new vehicle gross margin increased 10 basis points to 5.1%, as compared to 5.0% in the same period in 2015.

Most manufacturers offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases. This assistance varies by manufacturer, but generally provides for a defined amount, adjusted periodically for changes in market interest rates, regardless of our actual floorplan interest rate or the length of time for which the inventory is financed. We record these incentives as a reduction of new vehicle cost of sales as the vehicles are sold, impacting the gross profit and gross margin detailed above. The total assistance recognized in cost of sales during the three months ended September 30, 2016 and 2015 was $13.0 million and $13.5 million, respectively. The amount of interest assistance we recognize in a given period is primarily a function of: (a) the mix of units being sold, as U.S. domestic brands tend to provide more assistance, (b) the specific terms of the respective manufacturers' interest assistance programs and market interest rates, (c) the average wholesale price of inventory sold, and (d) our rate of inventory turnover. Over the past three years, consolidated manufacturers' interest assistance as a percentage of our total consolidated floorplan interest expense has ranged from 90.0% in the first quarter of 2014 to 139.9% in the third quarter of 2015. In total, manufacturers' interest assistance was 116.6% of floorplan interest expense in the third quarter of 2016. And, in the U.S., manufacturers' interest assistance was 128.5% of floorplan interest expense in the third quarter of 2016.

We decreased our new vehicle inventory levels by $96.7 million, or 7.7%, from $1,262.8 million as of December 31, 2015 to $1,166.1 million as of September 30, 2016 as a result of our focus on inventory management in response to an over-supply of inventory in some of our luxury brands as of December 31, 2015. During the fourth quarter of 2015, our supply of luxury brand units, such as Mercedes-Benz and BMW, increased as our OEM partners redirected additional supply to the U.S. and U.K to offset weakness in other global markets. As compared to September 30, 2015, our inventory levels have increased by $23.7 million, or 2.1%, primarily due to the acquisition of additional dealerships. Additionally, several manufacturers have issued stop sales of a number of vehicle models due to recall campaigns that has contributed to an increase in our new vehicle inventory. Our consolidated days' supply of new vehicle inventory was 59 days as of September 30, 2016, which is down from 67 days as of December 31, 2015 and down from 61 days as of September 30, 2015.

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Used Vehicle Retail Data
(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Retail Unit Sales						
Same Stores						
U.S.	26,915	(0.9)%	27,164	79,587	1.7%	78,292
U.K.	3,702	3.4%	3,582	11,413	5.1%	10,863
Brazil	950	(9.1)%	1,045	3,312	12.3%	2,948
Total Same Stores	31,567	(0.7)%	31,791	94,312	2.4%	92,103
Transactions	1,445		700	4,442		1,810
Total	33,012	1.6%	32,491	98,754	5.2%	93,913
Retail Sales Revenues						
Same Stores						
U.S.	$567,275	0.3%	$565,381	$1,670,922	2.6%	$1,628,417
U.K.	79,243	(11.3)%	89,321	261,228	(3.1)%	269,629
Brazil	18,757	0.8%	18,600	54,321	(3.3)%	56,160
Total Same Stores	665,275	(1.2)%	673,302	1,986,471	1.7%	1,954,206
Transactions	37,345		14,335	120,098		38,918
Total	$702,620	2.2%	$687,637	$2,106,569	5.7%	$1,993,124
Gross Profit						
Same Stores						
U.S.	$38,719	(4.1)%	$40,358	$120,081	0.1%	$119,995
U.K.	4,189	(9.6)%	4,632	13,795	(2.6)%	14,163
Brazil	1,417	91.7%	739	3,158	35.5%	2,331
Total Same Stores	44,325	(3.1)%	45,729	137,034	0.4%	136,489
Transactions	1,643		853	6,399		2,274
Total	$45,968	(1.3)%	$46,582	$143,433	3.4%	$138,763
Gross Profit per Unit Sold						
Same Stores						
U.S.	$1,439	(3.2)%	$1,486	$1,509	(1.6)%	$1,533
U.K.	$1,132	(12.5)%	$1,293	$1,209	(7.3)%	$1,304
Brazil	$1,492	111.0%	$707	$954	20.6%	$791
Total Same Stores	$1,404	(2.4)%	$1,438	$1,453	(2.0)%	$1,482
Transactions	$1,137		$1,219	$1,441		$1,256
Total	$1,392	(2.9)%	$1,434	$1,452	(1.8)%	$1,478
Gross Margin						
Same Stores						
U.S.	6.8 %		7.1 %	7.2 %		7.4 %
U.K.	5.3 %		5.2 %	5.3 %		5.3 %
Brazil	7.6 %		4.0 %	5.8 %		4.2 %
Total Same Stores	6.7 %		6.8 %	6.9 %		7.0 %
Transactions	4.4 %		6.0 %	5.3 %		5.8 %
Total	6.5 %		6.8 %	6.8 %		7.0 %

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Used Vehicle Wholesale Data
(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Wholesale Unit Sales						
Same Stores						
U.S.	10,887	(4.0)%	11,340	30,367	(7.0)%	32,651
U.K.	2,824	1.2%	2,791	8,884	2.3%	8,682
Brazil	304	1.3%	300	760	(23.8)%	998
Total Same Stores	14,015	(2.9)%	14,431	40,011	(5.5)%	42,331
Transactions	1,012		495	3,066		1,162
Total	15,027	0.7%	14,926	43,077	(1.0)%	43,493
Wholesale Sales Revenues						
Same Stores						
U.S.	$73,940	3.8%	$71,204	$200,066	(4.6)%	$209,686
U.K.	20,785	(16.4)%	24,859	70,361	(10.6)%	78,692
Brazil	811	(20.4)%	1,019	2,058	(59.3)%	5,052
Total Same Stores	95,536	(1.6)%	97,082	272,485	(7.1)%	293,430
Transactions	8,682		3,401	29,604		8,756
Total	$104,218	3.7%	$100,483	$302,089	—%	$302,186
Gross Profit						
Same Stores						
U.S.	$(1,460)	9.0%	$(1,605)	$(372)	(346.4)%	$151
U.K.	(66)	9.6%	(73)	346	190.1%	(384)
Brazil	59	(13.2)%	68	141	(61.7)%	368
Total Same Stores	(1,467)	8.9%	(1,610)	115	(14.8)%	135
Transactions	(392)		(225)	(577)		(225)
Total	$(1,859)	(1.3)%	$(1,835)	$(462)	(413.3)%	$(90)
Gross Profit per Wholesale Unit Sold						
Same Stores						
U.S.	$(134)	5.6%	$(142)	$(12)	(340.0)%	$5
U.K.	$(23)	11.5%	$(26)	$39	188.6%	$(44)
Brazil	$194	(14.5)%	$227	$186	(49.6)%	$369
Total Same Stores	$(105)	6.3%	$(112)	$3	—%	$3
Transactions	$(387)		$(455)	$(188)		$(194)
Total	$(124)	(0.8)%	$(123)	$(11)	(450.0)%	$(2)
Gross Margin						
Same Stores						
U.S.	(2.0)%		(2.3)%	(0.2)%		0.1%
U.K.	(0.3)%		(0.3)%	0.5%		(0.5)%
Brazil	7.3%		6.7%	6.9%		7.3%
Total Same Stores	(1.5)%		(1.7)%	—%		—%
Transactions	(4.5)%		(6.6)%	(1.9)%		(2.6)%
Total	(1.8)%		(1.8)%	(0.2)%		—%

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Total Used Vehicle Data
(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Used Vehicle Unit Sales						
Same Stores						
U.S.	37,802	(1.8)%	38,504	109,954	(0.9)%	110,943
U.K.	6,526	2.4%	6,373	20,297	3.8%	19,545
Brazil	1,254	(6.8)%	1,345	4,072	3.2%	3,946
Total Same Stores	45,582	(1.4)%	46,222	134,323	(0.1)%	134,434
Transactions	2,457		1,195	7,508		2,972
Total	48,039	1.3%	47,417	141,831	3.2%	137,406
Sales Revenues						
Same Stores						
U.S.	$641,215	0.7%	$636,585	$1,870,988	1.8%	$1,838,103
U.K.	100,028	(12.4)%	114,180	331,589	(4.8)%	348,321
Brazil	19,568	(0.3)%	19,619	56,379	(7.9)%	61,212
Total Same Stores	760,811	(1.2)%	770,384	2,258,956	0.5%	2,247,636
Transactions	46,027		17,736	149,702		47,674
Total	$806,838	2.4%	$788,120	$2,408,658	4.9%	$2,295,310
Gross Profit						
Same Stores						
U.S.	$37,259	(3.9)%	$38,753	$119,709	(0.4)%	$120,146
U.K.	4,123	(9.6)%	4,559	14,141	2.6%	13,779
Brazil	1,476	82.9%	807	3,299	22.2%	2,699
Total Same Stores	42,858	(2.9)%	44,119	137,149	0.4%	136,624
Transactions	1,251		628	5,822		2,049
Total	$44,109	(1.4)%	$44,747	$142,971	3.1%	$138,673
Gross Profit per Unit Sold						
Same Stores						
U.S.	$986	(2.0)%	$1,006	$1,089	0.6%	$1,083
U.K.	$632	(11.6)%	$715	$697	(1.1)%	$705
Brazil	$1,177	96.2%	$600	$810	18.4%	$684
Total Same Stores	$940	(1.6)%	$955	$1,021	0.5%	$1,016
Transactions	$509		$526	$775		$689
Total	$918	(2.8)%	$944	$1,008	(0.1)%	$1,009
Gross Margin						
Same Stores						
U.S.	5.8 %		6.1 %	6.4 %		6.5 %
U.K.	4.1 %		4.0 %	4.3 %		4.0 %
Brazil	7.5 %		4.1 %	5.9 %		4.4 %
Total Same Stores	5.6 %		5.7 %	6.1 %		6.1 %
Transactions	2.7 %		3.5 %	3.9 %		4.3 %
Total	5.5 %		5.7 %	5.9 %		6.0 %

In addition to factors such as general economic conditions and consumer confidence, our used vehicle business is affected by the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of used vehicle 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 Same Store used vehicle retail revenues decreased $8.0 million, or 1.2%, for the three months ended September 30, 2016, as compared to the same period in 2015, reflecting a 0.7% decrease in total Same Store used vehicle retail unit sales, coupled with a 0.5% decrease in average used vehicle retail selling price to $21,075. In the U.S., Same Store used vehicle retail revenues increased $1.9 million, or 0.3%, reflecting a 1.3%, or $263, increase in the average used vehicle retail sales price that

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was partially offset by a 0.9% decrease in Same Store used vehicle retail unit sales. As a percentage of U.S. Same Store used vehicle retail unit sales, CPO units increased 40 basis points to 26.1% for the third quarter of 2016, as compared to 25.7% for the same period in 2015. In the U.K., Same Store used vehicle retail revenues decreased 11.3% for the quarter ended September 30, 2016. This decline can be more than explained by a change in exchange rates as on a constant currency basis, our U.K. Same Store used vehicle retail revenue increased 4.7%, driven by a 3.4% increase in Same Store used vehicle retail unit sales and a 1.3% increase in the average used vehicle retail sales price. In Brazil, for the three months ended September 30, 2016, Same Store used vehicle retail revenues were up 0.8%, reflecting a 10.9% increase in the average used vehicle retail selling price (2.8% on a constant currency basis) and the impact of the change in exchange rates between periods. On a constant currency basis, Same Store used vehicle revenues in Brazil were down 6.5%, primarily reflecting a 9.1% decrease in Same Store used vehicle retail units. For the nine months ended September 30, 2016, our total Same Store used vehicle retail revenues improved 1.7%, primarily as a result of a 2.4% increase in used vehicle retail unit sales. This improvement reflects an increased focus by our operations team and enhanced processes that are being implemented. Our total Same Store average used vehicle retail sales price for the nine months of 2016 remained relatively flat as compared to last year.

In total, our Same Store used vehicle retail total gross profit for the three months ended September 30, 2016 decreased 3.1%, as compared to the same period in 2015, reflecting declines in the U.S. and U.K. segments that were partially offset by improvements in Brazil. In the U.S., Same Store used vehicle gross profit decreased by 4.1%, driven by a decline in Same Store used vehicle gross profit PRU of 3.2%, or $47, coupled with a decrease in Same Store used vehicle retail unit sales of 0.9%. In the U.K., Same Store used vehicle retail gross profit declined 9.6%, reflecting a 12.5% decrease in Same Store gross profit PRU that was partially offset by a 3.4% improvement in Same Store used vehicle retail unit sales. These declines in the U.K. can be explained by the change in exchange rates between periods as, on a constant currency basis, Same Store used vehicle retail gross profit and used vehicle gross profit PRU in the U.K. improved 6.8% and 3.4%, respectively. The increases in the U.K. were primarily a result of improving industry conditions and a strong performance by our operating teams. In Brazil, the increase of 91.7% in Same Store used vehicle retail gross profit resulted from a $785, or 111.0%, increase in Same Store used vehicle retail gross profit PRU that was partially offset by a 9.1% decrease in Same Store used vehicle retail unit sales . The improvement in Brazil is primarily a result of increased focus on used vehicles and the implementation of new and improved sales processes by our local operating team. For the nine months ended September 30, 2016, as compared to the same period in 2015, total Same Store used vehicle retail gross profit increased 0.4%, driven by a 2.4% increase in Same Store used vehicle retail units that was partially offset by a 2.0% decrease in Same Store used vehicle gross profit PRU.

During the three months ended September 30, 2016, total Same Store wholesale used vehicle revenue decreased 1.6%, as compared to the same period in 2015, driven by declines in the U.K. and the Brazil segments and partially offset by increases in our U.S. business. In the U.S., the 3.8% increase in Same Store wholesale used vehicle revenue for the three months ended September 30, 2016 was the result of an 8.2% increase in used vehicle wholesale average sales price that was partially offset by a 4.0% decline in Same Store wholesale used vehicle unit sales. The increase in our average used vehicle wholesale sales price reflects the improvement in used vehicle market prices. The Manheim Index for the third quarter of 2016 increased 2.0% as compared to the same period last year. The decline in U.S. used vehicle wholesale unit sales volume was driven by lower used vehicle trade-in activity associated with lower new vehicle unit sales volume during the third quarter of 2016, particularly in our energy driven markets. In the U.K., Same Store used vehicle wholesale revenue declined 16.4%. On a constant currency basis, Same Store used vehicle wholesale sales declined 1.4%, reflecting a 2.5% decrease in Same Store used vehicle wholesale average sales price that was partially offset by a 1.2% increase in Same Store used vehicle wholesale units. In Brazil, Same Store used vehicle wholesale revenue declined 20.4% as a result of a decrease in Same Store used vehicle wholesale average sales price of 21.5% that was partially offset by a 1.3% increase in Same Store wholesale used vehicle unit sales. This decline in our wholesale business in Brazil reflects a strategic decision to retail more of our trade-in units. For the nine months ended September 30, 2016, as compared to the same period in 2015, Same Store used vehicle wholesale revenue decreased 7.1%, driven by a 5.5% decline in Same Store used vehicle wholesale unit sales coupled with a 1.8% decline in Same Store average used vehicle wholesale sales price.

Our total Same Store used vehicle wholesale gross profit increased 8.9% from a loss of $1.6 million for the three months ended September 30, 2015 to a loss of $1.5 million for the comparable period in 2016. This increase was driven by a 6.3%, or $7, increase in our Same Store used vehicle wholesale gross profit per unit from a loss of $112 per unit for the three months ended September 30, 2015 to a loss of $105 per unit for the same period this year, coupled with a decrease in total Same Store used vehicle wholesale units of 2.9%. In the U.S., used vehicle wholesale gross profit increased 9.0% for the three months ended September 30, 2016, primarily as a result of a 5.6% increase in wholesale gross profit per unit coupled with a 4.0% decline in used vehicle wholesale units in 2016 as compared to the same period in 2015. The increase in profitability corresponds with a 2.0% increase in the average used vehicle market prices during the third quarter of 2016 as reflected in the Manheim index. In the U.K., the 9.6% increase in Same Store used vehicle wholesale gross profit was driven by the change in exchange rates between periods. In Brazil, the decline in Same Store used vehicle wholesale gross profit of 13.2% was driven by a decrease in Same Store used vehicle wholesale gross profit per unit of 14.5%. For the nine months ended September 30,

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2016, our total Same Store used vehicle wholesale gross profit decreased 14.8%, driven by a 5.5% decrease in used vehicle wholesale unit sales as the used vehicle wholesale gross profit per unit remained flat as compared to the same period in 2015.

As of September 30, 2016, we increased our used vehicle inventory levels by $39.8 million, or 14.4%, from December 31, 2015 and by $20.0 million, or 6.8%, from September 30, 2015 to $315.3 million, primarily reflecting improved used vehicle sales. This increase in inventory levels also reflects the impact of the stop sale instructions from various OEMs primarily associated with Takata airbag recalls. At September 30, 2016, we had approximately 500 used vehicle units in our U.S. inventory on stop sale awaiting completion of repairs. Our consolidated days' supply of used vehicle inventory increased to 34 days, as of September 30, 2016, as compared to 33 days as of December 31, 2015 and September 30, 2015.

Parts and Service Data

(dollars in thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Parts and Services Revenue						
Same Stores						
U.S.	$267,909	3.4%	$258,996	$788,935	4.7%	$753,477
U.K.	23,952	(8.6)%	26,193	76,063	(1.2)%	76,983
Brazil	11,557	10.1%	10,500	33,005	(5.9)%	35,089
Total Same Stores	303,418	2.6%	295,689	898,003	3.7%	865,549
Transactions	16,258		7,868	52,338		23,390
Total	$319,676	5.3%	$303,557	$950,341	6.9%	$888,939
Gross Profit						
Same Stores						
U.S.	$146,738	2.4%	$143,344	$429,838	4.2%	$412,640
U.K.	13,246	(9.0)%	14,554	42,001	(0.8)%	42,344
Brazil	4,382	(2.5)%	4,494	12,444	(18.5)%	15,266
Total Same Stores	164,366	1.2%	162,392	484,283	3.0%	470,250
Transactions	9,048		4,072	28,905		12,109
Total	$173,414	4.2%	$166,464	$513,188	6.4%	$482,359
Gross Margin						
Same Stores						
U.S.	54.8 %		55.3 %	54.5 %		54.8 %
U.K.	55.3 %		55.6 %	55.2 %		55.0 %
Brazil	37.9 %		42.8 %	37.7 %		43.5 %
Total Same Stores	54.2 %		54.9 %	53.9 %		54.3 %
Transactions	55.7 %		51.8 %	55.2 %		51.8 %
Total	54.2 %		54.8 %	54.0 %		54.3 %

Our total Same Store parts and service revenues increased $7.7 million, or 2.6%, to $303.4 million for the three months ended September 30, 2016, as compared to the same period in 2015, primarily driven by growth in the U.S. and Brazil, partially offset by a decline in our U.K. business. For the three months ended September 30, 2016, our U.S. Same Store parts and service revenue increased 3.4%, or $8.9 million, reflecting a 3.5% increase in customer-pay parts and service revenue, a 5.1% increase in warranty parts and service revenues, a 3.2% increase in collision revenue, and a 2.0% increase in wholesale parts revenues, when compared to the same period in 2015. The growth in customer-pay parts and service revenue was supported by the continued progress we are making in adding service technicians and expanding shop capacity where applicable. The increase in warranty parts and service revenue was primarily driven by high volume recall campaigns within our Honda, General Motors, Nissan, Toyota, Mercedes-Benz, and Ford brands that occurred during the third quarter of 2016. The increase in collision revenue was primarily attributable to strategic initiatives that continue to enhance our operational processes, the addition of

technicians to add operating capacity and the expansion of direct repair programs with insurance companies. The increase in wholesale parts revenues was primarily due to increased focus and better overall management of this portion of our business in a few key markets. Our total Same Store parts and service revenue improved $32.5 million, or 3.7%, to $898.0 million for the nine months ended September 30, 2016, as compared to the same period in 2015, primarily reflecting an increase in the U.S. that was partially offset by a decrease in our U.K. and Brazil businesses. For the nine months ended September 30, 2016, our U.S. same store parts and service revenues improved 4.7%, primarily as a result of a 4.4% increase in customer-pay parts and ser

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vice revenues, a 5.7% increase in warranty parts and service revenues, a 4.3% increase in wholesale parts revenues, and a 4.8% increase in collision revenues.

Our U.K. Same Store parts and service revenues decreased 8.6%, or $2.2 million, for the three months ended September 30, 2016, as compared to the same period in 2015. This decline can be more than explained by a change in exchange rates. On a constant currency basis, we realized a 7.9% improvement in our Same Store parts and service revenues, driven by an increase of 12.3% in our warranty parts and service revenue, a 4.6% increase in our customer-pay parts and service revenue, a 9.2% increase in our wholesale parts revenue, and a 13.1% increase in our collision revenue . The increases in customer-pay parts and service, collision and wholesale parts revenues are mainly attributable to the implementation of management initiatives designed to enhance processes and increase productivity. Additionally, we grew our warranty parts and service revenue, primarily due to an increase in high volume recalls within our BMW and Audi brands that occurred during the third quarter of 2016. For the nine months ended September 30, 2016 as compared to the same period in 2015, our U.K. same store parts and service revenues decreased 1.2%, which is more than explained by the decline in exchange rates between periods. On a constant currency basis, our U.K. Same Store parts and service revenues increased 8.7%, as we generated improvements in customer-pay, warranty parts and service, wholesale parts, and collision revenues when compared to the same period a year ago.

Our Same Store parts and service revenues in Brazil increased 10.1%, or $1.1 million, for the three months ended September 30, 2016, compared to the same period 2015. The increase in Brazil Same Store parts and service revenues was driven by a 32.2% increase in our collision revenue, a 5.5% increase in customer-pay parts and service revenue, and a 10.4% increase in warranty parts and service revenue. For the nine months ended September 30, 2016, our Brazil Same Store parts and service revenues declined 5.9% due to the change in exchange rates between periods. On a constant currency basis, our Brazil Same Store parts and service revenues increased 6.5%, as we experienced improvements in customer-pay, warranty parts and service, wholesale parts, and collision revenues when compared to the same period a year ago.

Our total Same Store parts and service gross profit for the three months ended September 30, 2016 increased 1.2%, as compared to the same period in 2015. This increase in gross profit was driven by an increase of 2.4% in the U.S., partially offset by declines of 9.0% and 2.5% in the U.K. and Brazil, respectively. The increase in the U.S. was driven by increases in our customer-pay, warranty, and collision businesses. The decline in the U.K. can be explained by the change in the currency rates, as U.K. Same Store parts and service gross profit increased 7.4% on a constant currency basis. This increase reflects increases in each portion our U.K. parts and service business. For the nine months ended September 30, 2016, our total Same Store gross profit increased 3.0%, as compared to the same period a year ago, primarily driven by an increase of 4.2% in the U.S., and partially offset by a 0.8% and a 18.5% decrease in the U.K. and Brazil, respectively. The increase in the U.S. was driven by our customer-pay, warranty, and collision business. The decline in the U.K. was more than explained by the change in the exchange rates between periods. On a constant currency basis, the U.K. Same Store parts and service gross profit increased by 9.1%, reflecting increases in all portions of our parts and service business. In Brazil, on a constant currency basis, Same Store parts and service gross profit declined by 7.4%, reflecting a mix shift away from our customer-pay parts and service towards warranty parts and service that generates lower margins on a relative basis.

For the three months ended September 30, 2016, our total Same Store parts and service gross margin declined 70 basis points, as compared to the same period in 2015. This decrease was driven by a 50 basis-point decrease in the U.S., primarily driven by lower margin, parts-intensive, warranty campaigns in 2016 as compared to higher margin, labor-intensive warranty campaigns in 2015. This mix shift was coupled with a decrease in internal work between the parts and service departments of our dealerships and the new and used vehicle departments as a result of a decline in total retail vehicle sales volumes for the third quarter of 2016 as compared to the same period in 2015. For the nine months ended September 30, 2016, our total Same Store parts and service gross margin declined 40 basis points, compared to the same periods in 2015. This decline was driven by our U.S. Same Store parts and service gross margin which declined by 30 basis-points due to the increase in parts-intensive warranty campaigns.

Finance and Insurance Data

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	% Change	2015	2016	% Change	2015
Retail New and Used Unit Sales						
Same Stores						
U.S.	61,350	(5.0)%	64,567	176,750	(3.3)%	182,716
U.K.	8,995	2.3%	8,795	26,709	5.7%	25,271
Brazil	3,211	(25.3)%	4,299	10,577	(12.7)%	12,113
Total Same Stores	73,556	(5.3)%	77,661	214,036	(2.8)%	220,100

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Transactions	5,053		1,956	14,740		4,943
Total	78,609	(1.3)%	79,617	228,776	1.7%	225,043
Retail Finance Fees						
Same Stores						
U.S.	$30,994					