

ASBURY AUTOMOTIVE GROUP INC
Form 10-Q
July 26, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

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

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

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

2905 Premiere Parkway NW, Suite 300 30097
Duluth, Georgia
(Address of principal executive offices) (Zip Code)
(770) 418-8200
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated filer Smaller reporting company Emerging growth company

Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of July 25, 2017 was 20,835,414.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value and share data)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$2.7	\$ 3.4
Contracts-in-transit	124.9	182.6
Accounts receivable, net	112.5	138.4
Inventories	930.4	894.9
Assets held for sale	18.3	16.1
Other current assets	129.2	97.0
Total current assets	1,318.0	1,332.4
PROPERTY AND EQUIPMENT, net	822.3	815.4
GOODWILL	160.8	128.1
INTANGIBLE FRANCHISE RIGHTS	54.7	48.5
OTHER LONG-TERM ASSETS	11.2	11.7
Total assets	\$2,367.0	\$ 2,336.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable—trade, net	\$129.4	\$ 108.3
Floor plan notes payable—non-trade, net	691.3	673.5
Current maturities of long-term debt	14.2	14.0
Accounts payable and accrued liabilities	268.3	309.1
Total current liabilities	1,103.2	1,104.9
LONG-TERM DEBT	905.2	912.7
DEFERRED INCOME TAXES	9.0	8.9
OTHER LONG-TERM LIABILITIES	31.5	29.9
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.01 par value; 90,000,000 shares authorized; 40,963,167 and 40,750,765 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	556.4	549.4
Retained earnings	677.1	611.5
Treasury stock, at cost; 20,062,381 and 19,497,596 shares, respectively	(913.8)	(879.5)
Accumulated other comprehensive loss	(2.0)	(2.1)
Total shareholders' equity	318.1	279.7
Total liabilities and shareholders' equity	\$2,367.0	\$ 2,336.1

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
REVENUE:				
New vehicle	\$882.9	\$897.0	\$1,715.4	\$1,735.4
Used vehicle	479.2	470.2	941.0	931.1
Parts and service	200.8	195.3	392.3	384.5
Finance and insurance, net	68.9	64.9	134.8	127.2
TOTAL REVENUE	1,631.8	1,627.4	3,183.5	3,178.2
COST OF SALES:				
New vehicle	841.9	849.5	1,634.0	1,643.2
Used vehicle	446.5	436.0	874.4	861.1
Parts and service	76.3	74.3	147.9	145.5
TOTAL COST OF SALES	1,364.7	1,359.8	2,656.3	2,649.8
GROSS PROFIT	267.1	267.6	527.2	528.4
OPERATING EXPENSES (INCOME):				
Selling, general, and administrative	185.6	182.3	366.7	363.5
Depreciation and amortization	8.0	7.7	15.9	15.2
Other operating expenses (income), net	1.9	(0.5)	0.7	2.7
INCOME FROM OPERATIONS	71.6	78.1	143.9	147.0
OTHER EXPENSES:				
Floor plan interest expense	6.1	5.0	11.3	9.4
Other interest expense, net	13.4	13.4	26.8	26.8
Swap interest expense	0.6	0.8	1.2	1.6
Total other expenses, net	20.1	19.2	39.3	37.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	51.5	58.9	104.6	109.2
Income tax expense	19.6	22.3	38.7	41.5
INCOME FROM CONTINUING OPERATIONS	31.9	36.6	65.9	67.7
Discontinued operations, net of tax	—	0.1	—	—
NET INCOME	\$31.9	\$36.7	\$65.9	\$67.7
EARNINGS PER COMMON SHARE:				
Basic—				
Continuing operations	\$1.53	\$1.66	\$3.15	\$2.92
Discontinued operations	—	—	—	—
Net income	\$1.53	\$1.66	\$3.15	\$2.92
Diluted—				
Continuing operations	\$1.52	\$1.65	\$3.12	\$2.91
Discontinued operations	—	—	—	—
Net income	\$1.52	\$1.65	\$3.12	\$2.91
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	20.8	22.1	20.9	23.2
Restricted stock	0.1	0.0	0.1	0.0
Performance share units	0.1	0.1	0.1	0.1
Diluted	21.0	22.2	21.1	23.3

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
Net income	\$31.9	\$36.7	\$65.9	\$67.7
Other comprehensive income (loss):				
Change in fair value of cash flow swaps	(0.5)	(1.7)	0.2	(5.8)
Income tax benefit (expense) associated with cash flow swaps	0.2	0.7	(0.1)	2.3
Comprehensive income	\$31.6	\$35.7	\$66.0	\$64.2

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions)
 (Unaudited)

	For the Six Months Ended June 30,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$65.9	\$ 67.7
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	15.9	15.2
Stock-based compensation	6.4	6.1
Deferred income taxes	0.2	2.4
Impairment expenses	—	1.5
Loaner vehicle amortization	11.3	10.3
Other adjustments, net	1.9	3.1
Changes in operating assets and liabilities, net of acquisitions and divestitures—		
Contracts-in-transit	57.7	41.0
Accounts receivable	26.3	10.1
Inventories	59.3	(17.2)
Other current assets	(108.3)	(73.9)
Floor plan notes payable—trade, net	21.1	17.5
Accounts payable and accrued liabilities	(40.1)	(14.6)
Other long-term assets and liabilities, net	0.7	0.6
Net cash provided by operating activities	118.3	69.8
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures—excluding real estate	(11.5)	(28.7)
Capital expenditures—real estate	(0.3)	(10.6)
Purchases of previously leased real estate	—	(12.5)
Acquisitions	(80.1)	—
Net cash used in investing activities	(91.9)	(51.8)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings—non-trade	1,991.4	1,942.5
Floor plan borrowings—acquisitions	25.1	—
Floor plan repayments—non-trade	(2,001.7)	(1,788.6)
Repayments of borrowings	(7.6)	(7.2)
Payment of debt issuance costs	—	(0.3)
Repurchases of common stock, including shares associated with net share settlement of employee share-based awards	(34.3)	(165.4)
Net cash used in financing activities	(27.1)	(19.0)
Net decrease in cash and cash equivalents	(0.7)	(1.0)
CASH AND CASH EQUIVALENTS, beginning of period	3.4	2.8
CASH AND CASH EQUIVALENTS, end of period	\$2.7	\$ 1.8

See Note 10 "Supplemental Cash Flow Information" for further details
See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS

We are one of the largest automotive retailers in the United States, operating 96 new vehicle franchises (80 dealership locations) in 17 metropolitan markets within nine states as of June 30, 2017. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, which includes repair and maintenance services, replacement parts, and collision repair services; and finance and insurance products. As of June 30, 2017, we offered 29 brands of new vehicles and our new vehicle revenue brand mix consisted of 46% imports, 33% luxury, and 21% domestic brands. We also operated 24 collision repair centers that serve customers in our local markets.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

• Coggin dealerships operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;

• Courtesy dealerships operating in Tampa, Florida;

• Crown dealerships operating in North Carolina, South Carolina and Virginia;

• Gray-Daniels dealerships operating in the Jackson, Mississippi area;

• Hare dealerships operating in the Indianapolis, Indiana area;

• McDavid dealerships operating in metropolitan Austin, Dallas and Houston, Texas;

• Nalley dealerships operating in metropolitan Atlanta, Georgia; and

• Plaza dealerships operating in metropolitan St. Louis, Missouri.

In addition, as of June 30, 2017 we owned and operated two stand-alone used vehicle stores in Florida.

Our operating results are generally subject to changes in the economic environment as well as seasonal variations. Historically, we have generated more revenue and operating income in the second, third, and fourth quarters than in the first quarter of the calendar year. Generally, the seasonal variations in our operations are caused by factors related to weather conditions, changes in manufacturer incentive programs, model changeovers and consumer buying patterns, among other things.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and reflect the consolidated accounts of Asbury Automotive Group, Inc. and our wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

In the opinion of management, all adjustments, consisting only of normal, recurring adjustments, considered necessary for a fair presentation of the Condensed Consolidated Financial Statements as of June 30, 2017, and for the three and six months ended June 30, 2017 and 2016, have been included. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for any other interim period, or any full year period. Our Condensed Consolidated Financial Statements should be read together with our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly and the effects of any revisions are reflected in the consolidated financial statements in the period they are

determined to be necessary. Significant estimates made in the accompanying Condensed Consolidated Financial Statements include, but are not limited to, those relating to inventory valuation reserves, reserves for chargebacks against revenue recognized from the sale of finance and insurance products,

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reserves for insurance programs, certain assumptions related to intangible and long-lived assets, and reserves for certain legal or similar proceedings relating to our business operations.

Contracts-In-Transit

Contracts-in-transit represent receivables from third-party finance companies for the portion of new and used vehicle purchase price financed by customers through sources arranged by us.

Revenue Recognition

Revenue from the sale of new and used vehicles (which excludes sales tax) is recognized upon the latest of delivery, signing of the sales contract or approval of financing. Revenue from the sale of parts, service and collision repair work (which excludes sales tax) is recognized upon delivery of parts to the customer or at the time vehicle service or repair work is completed, as applicable. Manufacturer incentives and rebates, including manufacturer holdbacks, floor plan interest assistance and certain advertising assistance, are recognized as a reduction of new vehicle cost of sales at the time the related vehicles are sold, in the accompanying Condensed Consolidated Statements of Income.

We receive commissions from third-party lending and insurance institutions for arranging customer financing and from the sale of vehicle service contracts, guaranteed auto protection (known as "GAP") insurance, and other insurance, to customers (collectively "F&I"). We may be charged back for F&I commissions in the event a contract is prepaid, defaulted upon, or terminated ("chargebacks"). F&I commissions are recorded at the time a vehicle is sold, and a reserve for future chargebacks is established based on historical chargeback experience and the termination provisions of the applicable contract. F&I commissions, net of estimated future chargebacks, are included in Finance and Insurance, net in the accompanying Condensed Consolidated Statements of Income. Additionally, we participate in future profits associated with the performance of the third-party held underlying portfolio for certain products, pursuant to retrospective commission arrangements. Our retrospective portfolio income is recorded as revenue at the time it is received from our third-party providers.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average common shares and common share equivalents outstanding during the period. For all periods presented, there were no adjustments to the numerator necessary to compute diluted earnings per share.

Assets Held for Sale and Liabilities Associated with Assets Held for Sale

Certain amounts have been classified as Assets Held for Sale in the accompanying Condensed Consolidated Balance Sheets. Assets and liabilities classified as held for sale include assets and liabilities associated with pending dealership disposals, real estate not currently used in our operations that we are actively marketing to sell, and any related mortgage notes payable, if applicable. Classification as held for sale begins on the date that we have met all of the criteria for classification as held for sale.

At the time of classifying assets as held for sale, we compare the carrying value of these assets to estimates of fair value to assess for impairment. We compare the carrying value to estimates of fair value utilizing the assistance of third-party broker opinions of value and third-party desktop appraisals to assist in our fair value estimates related to real estate properties.

Statements of Cash Flows

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade") and all floor plan notes payable relating to pre-owned vehicles (together referred to as "Floor Plan Notes Payable—Non-Trade"), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as "Floor Plan Notes Payable—Trade") is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions and repayments made in connection with all divestitures are classified as financing activities in the accompanying Condensed Consolidated Statement of Cash Flows. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are

payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory.

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Loaner vehicles account for a significant portion of Other Current Assets. We acquire loaner vehicles either with available cash or through borrowing from either our manufacturer affiliated lenders or through our senior secured credit agreement with Bank of America, as administrative agent, and the other agents and lenders party thereto (the "2016 Senior Credit Facility"). Loaner vehicles are initially used by our service department for a short period of time (typically six to twelve months) before we seek to sell them. Therefore, we classify the acquisition of loaner vehicles in Other Current Assets and the borrowings and repayments of loaner vehicle notes payable in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. Loaner vehicles are depreciated over the service period to their estimated value. At the end of the loaner service period, loaner vehicles are transferred from Other Current Assets to used vehicle inventory. These transfers are reflected as non-cash transfers between Other Current Assets and Inventories in the accompanying Condensed Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-09, Compensation—Stock Compensation (Topic 718), to simplify certain aspects of the accounting for share-based payment transactions to employees. The new standard requires excess tax benefits and tax deficiencies to be recorded in the statements of income as a component of the provision for income taxes when stock awards vest or are settled. In addition, it eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statements of cash flows. The standard also provides an accounting policy election to account for forfeitures as they occur, allows us to withhold more of an employee's vesting shares for tax withholding purposes without triggering liability accounting, and clarifies that all cash payments made to tax authorities on an employee's behalf for withheld shares should be presented as a financing activity on our statements of cash flows.

We adopted the new standard January 1, 2017, upon which excess tax benefits or deficiencies from share-based award activity were reflected in the Condensed Consolidated Statements of Income as a component of the provision for income taxes, whereas they previously were recognized in equity. We also elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The adoption of ASU 2016-09 resulted in a cumulative-effect adjustment of \$0.5 million (pre-tax) to reduce retained earnings and increase additional paid-in capital as of January 1, 2017, related to our election to account for forfeitures as they occur.

We adopted the aspects of the standard affecting the cash flow presentation retrospectively, and accordingly, to conform to the current year presentation, we reclassified \$0.2 million of excess tax benefits under financing activities to operating activities for the six months ended June 30, 2017 in our Condensed Consolidated Statements of Cash Flows. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact on any of the periods presented on our consolidated statements of cash flows since such cash flows have historically been presented as a financing activity.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, changing the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value. We adopted this standard, beginning January 1, 2017, and its adoption did not have an impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), a new standard on revenue recognition. Further, the FASB has issued a number of additional ASUs regarding the new revenue recognition standard. The new standard, as amended, will supersede existing revenue recognition guidance and apply to all entities that enter into contracts to provide goods or services to customers. The guidance also addresses the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as real estate, property, and equipment. The new standard will become effective for annual reporting periods beginning on or after December 15, 2017 and interim periods within that year. The standard can be adopted either retrospectively to each reporting period presented or as a cumulative-effect adjustment as of the date of adoption. We have performed a preliminary evaluation of this standard and plan to adopt it effective January 1, 2018. We anticipate using the

modified retrospective approach with the cumulative-effect of initially adopting the standard recognized on the date of adoption. We cannot currently estimate the impact of the change upon adoption of this standard and will continue to review the impact of this standard on potential disclosure changes in our financial statements. Our evaluation of this standard will continue through the date of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), a new standard on lease accounting. The new standard will supersede the existing lease accounting guidance and apply to all entities. The guidance defines new principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. The new standard will become effective for annual reporting periods beginning on or after December 15, 2018 and for interim periods within that year. A modified retrospective approach is required and early adoption of this standard is permitted. While we are still evaluating the

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impact of this standard, we expect that the right-of-use assets and the associated lease liabilities will be material to our financial statements. We plan to adopt this standard effective January 1, 2019.

3. ACQUISITIONS

Results of acquired dealerships are included in our accompanying Condensed Consolidated Statements of Income commencing on the date of acquisition. Our acquisitions are accounted for such that the assets acquired and liabilities assumed are recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Goodwill is an asset representing operational synergies and future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The fair value of our manufacturer franchise rights are determined at the acquisition date, by discounting the projected cash flows specific to each franchise. Included in this analysis are market participant assumptions, at a dealership level, regarding the cash flows directly attributable to the franchise rights, revenue growth rates, future gross margins and future selling, general, and administrative expenses. Using an estimated weighted average cost of capital, estimated residual values at the end of the forecast period and estimated future capital expenditure requirements, the Company calculates the fair value of the franchise rights. During the six months ended June 30, 2017, we acquired the assets of two franchises (two dealership locations) and one collision center in the Indianapolis, Indiana market for a purchase price of \$80.1 million. We financed these acquisitions with \$55.0 million of cash and \$25.1 million of floor plan borrowings for the purchase of the related new vehicle inventory.

Below is the preliminary allocation of purchase price for the acquisitions completed during the six months ended June 30, 2017. We have not finished our final assessments of third party real estate appraisals and our internal valuation

of manufacturer franchise rights and the assignment of goodwill to reporting units. The \$38.9 million of goodwill and manufacturer rights associated with our acquisitions will be deductible for federal and state income tax purposes ratably over a 15 year period.

	As of June 30, 2017 (In millions)
Inventory	\$ 25.9
Real estate	12.2
Property and equipment	1.4
Goodwill	32.7
Manufacturer franchise rights	6.2
Loaner and rental vehicles	3.2
Liabilities assumed	(1.5)
Total purchase price	\$ 80.1

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4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	As of	
	June 30, 2017	December 31, 2016
	(In millions)	
Vehicle receivables	\$39.8	\$ 53.2
Manufacturer receivables	40.5	45.5
Other receivables	33.7	41.6
Total accounts receivable	114.0	140.3
Less—Allowance for doubtful accounts	(1.5)	(1.9)
Accounts receivable, net	\$112.5	\$ 138.4

5. INVENTORIES

Inventories consisted of the following:

	As of	
	June 30, 2017	December 31, 2016
	(In millions)	
New vehicles	\$740.5	\$ 720.6
Used vehicles	147.1	132.7
Parts and accessories	42.8	41.6
Total inventories	\$930.4	\$ 894.9

The lower of cost and net realizable value reserves reduced total inventories by \$6.1 million and \$6.5 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, certain automobile manufacturer incentives reduced new vehicle inventory cost by \$9.1 million and \$8.2 million, respectively, and reduced new vehicle cost of sales from continuing operations for the six months ended June 30, 2017 and 2016 by \$19.5 million and \$19.3 million, respectively.

6. ASSETS AND LIABILITIES HELD FOR SALE

During the six months ended June 30, 2017, we reclassified one vacant property with a net book value of \$2.0 million to Assets Held for Sale.

Assets held for sale, comprising real estate not currently used in our operations, totaled \$18.3 million and \$16.1 million as of June 30, 2017 and December 31, 2016, respectively, and there were no liabilities associated with these real estate assets held for sale as of June 30, 2017 or December 31, 2016.

During the six months ended June 30, 2016, we recorded \$1.5 million of impairment expense based on a third-party broker opinion of value. This impairment expense was recorded in Other Operating Expenses (Income), net in our accompanying Condensed Consolidated Statements of Income.

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7. FLOOR PLAN NOTES PAYABLE

Floor plan notes payable consisted of the following:

	As of	
	June 30, 2017	December 31, 2016
	(In millions)	
Floor plan notes payable—trade	\$ 143.1	\$ 120.0
Floor plan notes payable offset account	(13.7)	(11.7)
Total floor plan notes payable—trade, net	\$ 129.4	\$ 108.3
Floor plan notes payable—non-trade	\$ 691.3	\$ 732.7
Floor plan notes payable offset account	—	(59.2)
Total floor plan notes payable—non-trade, net	\$ 691.3	\$ 673.5

We have established a floor plan offset account with Ford Motor Credit Company which allows us to transfer cash to the account as an offset of our outstanding Floor Plan Notes Payable—Trade, net. Additionally, we have a similar floor plan offset account with Bank of America which allows us to offset our outstanding Floor Plan Notes Payable—Non-Trade, net. These accounts allow us to transfer cash to reduce the amount of outstanding floor plan notes payable that would otherwise accrue interest, while retaining the ability to transfer amounts from the floor plan offset accounts into our operating cash accounts within one to two days. As of June 30, 2017 and December 31, 2016 we had \$13.7 million and \$70.9 million, respectively, in these floor plan offset accounts.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

	As of	
	June 30, 2017	December 31, 2016
	(In millions)	
6.0% Senior Subordinated Notes due 2024	\$ 600.0	\$ 600.0
Mortgage notes payable bearing interest at fixed rates	179.4	182.8
Real estate credit agreement	49.9	51.5
Restated master loan agreement	91.1	93.6
Capital lease obligations	3.3	3.4
Total debt outstanding	923.7	931.3
Add—unamortized premium on 6.0% Senior Subordinated Notes due 2024	47.2	7.6
Less—debt issuance costs	(11.5)	(12.2)
Long-term debt, including current portion	919.4	926.7
Less—current portion, net of current portion of debt issuance costs	(14.2)	(14.0)
Long-term debt	\$ 905.2	\$ 912.7

We are a holding company with no independent assets or operations. For all relevant periods presented, our 6.0% Senior Subordinated Notes due 2024 (our "6.0% Notes") have been fully and unconditionally guaranteed, on a joint and several basis, by substantially all of our subsidiaries. Any subsidiaries which have not guaranteed such notes are "minor" (as defined in Rule 3-10(h) of Regulation S-X). As of June 30, 2017, there were no significant restrictions on the ability of our subsidiaries to distribute cash to us or our guarantor subsidiaries.

9. FINANCIAL INSTRUMENTS AND FAIR VALUE

In determining fair value, we use various valuation approaches, including market and income approaches. Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on

market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the assumptions market

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participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:
Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include interest rate swap instruments, exchange-traded debt securities that are not actively traded or do not have a high trading volume, mortgage notes payable, and certain real estate properties on a non-recurring basis.

Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating the fair value of certain non-financial assets and non-financial liabilities in purchase acquisitions and those used in the assessment of impairment for manufacturer franchise rights.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based exit price measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use inputs that are current as of the measurement date, including during periods of significant market fluctuations.

Financial instruments consist primarily of cash and cash equivalents, contracts-in-transit, accounts receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, subordinated long-term debt, mortgage notes payable, and interest rate swap instruments. The carrying values of our financial instruments, with the exception of subordinated long-term debt and mortgage notes payable, approximate fair value due to (i) their short-term nature, (ii) recently completed market transactions, or (iii) existence of variable interest rates, which approximate market rates. The fair value of our subordinated long-term debt is based on reported market prices in an inactive market which reflects Level 2 inputs. We estimate the fair value of our mortgage notes payable using a present value technique based on current market interest rates for similar types of financial instruments which reflect Level 2 inputs.

A summary of the carrying values and fair values of our 6.0% Notes and our mortgage notes payable is as follows:

	As of	
	June 30, December 31,	
	2017	2016
	(In millions)	
Carrying Value:		
6.0% Senior Subordinated Notes due 2024	\$607.2	\$ 607.6
Mortgage notes payable	320.4	327.9
Total carrying value	\$927.6	\$ 935.5
Fair Value:		
6.0% Senior Subordinated Notes due 2024	\$607.5	\$ 613.5
Mortgage notes payable	324.3	339.5
Total fair value	\$931.8	\$ 953.0

Interest Rate Swap Agreements

In June 2015, we entered into an interest rate swap agreement with a notional principal amount of \$100.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in February 2025. The notional value of this swap was \$93.0 million as of June 30, 2017 and is reducing over its remaining term to \$53.1 million at maturity.

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In November 2013, we entered into an interest rate swap agreement with a notional principal amount of \$75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in September 2023. The notional value of this swap as of June 30, 2017 was \$62.1 million and the notional value will reduce over its remaining term to \$38.7 million at maturity.

The fair value of cash flow swaps is calculated as the present value of expected future cash flows, determined on the basis of forward interest rates and present value factors. Fair value estimates reflect a credit adjustment to the discount rate applied to all expected cash flows under the swaps. Other than this input, all other inputs used in the valuation of these swaps are designated to be Level 2 fair values. The fair value liabilities related to the swaps as of June 30, 2017 and December 31, 2016, were \$3.4 million and \$3.6 million, respectively. The following table provides information regarding the fair value of our interest rate swap agreements and the impact on the Condensed Consolidated Balance Sheets:

	As of	
	June	December
	30,	31, 2016
	2017	
	(In millions)	
Accounts payable and accrued liabilities	\$ 1.5	\$ 2.2
Other long-term liabilities	1.9	1.4
Total fair value	\$ 3.4	\$ 3.6

Both of our interest rate swaps qualify for cash flow hedge accounting treatment. During the three months and six months ended June 30, 2017 and 2016, neither of our cash flow swaps contained any ineffectiveness, nor was any ineffectiveness recognized in earnings. Information about the effect of our interest rate swap agreements on the accompanying Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income, are as follows (in millions):

	Results Recognized in Accumulated Other Comprehensive Loss (Effective Portion)	Location of Results Reclassified from Accumulated Other Comprehensive Loss to Earnings	Results Reclassified from Accumulated Other Comprehensive Loss to Earnings Amount Reclassified from Accumulated Other Comprehensive Loss to Earnings—Active Swaps
For the Three Months Ended June 30,			
2017	\$ (1.1)	Swap interest expense	\$ (0.6)
2016	\$ (2.5)	Swap interest expense	\$ (0.8)
For the Six Months Ended June 30,			
2017	\$ (1.0)	Swap interest expense	\$ (1.2)
2016	\$ (7.4)	Swap interest expense	\$ (1.6)

On the basis of yield curve conditions as of June 30, 2017 and including assumptions about future changes in fair value, we expect the amount to be reclassified out of Accumulated Other Comprehensive Loss into earnings within the next 12 months will be losses of \$1.5 million.

10. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2017 and 2016, we made interest payments, including amounts capitalized, totaling \$37.9 million and \$36.7 million, respectively. Included in these interest payments are \$11.1 million and \$9.2 million, of floor plan interest payments during the six months ended June 30, 2017 and 2016, respectively.

During the six months ended June 30, 2017 and 2016, we made income tax payments, net of refunds received, totaling \$70.7 million and \$46.5 million, respectively.

During the six months ended June 30, 2017 and 2016, we transferred \$68.6 million and \$54.9 million, respectively, of loaner vehicles from Other Current Assets to Inventories on our Condensed Consolidated Balance Sheets.

11. COMMITMENTS AND CONTINGENCIES

Our dealerships are party to dealer and framework agreements with applicable vehicle manufacturers. In accordance with these agreements, each dealership has certain rights and is subject to restrictions typical in the industry. The ability of these

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manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a materially negative impact on our operating results.

In some instances, manufacturers may have the right, and may direct us, to implement costly capital improvements to dealerships as a condition to entering into, renewing, or extending franchise agreements with them. Manufacturers also typically require that their franchises meet specific standards of appearance. These factors, either alone or in combination, could cause us to use our financial resources on capital projects that we might not have planned for or otherwise determined to undertake.

From time to time, we and our dealerships are or may become involved in various claims relating to, and arising out of, our business and our operations. These claims may involve, but not be limited to, financial and other audits by vehicle manufacturers or lenders and certain federal, state, and local government authorities, which have historically related primarily to (i) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (ii) compliance with lender rules and covenants, and (iii) payments made to government authorities relating to federal, state, and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings, and other dispute resolution processes. Such claims, including class actions, could relate to, but may not be limited to, the practice of charging administrative fees and other fees and commissions, employment-related matters, truth-in-lending and other dealer assisted financing obligations, contractual disputes, actions brought by governmental authorities, and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

We believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable. Based on our review of the various types of claims currently known to us, there is no indication of material reasonably possible losses in excess of amounts accrued in the aggregate. We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity, or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity, or results of operations.

A significant portion of our business involves the sale of vehicles, parts, or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks of importing merchandise, including fluctuations in the relative values of currencies, import duties, exchange controls, trade restrictions, work stoppages, and general political and socio-economic conditions in foreign countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs, or other restrictions; or adjust presently prevailing quotas, duties, or tariffs, which may affect our operations, and our ability to purchase imported vehicles and/or parts at reasonable prices.

Substantially all of our facilities are subject to federal, state and local provisions regarding the discharge of materials into the environment. Compliance with these provisions has not had, nor do we expect such compliance to have, any material effect upon our capital expenditures, net earnings, financial condition, liquidity or competitive position. We believe that our current practices and procedures for the control and disposition of such materials comply with applicable federal, state, and local requirements. No assurances can be provided, however, that future laws or regulations, or changes in existing laws or regulations, would not require us to expend significant resources in order to comply therewith.

We had \$13.3 million of letters of credit outstanding as of June 30, 2017, which are required by certain of our insurance providers. In addition, as of June 30, 2017, we maintained a \$5.0 million surety bond line in the ordinary course of our business. Our letters of credit and surety bond line are considered to be off balance sheet arrangements. Our other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

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

Forward-Looking Information

Certain of the discussions and information included or incorporated by reference in this report may constitute "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are

statements that are not historical in nature and may include statements relating to our goals, plans and projections regarding industry and general economic trends, our expected financial position, results of operations or market position and our business strategy. Such statements can generally be identified by words such as "may," "target," "could," "would," "will," "should," "believe," "expect," "anticipate," "plan," "intend," "foresee," and other similar words or phrases. Forward-looking statements may also relate to our expectations and assumptions with respect to, among other things:

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our ability to execute our business strategy;
the annual rate of new vehicle sales in the U.S.;
our ability to further improve our operating cash flows, and the availability of capital and liquidity;
our estimated future capital expenditures;
general economic conditions and its impact on our revenues and expenses;
our parts and service revenue due to, among other things, improvements in manufacturing quality;
the variable nature of significant components of our cost structure;
our ability to limit our exposure to regional economic downturns due to our geographic diversity and brand mix;
manufacturers' willingness to continue to use incentive programs to drive demand for their product offerings;
our ability to leverage our common systems, infrastructure and processes in a cost-efficient manner;
our capital allocation strategy, including as it relates to acquisitions and divestitures, stock repurchases, dividends and capital expenditures;
the continued availability of financing, including floor plan financing for inventory;
the ability of consumers to secure vehicle financing at favorable rates;
the growth of import and luxury brands over the long-term;
our ability to mitigate any future negative trends in new vehicle sales; and
our ability to increase our cash flow and net income as a result of the foregoing and other factors.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to:

changes in general economic and business conditions, including changes in employment levels, consumer demand, preferences and confidence levels, the availability and cost of credit, fuel prices, levels of discretionary personal income and interest rates;
our ability to execute our balanced automotive retailing and service business strategy;
adverse conditions affecting the vehicle manufacturers whose brands we sell, and their ability to design, manufacture, deliver, and market their vehicles successfully;
changes in the mix, and total number, of vehicles we are able to sell;
our outstanding indebtedness and our continued ability to comply with applicable covenants in our various financing and lease agreements, or to obtain waivers of these covenants as necessary;
high levels of competition in our industry, which may create pricing and margin pressures on our products and services;
our relationships with manufacturers of the vehicles we sell and our ability to renew, and enter into new framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;
the availability of manufacturer incentive programs and our ability to earn these incentives;
failure of our management information systems or any security breaches;
changes in laws and regulations governing the operation of automobile franchises, including trade restrictions, consumer protections, accounting standards, taxation requirements, and environmental laws;
adverse results from litigation or other similar proceedings involving us;

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our ability to generate sufficient cash flows, maintain our liquidity and obtain any necessary additional funds for working capital, capital expenditures, acquisitions, stock repurchases and/or dividends, debt maturity payments, and other corporate purposes;

- any disruptions in the financial markets, which may impact our ability to access capital;
- our relationships with, and the financial stability of, our lenders and lessors;
- significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages, import restrictions or limitations, significant property loss or other occurrences that are outside of our control;
- our ability to execute our initiatives and other strategies; and
- our ability to leverage gains from our dealership portfolio.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we expressly disclaim any obligation to update any forward-looking statement contained herein.

OVERVIEW

We are one of the largest automotive retailers in the United States. As of June 30, 2017 we owned and operated 96 new vehicle franchises (80 dealership locations), representing 29 brands of automobiles and 24 collision centers in 17 metropolitan markets within nine states. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, which includes repair and maintenance services, replacement parts, and collision repair services; and finance and insurance products. As of June 30, 2017, our new vehicle revenue brand mix consisted of 46% imports, 33% luxury, and 21% domestic brands.

Our retail network is made up of dealerships operating primarily under the following locally-branded dealership groups:

- Coggin dealerships operating primarily in Jacksonville, Fort Pierce and Orlando, Florida;
- Courtesy dealerships operating in Tampa, Florida;
- Crown dealerships operating in North Carolina, South Carolina and Virginia;
- Gray-Daniels dealerships operating in the Jackson, Mississippi area;
- Hare dealerships operating in the Indianapolis, Indiana area;
- McDavid dealerships operating in metropolitan Austin, Dallas and Houston, Texas;
- Nalley dealerships operating in metropolitan Atlanta, Georgia; and
- Plaza dealerships operating in metropolitan St. Louis, Missouri.

In addition, as of June 30, 2017 we owned and operated 2 stand-alone used vehicle stores in Florida.

Our revenues are derived primarily from: (i) the sale of new vehicles; (ii) the sale of used vehicles to individual retail customers ("used retail") and to other dealers at auction ("wholesale") (the terms "used retail" and "wholesale" collectively referred to as "used"); (iii) repair and maintenance services, including collision repair, the sale of automotive replacement parts, and the reconditioning of used vehicles (collectively referred to as "parts and service"); and (iv) the arrangement of third-party vehicle financing and the sale of a number of vehicle protection products (defined below and collectively referred to as "F&I"). We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and our F&I business based on F&I gross profit per vehicle sold.

We assess the organic growth of our revenue and gross profit on a same store basis. We believe that our assessment on a same store basis represents an important indicator of comparative financial performance. Same store amounts consist of information from dealerships for identical months in each comparative period, commencing with the first full month we owned the dealership. Additionally, amounts related to divested dealerships are excluded from each comparative period.

Our continued organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix, and the production and allocation of desirable vehicles from the automobile

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manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices, and employment levels. Additionally, our ability to sell certain new and used vehicles can be negatively impacted by a number of factors, some of which are outside of our control and may include manufacturer imposed stop-sales or open safety recalls, primarily due to, but not limited to, vehicle safety concerns or a vehicle's failure to meet environmental related requirements. We believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure, and (iii) our diversified brand mix. The seasonally adjusted annual rate ("SAAR") of new vehicle sales in the U.S. during the three months ended June 30, 2017 was 16.7 million compared to 17.1 million during the three months ended June 30, 2016. The automotive retail business continues to benefit from the availability of credit to consumers and relatively low overall unemployment levels, fuel prices, and interest rates. Demand for new vehicles is generally highest during the second, third, and fourth quarters of each year and, accordingly, we expect our revenues and operating results to generally be higher during these periods. Revenues and operating results may be impacted significantly from quarter-to-quarter by changing economic conditions, vehicle manufacturer incentive programs, or adverse weather events.

Our gross profit margin varies with our revenue mix. Sales of new vehicles generally result in lower gross profit margin than used vehicle sales, sales of parts and service, and sales of F&I products. As a result, when used vehicle, parts and service, and F&I revenue increase as a percentage of total revenue, we expect our overall gross profit margin to increase.

Selling, general, and administrative ("SG&A") expenses consist primarily of fixed and incentive-based compensation, advertising, rent, insurance, utilities, and other customary operating expenses. A significant portion of our cost structure is variable (such as sales commissions), or controllable (such as advertising), which we believe allows us to adapt to changes in the retail environment over the long-term. We evaluate commissions paid to salespeople as a percentage of retail vehicle gross profit, advertising expense on a per vehicle retailed ("PVR") basis, and all other SG&A expenses in the aggregate as a percentage of total gross profit.

We had total available liquidity of \$355.4 million as of June 30, 2017, which consisted of cash and cash equivalents of \$2.7 million, \$13.7 million of funds in our floor plan offset accounts, \$190.0 million of availability under our new vehicle floorplan facility that is able to be re-designated to our revolving credit facility, \$46.7 million of availability under our revolving credit facility, and \$102.3 million of availability under our used vehicle revolving floor plan facility. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

	For the Three Months Ended		Increase	%
	June 30, 2017	June 30, 2016	(Decrease)	Change
(Dollars in millions, except per share data)				
REVENUE:				
New vehicle	\$882.9	\$897.0	\$ (14.1)	(2)%
Used vehicle	479.2	470.2	9.0	2 %
Parts and service	200.8	195.3	5.5	3 %
Finance and insurance, net	68.9	64.9	4.0	6 %
TOTAL REVENUE	1,631.8	1,627.4	4.4	— %
GROSS PROFIT:				
New vehicle	41.0	47.5	(6.5)	(14)%
Used vehicle	32.7	34.2	(1.5)	(4)%
Parts and service	124.5	121.0	3.5	3 %
Finance and insurance, net	68.9	64.9	4.0	6 %
TOTAL GROSS PROFIT	267.1	267.6	(0.5)	— %
OPERATING EXPENSES (INCOME):				
Selling, general, and administrative	185.6	182.3	3.3	2 %
Depreciation and amortization	8.0	7.7	0.3	4 %
Other operating expenses (income), net	1.9	(0.5)	2.4	NM
INCOME FROM OPERATIONS	71.6	78.1	(6.5)	(8)%
OTHER EXPENSES:				
Floor plan interest expense	6.1	5.0	1.1	22 %
Other interest expense, net	13.4	13.4	—	— %
Swap interest expense	0.6	0.8	(0.2)	(25)%
Total other expenses, net	20.1	19.2	0.9	5 %
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	51.5	58.9	(7.4)	(13)%
Income tax expense	19.6	22.3	(2.7)	(12)%
INCOME FROM CONTINUING OPERATIONS	31.9	36.6	(4.7)	(13)%
Discontinued operations, net of tax	—	0.1	(0.1)	(100)%
NET INCOME	\$31.9	\$36.7	\$ (4.8)	(13)%
Income from continuing operations per common share—Diluted	\$1.52	\$1.65	\$ (0.13)	(8)%
Net income per common share—Diluted	\$1.52	\$1.65	\$ (0.13)	(8)%

 NM—Not Meaningful

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For the Three
Months Ended
June 30,
2017 2016

REVENUE MIX PERCENTAGES:

New vehicle	54.1	%	55.1	%
Used vehicle retail	26.4	%	25.7	%
Used vehicle wholesale	3.0	%	3.2	%
Parts and service	12.3	%	12.0	%
Finance and insurance, net	4.2	%	4.0	%
Total revenue	100.0	%	100.0	%

GROSS PROFIT MIX PERCENTAGES:

New vehicle	15.4	%	17.8	%
Used vehicle retail	12.1	%	12.9	%
Used vehicle wholesale	0.1	%	(0.2))%
Parts and service	46.6	%	45.2	%
Finance and insurance, net	25.8	%	24.3	%
Total gross profit	100.0	%	100.0	%

GROSS PROFIT MARGIN

SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	69.5	%	68.1	%
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Total revenue during the second quarter of 2017 increased by \$4.4 million compared to the second quarter of 2016, due to a \$9.0 million (2%) increase in used vehicle revenue, a \$5.5 million (3%) increase in parts and service revenue and a \$4.0 million (6%) increase in F&I, partially offset by a \$14.1 million (2%) in decrease in new vehicle revenue. During the three months ended June 30, 2017, gross profit decreased by \$0.5 million driven by a \$6.5 million (14%) decrease in new vehicle gross profit, a \$1.5 million (4%) decrease in used vehicle gross profit, partially offset by a \$4.0 million (6%) increase in F&I gross profit and a \$3.5 million (3%) increase in parts and service gross profit. Income from operations during the second quarter of 2017 decreased by \$6.5 million (8%) compared to the second quarter of 2016, primarily due to the \$0.5 million decrease in gross profit, a \$3.3 million (2%) increase in SG&A expense, and a \$2.4 million increase in other operating expenses (income), net. Total other expenses, net increased by \$0.9 million (5%), primarily due to a \$1.1 million (22%) increase in floor plan interest expense, partially offset by a \$0.2 million (25%) decrease in other interest expense, net during the second quarter of 2017. As a result, income from continuing operations before income taxes decreased \$7.4 million (13%) which resulted in a \$2.7 million (12%) decrease in income tax expense. Net income decreased by \$4.8 million (13%) during the second quarter of 2017 as compared to the second quarter of 2016.

We assess the organic growth of our revenue and gross profit on a same store basis. We believe that our assessment on a same store basis represents an important indicator of comparative financial performance and provides relevant information to assess our performance. As such, for the following discussion, same store amounts consist of information from dealerships for identical months in each comparative period, commencing with the first full month we owned the dealership. Additionally, amounts related to divested dealerships are excluded from each comparative period.

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New Vehicle—

For the Three
Months Ended Increase %
June 30, (Decrease) Change
2017 2016
(Dollars in millions, except for per
vehicle data)

As Reported:

Revenue:

Luxury	\$291.1	\$300.9	\$ (9.8	) (3)%
Import	410.9	406.7	4.2	1 %
Domestic	180.9	189.4	(8.5	) (4)%
Total new vehicle revenue	\$882.9	\$897.0	\$ (14.1	) (2)%

Gross profit:

Luxury	\$18.2	\$20.9	\$ (2.7	) (13)%
Import	14.0	17.6	(3.6	) (20)%
Domestic	8.8	9.0	(0.2	) (2)%
Total new vehicle gross profit	\$41.0	\$47.5	\$ (6.5	) (14)%

New vehicle units:

Luxury	5,504	5,782	(278	) (5)%
Import	14,833	14,808	25	— %
Domestic	4,794	5,175	(381	) (7)%
Total new vehicle units	25,131	25,765	(634	) (2)%

Same Store:

Revenue:

Luxury	\$291.1	\$294.9	\$ (3.8	) (1)%
Import	402.7	388.2	14.5	4 %
Domestic	163.2	175.5	(12.3	) (7)%
Total new vehicle revenue	\$857.0	\$858.6	\$ (1.6) — %

Gross profit:

Luxury	\$18.2	\$20.4	\$ (2.2	) (11)%
Import	13.8	17.0	(3.2	) (19)%
Domestic	7.6	8.4	(0.8	) (10)%
Total new vehicle gross profit	\$39.6	\$45.8	\$ (6.2	) (14)%

New vehicle units

Luxury	5,504	5,672	(168	) (3)%
Import	14,572	14,166	406	3 %
Domestic	4,293	4,770	(477) (10)%
Total new vehicle units	24,369	24,608	(239) (1)%

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New Vehicle Metrics—

	For the Three Months Ended June 30,		Increase	%
	2017	2016	(Decrease)	Change
As Reported:				
Revenue per new vehicle sold	\$35,132	\$34,815	\$ 317	1 %
Gross profit per new vehicle sold	\$1,631	\$1,844	\$ (213)	(12)%
New vehicle gross margin	4.6 %	5.3 %	(0.7)%	
Luxury:				
Gross profit per new vehicle sold	\$3,307	\$3,615	\$ (308)	(9)%
New vehicle gross margin	6.3 %	6.9 %	(0.6)%	
Import:				
Gross profit per new vehicle sold	\$944	\$1,189	\$ (245)	(21)%
New vehicle gross margin	3.4 %	4.3 %	(0.9)%	
Domestic:				
Gross profit per new vehicle sold	\$1,836	\$1,739	\$ 97	6 %
New vehicle gross margin	4.9 %	4.8 %	0.1 %	

Same Store:

Revenue per new vehicle sold	\$35,168	\$34,891	\$ 277	1 %
Gross profit per new vehicle sold	\$1,625	\$1,861	\$ (236)	(13)%
New vehicle gross margin	4.6 %	5.3 %	(0.7)%	

Luxury:

Gross profit per new vehicle sold	\$3,307	\$3,597	\$ (290)	(8)%
New vehicle gross margin	6.3 %	6.9 %	(0.6)%	

Import:

Gross profit per new vehicle sold	\$947	\$1,200	\$ (253)	(21)%
New vehicle gross margin	3.4 %	4.4 %	(1.0)%	

Domestic:

Gross profit per new vehicle sold	\$1,770	\$1,761	\$ 9	1 %
New vehicle gross margin	4.7 %	4.8 %	(0.1)%	

New vehicle revenue decreased by \$14.1 million (2%) primarily as a result of a 2% decrease in new vehicle units sold, partially offset by a \$317 (1%) increase in revenue per new vehicle sold. Same store new vehicle revenue decreased by \$1.6 million primarily as a result of a 1% decrease in new vehicle units sold, partially offset by a \$277 (1%) increase in revenue per new vehicle sold.

U.S. new vehicle SAAR decreased by 2%, from 17.1 million for the three months ended June 30, 2016 to 16.7 million for the three months ended June 30, 2017. Same store unit volumes at our luxury and domestic brand dealerships were down 3% and 10%, respectively. Same store unit volumes for our import brand dealerships increased 3%.

Same store new vehicle gross profit decreased by \$6.2 million (14%), due to a 1% decrease in new vehicle unit volumes and a 13% decrease in gross profit per new vehicle sold. Same store new vehicle gross profit margin for the three months ended June 30, 2017 decreased by 70 basis points to 4.6%. The decrease in our same store gross profit margin was primarily attributable to a 3% decrease in unit volumes among our generally more profitable luxury brands, a 3% increase in unit volumes among our generally lower margin import brands, aggressive sales targets associated with certain manufacturers' incentive programs and increasing inventory levels across the industry.

We believe that our new vehicle inventory continues to be well-aligned with current consumer demand, with approximately 74 days of supply in our inventory as of June 30, 2017.

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Used Vehicle—

	For the Three Months Ended June 30,		Increase	%	
	2017	2016	(Decrease)	Change	
(Dollars in millions, except for per vehicle data)					
As Reported:					
Revenue:					
Used vehicle retail revenue	\$ 430.2	\$ 418.3	\$ 11.9	3	%
Used vehicle wholesale revenue	49.0	51.9	(2.9)	(6)	%
Used vehicle revenue	\$ 479.2	\$ 470.2	\$ 9.0	2	%
Gross profit:					
Used vehicle retail gross profit	\$ 32.5	\$ 34.8	\$ (2.3)	(7)	%
Used vehicle wholesale gross profit	0.2	(0.6)	0.8	133	%
Used vehicle gross profit	\$ 32.7	\$ 34.2	\$ (1.5)	(4)	%
Used vehicle retail units:					
Used vehicle retail units	20,263	19,612	651	3	%
Same Store:					
Revenue:					
Used vehicle retail revenue	\$ 416.4	\$ 396.4	\$ 20.0	5	%
Used vehicle wholesale revenue	47.4	49.7	(2.3)	(5)	%
Used vehicle revenue	\$ 463.8	\$ 446.1	\$ 17.7	4	%
Gross profit:					
Used vehicle retail gross profit	\$ 31.1	\$ 33.1	\$ (2.0)	(6)	%
Used vehicle wholesale gross profit	0.2	(0.8)	1.0	125	%
Used vehicle gross profit	\$ 31.3	\$ 32.3	\$ (1.0)	(3)	%
Used vehicle retail units:					
Used vehicle retail units	19,531	18,465	1,066	6	%

Used Vehicle Metrics—

	For the Three Months Ended June 30,		Increase	%	
	2017	2016	(Decrease)	Change	
As Reported:					
Revenue per used vehicle retailed	\$21,231	\$21,329	\$ (98)	—	%
Gross profit per used vehicle retailed	\$1,604	\$1,774	\$ (170)	(10)	%
Used vehicle retail gross margin	7.6	% 8.3	% (0.7)		%
Same Store:					
Revenue per used vehicle retailed	\$21,320	\$21,468	\$ (148)	(1)	%
Gross profit per used vehicle retailed	\$1,592	\$1,793	\$ (201)	(11)	%
Used vehicle retail gross margin	7.5	% 8.4	% (0.9)		%

Used vehicle revenue increased by \$9.0 million (2%) due to a 3% increase in used vehicle retail units sold. Same store used vehicle revenue increased by \$17.7 million (4%) due to a 6% increase in used vehicle retail units sold partially offset by a (1%) decrease in same store revenue per used vehicle retailed.

For the three months ended June 30, 2017 same store used vehicle retail gross margin decreased 90 basis points to 7.5% as a result of the 11% decrease in used vehicle gross profit per vehicle retailed and decrease of \$148 (1%) in

revenue per used vehicle retailed. We attribute the 90 basis point decrease in our same store used vehicle retail gross margins to an increased supply of off lease vehicles and margin pressure created by higher new vehicle incentives.

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We believe that our used vehicle inventory continues to be well-aligned with current customer demand, with approximately 35 days of supply in our inventory as of June 30, 2017.

Parts and Service—

	For the Three Months Ended June 30, 2017		2016		Increase (Decrease)	% Change
(Dollars in millions)						
As Reported:						
Parts and service revenue	\$200.8	\$195.3	\$5.5		3	%
Parts and service gross profit:						
Customer pay	69.4	68.2	1.2		2	%
Warranty	20.8	17.3	3.5		20	%
Wholesale parts	5.2	5.1	0.1		2	%
Parts and service gross profit, excluding reconditioning and preparation	\$95.4	\$90.6	\$4.8		5	%
Parts and service gross margin, excluding reconditioning and preparation	47.5 %	46.4 %	1.1 %		(4)	%
Reconditioning and preparation	\$29.1	\$30.4	\$(1.3)		(4)	%
Total parts and service gross profit	\$124.5	\$121.0	\$3.5		3	%
Total parts and service gross margin	62.0 %	62.0 %	—			%
Same Store:						
Parts and service revenue	\$197.1	\$185.6	\$11.5		6	%
Parts and service gross profit:						
Customer pay	67.9	65.1	2.8		4	%
Warranty	20.4	16.6	3.8		23	%
Wholesale parts	5.2	4.8	0.4		8	%
Parts and service gross profit, excluding reconditioning and preparation	\$93.5	\$86.5	\$7.0		8	%
Parts and service gross margin, excluding reconditioning and preparation	47.4 %	46.6 %	0.8 %			%
Reconditioning and preparation	\$28.5	\$29.0	\$(0.5)		(2)	%
Total parts and service gross profit	\$122.0	\$115.5	\$6.5		6	%
Total parts and service gross margin	61.9 %	62.2 %	(0.3)			%

The \$5.5 million (3%) increase in parts and service revenue was due to a \$6.4 million (19%) increase in warranty revenue and \$0.6 million (2%) increase in wholesale parts revenue, partially offset by a \$1.5 million (1%) decrease in customer pay revenue. Same store parts and service revenue increased by \$11.5 million (6%) to \$197.1 million during the three months ended June 30, 2017 from \$185.6 million during the three months ended June 30, 2016. The increase in same store parts and service revenue was due to a \$7.2 million (22%) increase in warranty revenue, a \$2.6 million (10%) increase in wholesale parts revenue, and a \$1.7 million (1%) increase in customer pay revenue.

Parts and service gross profit, excluding reconditioning and preparation, increased by \$4.8 million (5%) to \$95.4 million and same store parts and service gross profit, excluding reconditioning and preparation, increased by \$7.0 million (8%) to \$93.5 million. The increase in same store parts and service gross profit, excluding reconditioning and preparation, is primarily due to the increase in customer pay and warranty revenue, which have benefited from our strategic focus to improve customer retention and relatively high new vehicle unit sales over the past few years.

We continue to focus on increasing our parts and service revenue, specifically our customer pay business, upgrading equipment, improving customer retention and customer satisfaction, and capitalizing on our dealer training programs.

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Finance and Insurance, net—

For the Three
Months Ended Increase %
June 30, (Decrease) Change
2017 2016
(Dollars in millions, except for per
vehicle data)

As Reported:

Finance and insurance, net	\$68.9	\$64.9	\$ 4.0	6 %
Finance and insurance, net per vehicle sold	\$1,518	\$1,430	\$ 88	6 %

Same Store:

Finance and insurance, net	\$66.8	\$61.9	\$ 4.9	8 %
Finance and insurance, net per vehicle sold	\$1,522	\$1,437	\$ 85	6 %

F&I, net revenue increased by \$4.0 million (6%) during the second quarter of 2017 as compared to the second quarter of 2016 and same store F&I, net revenue increased by \$4.9 million (8%) over the same period of time. During the three months ended June 30, 2017, we benefited from the acceleration of commissions as a result of our amended agreement with our primary insurance products underwriter which became effective during the fourth quarter of 2016. Selling, General, and Administrative Expense—

	For the Three Months Ended June 30,						% of Gross Profit Increase (Decrease)	
	2017	% of Gross Profit	2016	% of Gross Profit	Increase (Decrease)	% of Gross Profit Increase (Decrease)		

(Dollars in millions)

As Reported:

Personnel costs	\$86.2	32.3 %	\$84.9	31.7 %	\$ 1.3	0.6 %
Sales compensation	28.9	10.8 %	28.1	10.5 %	0.8	0.3 %
Share-based compensation	3.3	1.2 %	2.5	0.9 %	0.8	0.3 %
Outside services	20.4	7.6 %	19.3	7.2 %	1.1	0.4 %
Advertising	8.4	3.1 %	8.8	3.3 %	(0.4)	(0.2)%
Rent	6.8	2.5 %	7.6	2.8 %	(0.8)	(0.3)%
Utilities	3.9	1.5 %	3.6	1.3 %	0.3	0.2 %
Insurance	4.6	1.7 %	5.5	2.1 %	(0.9)	(0.4)%
Other	23.1	8.8 %	22.0	8.3 %	1.1	0.5 %
Selling, general, and administrative expense	\$185.6	69.5 %	\$182.3	68.1 %	\$ 3.3	1.4 %
Gross profit	\$267.1		\$267.6			

Same Store:

Personnel costs	\$83.5	32.2 %	\$81.0	31.7 %	\$ 2.5	0.5 %
Sales compensation	27.9	10.7 %	26.8	10.5 %	1.1	0.2 %
Share-based compensation	3.3	1.3 %	2.5	1.0 %	0.8	0.3 %
Outside services	20.0	7.7 %	18.2	7.1 %	1.8	0.6 %
Advertising	8.0	3.1 %	7.9	3.1 %	0.1	— %
Rent	6.8	2.6 %	7.6	3.0 %	(0.8)	(0.4)%
Utilities	3.8	1.5 %	3.4	1.3 %	0.4	0.2 %
Insurance	4.5	1.7 %	5.2	2.0 %	(0.7)	(0.3)%
Other	22.6	8.7 %	21.4	8.4 %	1.2	0.3 %
Selling, general, and administrative expense	\$180.4	69.5 %	\$174.0	68.1 %	\$ 6.4	1.4 %
Gross profit	\$259.7		\$255.5			

SG&A expense as a percentage of gross profit on both an as reported and same store basis was 69.5% for the second quarter of 2017 as compared to 68.1% for the second quarter of 2016. The increase was due primarily to increasing personnel costs,

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which was largely a result of higher employee benefit costs and higher outside service costs predominately related to our investments in technologies to improve our customer experience and productivity.

Other Operating Expenses (Income), net —

Other operating expenses (income), net which includes gains and losses from the sale of property and equipment, income derived from lease arrangements, and other non-core operating items was \$1.9 million for the three months ended June 30, 2017, compared with other operating income, net of \$0.5 million in the comparable 2016 period.

During the three months ended June 30, 2017, we recognized expenses associated with a lease termination of \$2.9 million, partially offset by other income of \$0.8 million.

Income Tax Expense —

The \$2.7 million (12%) decrease in income tax expense was primarily a result of the \$7.4 million (13%) decrease in income from continuing operations before income taxes in the second quarter of 2017 as compared to the second quarter of 2016. During the second quarter of 2017 our effective tax rate was 38.1% compared to 37.9% for the second quarter of 2016. Our effective tax rate is highly dependent on our level of income before income taxes and permanent differences between book and tax income.

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RESULTS OF OPERATIONS

Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

	For the Six Months Ended		Increase	%
	June 30, 2017	June 30, 2016	(Decrease)	Change
	(Dollars in millions, except per share data)			
REVENUE:				
New vehicle	\$1,715.4	\$1,735.4	\$ (20.0)	(1)%
Used vehicle	941.0	931.1	9.9	1 %
Parts and service	392.3	384.5	7.8	2 %
Finance and insurance, net	134.8	127.2	7.6	6 %
TOTAL REVENUE	3,183.5	3,178.2	5.3	— %
GROSS PROFIT:				
New vehicle	81.4	92.2	(10.8)	(12)%
Used vehicle	66.6	70.0	(3.4)	(5)%
Parts and service	244.4	239.0	5.4	2 %
Finance and insurance, net	134.8	127.2	7.6	6 %
TOTAL GROSS PROFIT	527.2	528.4	(1.2)	— %
OPERATING EXPENSES (INCOME):				
Selling, general, and administrative	366.7	363.5	3.2	1 %
Depreciation and amortization	15.9	15.2	0.7	5 %
Other operating expenses (income), net	0.7	2.7	(2.0)	(74)%
INCOME FROM OPERATIONS	143.9	147.0	(3.1)	(2)%
OTHER EXPENSES:				
Floor plan interest expense	11.3	9.4	1.9	20 %
Other interest expense, net	26.8	26.8	—	— %
Swap interest expense	1.2	1.6	(0.4)	(25)%
Total other expenses, net	39.3	37.8	1.5	4 %
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	104.6	109.2	(4.6)	(4)%
Income tax expense	38.7	41.5	(2.8)	(7)%
INCOME FROM CONTINUING OPERATIONS	65.9	67.7	(1.8)	(3)%
Discontinued operations, net of tax	—	—	—	— %
NET INCOME	\$65.9	\$67.7	\$ (1.8)	(3)%
Income from continuing operations per common share—Diluted	\$3.12	\$2.91	\$ 0.21	7 %
Net income per common share—Diluted	\$3.12	\$2.91	\$ 0.21	7 %

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For the Six
Months Ended
June 30,
2017 2016

REVENUE MIX PERCENTAGES:

New vehicle	53.9 %	54.6 %
Used vehicle retail	26.6 %	26.2 %
Used vehicle wholesale	3.0 %	3.1 %
Parts and service	12.3 %	12.1 %
Finance and insurance, net	4.2 %	4.0 %
Total revenue	100.0%	100.0%

GROSS PROFIT MIX PERCENTAGES:

New vehicle	15.4 %	17.4 %
Used vehicle retail	12.4 %	13.2 %
Used vehicle wholesale	0.2 %	0.1 %
Parts and service	46.4 %	45.2 %
Finance and insurance, net	25.6 %	24.1 %
Total gross profit	100.0%	100.0%

GROSS PROFIT MARGIN

16.6 % 16.6 %

SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT 69.6 % 68.8 %

Total revenue during the six months ended June 30, 2017 increased by \$5.3 million compared to the six months ended June 30, 2016, due to a \$9.9 million (1%) increase in used vehicle, a \$7.8 million (2%) increase in parts and service revenue and a \$7.6 million (6%) increase in F&I revenue, partially offset by a \$20.0 million (1%) decrease in new vehicle revenue. The \$1.2 million decrease in gross profit during the six months ended June 30, 2017 was driven by a decrease of \$10.8 million (12%) in new vehicle gross profit and a \$3.4 million (5%) decrease in used vehicle gross profit, offset by a \$7.6 million (6%) increase in F&I gross profit and a \$5.4 million (2%) increase in parts and service gross profit. For both the six months ended June 30, 2017 and 2016, our gross profit margin for was 16.6%.

Income from operations during the six months ended June 30, 2017 decreased by \$3.1 million (2%) compared to the six months ended June 30, 2016, due to a \$1.2 million decrease in gross profit, a \$3.2 million (1%) increase in selling, general, and administrative expenses, and a \$0.7 million (5%) increase in depreciation and amortization expense, partially offset by a \$2.0 million (74%) decrease in other operating expenses (income), net. The \$1.5 million increase in other expenses, net during the six months ended June 30, 2017 was due to a \$1.9 million (20%) increase in floor plan interest expense, partially offset by a \$0.4 million (25%) decrease in swap interest expense. As a result, income from continuing operations before income taxes decreased by \$4.6 million (4%) to \$104.6 million for the six months ended June 30, 2017. Income tax expense decreased by \$2.8 million (7%) primarily as a result of lower income from operations coupled with the adoption of a new accounting standard which lowered the effective tax rate to 37% compared to 38% for the six months ended June 30, 2016. Overall, net income decreased by \$1.8 million (3%) during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

We assess the organic growth of our revenue and gross profit on a same store basis. We believe that our assessment on a same store basis represents an important indicator of comparative financial performance and provides relevant information to assess our performance. As such, for the following discussion, same store amounts consist of information from dealerships for identical months in each comparative period, commencing with the first full month we owned the dealership. Additionally, amounts related to divested dealerships are excluded from each comparative period.

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New Vehicle—

	For the Six Months Ended		Increase	%
	June 30, 2017	June 30, 2016	(Decrease)	Change
(Dollars in millions, except for per vehicle data)				
As Reported:				
Revenue:				
Luxury	\$564.0	\$591.5	\$ (27.5)	(5)%
Import	791.6	778.8	12.8	2 %
Domestic	359.8	365.1	(5.3)	(1)%
Total new vehicle revenue	\$1,715.4	\$1,735.4	\$ (20.0)	(1)%
Gross profit:				
Luxury	\$36.3	\$40.6	\$ (4.3)	(11)%
Import	28.3	34.6	(6.3)	(18)%
Domestic	16.8	17.0	(0.2)	(1)%
Total new vehicle gross profit	\$81.4	\$92.2	\$ (10.8)	(12)%
New vehicle units:				
Luxury	10,618	11,408	(790)	(7)%
Import	28,507	28,292	215	1 %
Domestic	9,472	10,094	(622)	(6)%
Total new vehicle units	48,597	49,794	(1,197)	(2)%
Same Store:				
Revenue:				
Luxury	\$564.0	\$579.6	\$ (15.6)	(3)%
Import	780.1	743.9	36.2	5 %
Domestic	328.1	340.5	(12.4)	(4)%
Total new vehicle revenue	\$1,672.2	\$1,664.0	\$ 8.2	— %
Gross profit:				
Luxury	\$36.3	\$39.7	\$ (3.4)	(9)%
Import	28.0	33.4	(5.4)	(16)%
Domestic	14.7	15.9	(1.2)	(8)%
Total new vehicle gross profit	\$79.0	\$89.0	\$ (10.0)	(11)%
New vehicle units:				
Luxury	10,618	11,189	(571)	(5)%
Import	28,138	27,080	1,058	4 %
Domestic	8,574	9,357	(783)	(8)%
Total new vehicle units	47,330	47,626	(296)	(1)%

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New Vehicle Metrics—

	For the Six Months Ended June 30,		Increase	%
	2017	2016	(Decrease)	Change
As Reported:				
Revenue per new vehicle sold	\$35,298	\$34,852	\$ 446	1 %
Gross profit per new vehicle sold	\$1,675	\$1,852	\$ (177)	(10)%
New vehicle gross margin	4.7 %	5.3 %	(0.6)%	
Luxury:				
Gross profit per new vehicle sold	\$3,419	\$3,559	\$ (140)	(4)%
New vehicle gross margin	6.4 %	6.9 %	(0.5)%	
Import:				
Gross profit per new vehicle sold	\$993	\$1,223	\$ (230)	(19)%
New vehicle gross margin	3.6 %	4.4 %	(0.8)%	
Domestic:				
Gross profit per new vehicle sold	\$1,774	\$1,684	\$ 90	5 %
New vehicle gross margin	4.7 %	4.7 %	— %	

Same Store:

Revenue per new vehicle sold	\$35,331	\$34,939	\$ 392	1 %
Gross profit per new vehicle sold	\$1,669	\$1,869	\$ (200)	(11)%
New vehicle gross margin	4.7 %	5.3 %	(0.6)%	

Luxury:

Gross profit per new vehicle sold	\$3,419	\$3,548	\$ (129)	(4)%
New vehicle gross margin	6.4 %	6.8 %	(0.4)%	

Import:

Gross profit per new vehicle sold	\$995	\$1,233	\$ (238)	(19)%
New vehicle gross margin	3.6 %	4.5 %	(0.9)%	

Domestic:

Gross profit per new vehicle sold	\$1,714	\$1,699	\$ 15	1 %
New vehicle gross margin	4.5 %	4.7 %	(0.2)%	

New vehicle revenue decreased by \$20.0 million (1%) as a result of a \$27.5 million (5%) decrease in luxury brands revenue and a \$5.3 million (1%) decrease in domestic brands revenue, partially offset by a \$12.8 million (2%) increase in import brands revenue. Same store new vehicle revenue increased by \$8.2 million due to a \$36.2 million (5%) increase in import brands revenue, partially offset by a \$15.6 million (3%) decrease in luxury brands revenue and a \$12.4 million (4%) decrease in domestic brands revenue.

U.S. new vehicle SAAR was 17.0 million for the six months ended June 30, 2017 compared to 17.3 million for the six months ended June 30, 2016. Overall, our same store new vehicle unit sales remained relatively unchanged for the six months ended June 30, 2017 when compared to the six months ended June 30, 2016.

Same store new vehicle gross profit for the six months ended June 30, 2017 decreased by \$10.0 million (11%), due to an 11% decrease in gross profit per new vehicle sold. Same store new vehicle gross profit margin for the six months ended June 30, 2017 decreased by 60 basis points to 4.7%. The decrease in our same store gross profit margin was primarily attributable to a 5% decrease in unit volumes among our generally more profitable luxury brands, a 4% increase in unit volumes among our generally lower margin import brands, higher industry-wide inventory levels and aggressive manufacturers' incentive programs.

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Used Vehicle—

	For the Six Months Ended June 30,		Increase	%	
	2017	2016	(Decrease)	Change	
(Dollars in millions, except for per vehicle data)					
As Reported:					
Revenue:					
Used vehicle retail revenue	\$ 845.6	\$ 831.4	\$ 14.2	2	%
Used vehicle wholesale revenue	95.4	99.7	(4.3)	(4)%
Used vehicle revenue	\$ 941.0	\$ 931.1	\$ 9.9	1	%
Gross profit:					
Used vehicle retail gross profit	\$ 65.5	\$ 69.5	\$ (4.0)	(6)%
Used vehicle wholesale gross profit	1.1	0.5	0.6	(120)%
Used vehicle gross profit	\$ 66.6	\$ 70.0	\$ (3.4)	(5)%
Used vehicle retail units:					
Used vehicle retail units	40,330	39,348	982	2	%

Same Store:

Revenue:					
Used vehicle retail revenue	\$ 822.3	\$ 785.9	\$ 36.4	5	%
Used vehicle wholesale revenue	92.3	95.5	(3.2)	(3)%
Used vehicle revenue	\$ 914.6	\$ 881.4	\$ 33.2	4	%
Gross profit:					
Used vehicle retail gross profit	\$ 63.0	\$ 65.6	\$ (2.6)	(4)%
Used vehicle wholesale gross profit	1.1	0.5	0.6	120	%
Used vehicle gross profit	\$ 64.1	\$ 66.1	\$ (2.0)	(3)%
Used vehicle retail units:					
Used vehicle retail units	39,086	36,912	2,174	6	%

Used Vehicle Metrics—

	For the Six Months Ended June 30,		Increase	%	
	2017	2016	(Decrease)	Change	
As Reported:					
Revenue per used vehicle retailed	\$20,967	\$21,129	\$ (162)	(1)%
Gross profit per used vehicle retailed	\$1,624	\$1,766	\$ (142)	(8)%
Used vehicle retail gross margin	7.7	% 8.4	% (0.7)%	

Same Store:

Revenue per used vehicle retailed	\$21,038	\$21,291	\$ (253)	(1)%
Gross profit per used vehicle retailed	\$1,612	\$1,777	\$ (165)	(9)%
Used vehicle retail gross margin	7.7	% 8.3	% (0.6)%	

Used vehicle revenue increased by \$9.9 million (1%) due to an increase of \$14.2 million (2%) in used vehicle retail revenues, partially offset by a \$4.3 million (4%) decrease in used vehicle wholesale revenue. Same store used vehicle revenue increased by \$33.2 million (4%) due to an increase of \$36.4 million (5%) in same store used vehicle retail revenue, partially offset by a \$3.2 million (3%) decrease in same store used vehicle wholesale revenues. For the six months ended June 30, 2017 same store used vehicle retail unit sales grew by 2,174 units (6%).

For the six months ended June 30, 2017 same store used vehicle retail gross margins decreased 60 basis points to 7.7% as a result of the 9% decrease in used vehicle gross profit per vehicle retailed and a 1% decrease in revenue per

used vehicle retailed.

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Parts and Service—

	For the Six Months Ended June 30,		Increase	%
	2017	2016	(Decrease)	Change
	(Dollars in millions)			
As Reported:				
Parts and service revenue	\$392.3	\$384.5	\$ 7.8	2 %
Parts and service gross profit:				
Customer pay	135.7	134.4	1.3	1 %
Warranty	41.0	34.5	6.5	19 %
Wholesale parts	10.5	10.5	—	— %
Parts and service gross profit, excluding reconditioning and preparation	\$187.2	\$179.4	\$ 7.8	4 %
Parts and service gross margin, excluding reconditioning and preparation	47.7 %	46.7 %	1.0 %	
Reconditioning and preparation	\$57.2	\$59.6	\$(2.4)	(4)%
Total parts and service gross profit	\$244.4	\$239.0	\$ 5.4	2 %
Total parts and service gross margin	62.3 %	62.2 %	0.1 %	

Same Store:

Parts and service revenue	\$386.1	\$364.8	\$ 21.3	6 %
Parts and service gross profit:				
Customer pay	133.2	128.2	5.0	4 %
Warranty	40.5	33.1	7.4	22 %
Wholesale parts	10.4	9.8	0.6	6 %
Parts and service gross profit, excluding reconditioning and preparation	\$184.1	\$171.1	\$ 13.0	8 %
Parts and service gross margin, excluding reconditioning and preparation	47.7 %	46.9 %	0.8 %	
Reconditioning and preparation	\$56.1	\$56.8	\$(0.7)	(1)%
Total parts and service gross profit	\$240.2	\$227.9	\$ 12.3	5 %
Total parts and service gross margin	62.2 %	62.5 %	(0.3)%	

The \$7.8 million (2%) increase in parts and service revenue was primarily the result of the \$11.6 million (17%) increase in warranty revenue, partially offset by a \$3.3 million (1%) decrease in customer pay revenue and a \$0.5 million (1%) decrease in wholesale parts revenue. Same store parts and service revenue increased by \$21.3 million (6%) from \$364.8 million for the six months ended June 30, 2016 to \$386.1 million for the six months ended June 30, 2017. The increase in same store parts and service revenue was primarily due to a \$13 million (20%) increase in warranty revenue, a \$4.7 million (2%) increase in customer pay revenue, and a \$3.6 million (7%) increase in wholesale parts revenue.

Parts and service gross profit, excluding reconditioning and preparation, increased by \$7.8 million (4%) to \$187.2 million and same store gross profit, excluding reconditioning and preparation, increased by \$13.0 million (8%) to \$184.1 million. The increase in same store parts and service gross profit is primarily due to the increase in warranty and customer pay revenue, which have benefited from our strategic focus to improve customer retention and relatively high new vehicle sales over the past few years.

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Finance and Insurance, net—

For the Six
Months Ended Increase %
June 30, (Decrease) Change
2017 2016
(Dollars in millions, except for per
vehicle data)

As Reported:

Finance and insurance, net	\$134.8	\$127.2	\$ 7.6	6	%
Finance and insurance, net per vehicle sold	\$1,516	\$1,427	\$ 89	6	%

Same Store:

Finance and insurance, net	\$131.4	\$121.1	\$ 10.3	9	%
Finance and insurance, net per vehicle sold	\$1,521	\$1,432	\$ 89	6	%

F&I, net revenue increased by \$7.6 million (6%) during the six months ended June 30, 2017 when compared to the six months ended June 30, 2016, with same store F&I, net revenue increasing by \$10.3 million (9%) over the same time period. During the six months ended June 30, 2017, we benefited from the acceleration of commissions as a result of our amended agreement with our primary insurance products underwriter which became effective during the fourth quarter of 2016.

Selling, General, and Administrative Expense—

		For the Six Months Ended June 30,					
	2017	% of Gross Profit	2016	% of Gross Profit	Increase (Decrease)	% of Gross Profit Increase (Decrease)	

(Dollars in millions)

As Reported:

Personnel costs	\$173.6	32.9	%	\$170.7	32.3	%	\$ 2.9	0.6	%
Sales compensation	56.0	10.6	%	55.2	10.4	%	0.8	0.2	%
Share-based compensation	6.4	1.2	%	6.1	1.2	%	0.3	—	%
Outside services	40.8	7.7	%	38.0	7.2	%	2.8	0.5	%
Advertising	16.0	3.0	%	16.9	3.2	%	(0.9)	(0.2)	%
Rent	13.7	2.6	%	15.4	2.9	%	(1.7)	(0.3)	%
Utilities	7.7	1.5	%	7.4	1.4	%	0.3	0.1	%
Insurance	6.9	1.3	%	9.6	1.8	%	(2.7)	(0.5)	%
Other	45.6	8.8	%	44.2	8.4	%	1.4	0.4	%
Selling, general, and administrative expense	\$366.7	69.6	%	\$363.5	68.8	%	\$ 3.2	0.8	%
Gross profit	\$527.2			\$528.4					

Same Store:

Personnel costs	\$168.9	32.8	%	\$162.6	32.3	%	\$ 6.3	0.5	%
Sales compensation	54.4	10.6	%	52.4	10.4	%	2.0	0.2	%
Share-based compensation	6.4	1.2	%	6.1	1.2	%	0.3	—	%
Outside services	39.9	7.8	%	35.9	7.1	%	4.0	0.7	%
Advertising	15.5	3.0	%	15.2	3.0	%	0.3	—	%
Rent	13.7	2.7	%	15.4	3.1	%	(1.7)	(0.4)	%
Utilities	7.4	1.4	%	7.0	1.4	%	0.4	—	%
Insurance	6.7	1.3	%	9.2	1.8	%	(2.5)	(0.5)	%
Other	\$44.8	8.7	%	\$42.4	8.4	%	2.4	0.3	%
Selling, general, and administrative expense	\$357.7	69.5	%	\$346.2	68.7	%	\$ 11.5	0.8	%

Gross profit	\$514.7	\$504.1
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SG&A expense as a percentage of gross profit was 69.6% for the six months ended June 30, 2017 compared to 68.8% for the six months ended June 30, 2016. Same store SG&A expense as a percentage of gross profit increased by 80 basis points from 68.7% for the six months ended June 30, 2016 to 69.5% for the six months ended June 30, 2017. The increase in SG&A expense is primarily attributable to higher personnel costs as a result of higher employee benefit costs and higher outside services predominately related to our investments in technologies to improve our customer experience and productivity. The \$2.7 million decrease in insurance expense for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 is primarily the result of a reduction in insurance retention related to hail storm damage at certain dealerships in 2016, coupled with lower premiums for property and casualty insurance and lower reserve requirements.

Other Operating Expenses (Income), net —

Other operating expenses (income), net which includes gains and losses from the sale of property and equipment, income derived from lease arrangements, and other non-core operating items was \$0.7 million for the six months ended June 30, 2017 compared with operating expenses (income), net of \$2.7 million in the comparable 2016 period. During the six months ended June 30, 2017, we recognized expenses associated with a lease termination of \$2.9 million, partially offset by \$0.8 million of other income and a \$0.9 million gain recognized for legal settlements. During the six months ended June 30, 2016, we recognized a \$1.5 million non-cash real estate related impairment charge and a \$1.9 million non-cash charge associated with the accelerated rental expense for an abandoned rental property.

Floor Plan Interest Expense —

Floor plan interest expense increased by \$1.9 million (20%) to \$11.3 million during the six months ended June 30, 2017 compared to \$9.4 million for the six months ended June 30, 2016, primarily the result of increased borrowings coupled with higher interest rates.

Income Tax Expense—

The \$2.8 million (7%) decrease in income tax expense was the result of the \$4.6 million (4%) decrease in operating income and a lower effective tax rate of 37.0% for the six months ended June 30, 2017 compared to 38.0% for the six months ended June 30, 2016 primarily due to the impact of the adoption of ASU 2016-09, which requires the income tax effects of share based compensation awards that vest or are settled to be recognized in income tax expense, whereas previously such income tax benefits were recognized in equity. Notwithstanding the adoption of ASU 2016-09, we expect our effective rate to approximate 38.0% over the remaining quarters of 2017.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2017, we had total available liquidity of \$355.4 million, which consisted of cash and cash equivalents of \$2.7 million, \$13.7 million of available funds in our floor plan offset accounts, \$190.0 million of availability under our new vehicle floor plan facility that is able to be re-designated to our revolving credit facility, \$46.7 million of availability under our revolving credit facility, and \$102.3 million of availability under our used vehicle revolving floor plan facility. The borrowing capacities under our revolving credit facility and our used vehicle revolving floor plan facility are limited by borrowing base calculations and, from time to time, may be further limited by our required compliance with certain financial covenants. As of June 30, 2017, these financial covenants did not further limit our availability under our credit facilities. For more information on our financial covenants, see "Covenants" below.

We continually evaluate our liquidity and capital resources based upon (i) our cash and cash equivalents on hand, (ii) the funds that we expect to generate through future operations, (iii) current and expected borrowing availability under our 2016 Senior Credit Facility, our other floor plan facilities, our Real Estate Credit Agreement, our Restated Master Loan Agreement, and our mortgage financings (each, as defined below), (iv) amounts in our new vehicle floor plan notes payable offset accounts, and (v) the potential impact of our capital allocation strategy and any contemplated or pending future transactions, including, but not limited to, financings, acquisitions, dispositions, equity and/or debt repurchases, dividends, or other capital expenditures. We believe we will have sufficient liquidity to meet our debt service and working capital requirements; commitments and contingencies; debt repayment, maturity and repurchase obligations; acquisitions; capital expenditures; and any operating requirements for at least the next twelve months.

We currently are party to the following material credit facilities and agreements, and have the following material indebtedness outstanding. For a more detailed description of the material terms of these agreements and facilities, and this indebtedness, refer to the "Long-Term Debt" footnote included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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2016 Senior Credit Facility — On July 25, 2016, the Company and certain of its subsidiaries entered into an amended and restated senior secured credit agreement with Bank of America, as administrative agent, and the other lenders party thereto.

The 2016 Senior Credit Facility provides for the following:

Revolving Credit Facility — A \$250.0 million revolving credit facility (the "Revolving Credit Facility") for, among other things, acquisitions, working capital and capital expenditures, including a \$50.0 million sublimit for letters of credit. As described below, as of June 30, 2017, we re-designated \$190.0 million of availability from the Revolving Credit Facility to the New Vehicle Floor Plan Facility (as defined below), resulting in \$60.0 million of borrowing capacity. In addition, we had \$13.3 million in outstanding letters of credit, resulting in \$46.7 million of borrowing availability as of June 30, 2017.

New Vehicle Floor Plan Facility — A \$900.0 million new vehicle revolving floor plan facility (the "New Vehicle Floor Plan Facility"). In connection with the New Vehicle Floor Plan Facility, we established an account with Bank of America that allows us to transfer cash as an offset to floor plan notes payable. These transfers reduce the amount of outstanding new vehicle floor plan notes payable that would otherwise accrue interest, while retaining the ability to transfer amounts from the offset account into our operating cash accounts within one to two days. As a result of the use of our floor plan offset account, we experience a reduction in Floor Plan Interest Expense on our Condensed Consolidated Statements of Income. As of June 30, 2017, we had \$691.3 million outstanding under the New Vehicle Floor Plan Facility.

Used Vehicle Floor Plan Facility — A \$150.0 million used vehicle revolving floor plan facility (the "Used Vehicle Floor Plan Facility") to finance the acquisition of used vehicle inventory and for, among other things, working capital and capital expenditures, as well as to refinance used vehicles. Our borrowing capacity under the Used Vehicle Floor Plan Facility was limited to \$102.3 million based on our borrowing base calculation as of June 30, 2017. We began the year with nothing drawn on our used vehicle floor plan facility and during the six months ended June 30, 2017, we had borrowings of \$35.0 million and made repayments of \$30.0 million, resulting in \$5.0 million outstanding under our used vehicle floor plan facility as of June 30, 2017.

Subject to compliance with certain conditions, the agreement governing the 2016 Senior Credit Facility provides that we have the ability, at our option and subject to the receipt of additional commitments from existing or new lenders, to increase the size of the facilities by up to \$325.0 million in the aggregate without lender consent.

At our option, we have the ability to re-designate a portion of our availability under the Revolving Credit Facility to the New Vehicle Floor Plan Facility or the Used Vehicle Floor Plan Facility. The maximum amount we are allowed to re-designate is determined based on our current borrowing availability under the Revolving Credit Facility, less \$50.0 million. In addition, we are able to re-designate any amounts moved to the New Vehicle Floor Plan Facility or the Used Vehicle Floor Plan Facility back to the Revolving Credit Facility. As of June 30, 2017, we re-designated \$190.0 million of availability under the Revolving Credit Facility to the New Vehicle Floor Plan Facility. We re-designated this amount to take advantage of the lower commitment fee rates on the New Vehicle Floor Plan Facility when compared to the Revolving Credit Facility.

Borrowings under the 2016 Senior Credit Facility bear interest, at our option, based on the London Interbank Offered Rate ("LIBOR") or the Base Rate, in each case plus an Applicable Margin. The Base Rate is the highest of the (i) Bank of America prime rate, (ii) Federal Funds rate plus 0.50%, and (iii) one month LIBOR plus 1.00%. The Applicable Margin, for borrowings under the Revolving Credit Facility, ranges from 1.25% to 2.50% for LIBOR loans and 0.25% to 1.50% for Base Rate loans, in each case based on the Company's total lease adjusted leverage ratio. Borrowings under the New Vehicle Floor Plan Facility bear interest, at the option of the Company, based on LIBOR plus 1.25% or the Base Rate plus 0.25%. Borrowings under the Used Vehicle Floor Plan Facility bear interest,

at the option of the Company, based on LIBOR plus 1.50% or the Base Rate plus 0.50%.

In addition to the payment of interest on borrowings outstanding under the 2016 Senior Credit Facility, we are required to pay a quarterly commitment fee on the total commitments thereunder. The fee for commitments under the Revolving Credit Facility is between 0.20% and 0.45% per year, based on the Company's total lease adjusted leverage ratio, and the fee for commitments under the New Vehicle Facility Floor Plan and the Used Vehicle Facility Floor Plan Facility is 0.15% per year.

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Manufacturer affiliated new vehicle floor plan and other financing facilities — We have a floor plan facility with the Ford Motor Credit Company ("Ford Credit") to purchase new Ford and Lincoln vehicle inventory, which matures on December 5, 2019. During August 2016, we established a floor plan offset account with Ford Credit, which operates in a similar manner to our floor plan offset account with Bank of America. As of June 30, 2017, we had \$129.4 million, net of \$13.7 million in our floor plan offset account, outstanding under our floor plan facility. Additionally, we had \$87.7 million outstanding under facilities with certain manufacturers for the financing of loaner vehicles, which were presented within Accounts Payable and Accrued Liabilities in our Condensed Consolidated Balance Sheets. Neither our floor plan facility with Ford Credit nor our facilities for loaner vehicles have stated borrowing limitations.

6.0% Senior Subordinated Notes due 2024 — as of June 30, 2017 we had \$600.0 million in aggregate principal amount outstanding related to our 6.0% Notes. We are required to pay interest on the 6.0% Notes on June 15 and December 15 of each year until maturity on December 15, 2024.

Mortgage notes — as of June 30, 2017, we had \$179.4 million of mortgage note obligations. These obligations are collateralized by the associated real estate at our dealership locations.

Restated Master Loan Agreement — provides for term loans to certain of our subsidiaries (the "Restated Master Loan Agreement"). Borrowings under the Restated Master Loan Agreement are guaranteed by us and are collateralized by the real property financed under the Restated Master Loan Agreement. As of June 30, 2017, the outstanding balance under the Restated Master Loan Agreement was \$91.1 million. There is no further borrowing availability under this facility.

Real Estate Credit Agreement — a real estate term loan credit agreement with borrowings collateralized by first priority liens, subject to certain permitted exceptions, on all of the real property financed thereunder (the "Real Estate Credit Agreement"). As of June 30, 2017, we had \$49.9 million of mortgage note obligations outstanding under the Real Estate Credit Agreement. There is no further borrowing availability under this agreement.

Covenants

We are subject to a number of customary covenants in our various debt and lease agreements. We were in compliance with all of our covenants as of June 30, 2017.

Share Repurchases and Dividend Restrictions

Our ability to repurchase shares or pay dividends on our common stock is subject to our compliance with the covenants and restrictions in our various debt and lease agreements. Our 2016 Senior Credit Facility and our indenture governing our 6.0% Notes permit us to make an unlimited amount of restricted payments so long as our Consolidated Total Leverage Ratio, as defined in those agreements, does not exceed 3.0 to 1.0 on a pro forma basis after giving effect to any proposed payments. As of June 30, 2017, our Consolidated Total Leverage Ratio did not exceed 3.0 to 1.0.

On January 30, 2014, our Board of Directors authorized our current share repurchase program (the "Repurchase Program").

On January 27, 2016, our Board of Directors reset the authorization under our Repurchase Program to \$300.0 million in the aggregate, for the repurchase of our common stock in open market transactions or privately negotiated transactions from time to time.

During the three and six months ended June 30, 2017, we repurchased 264,362 and 493,996 shares, respectively, of our common stock under the Repurchase Program for a total of \$15.0 million and \$29.7 million, respectively. As of June 30, 2017, we had remaining authorization to repurchase \$58.4 million in shares of our common stock under the Repurchase Program.

During the three and six months ended June 30, 2017, we repurchased 4,203 and 70,789 shares, respectively, of our common stock for \$0.3 million and \$4.6 million, respectively, from employees in connection with a net share settlement feature of employee equity-based awards.

Cash Flows

Classification of Cash Flows Associated with Floor Plan Notes Payable

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade"), and all floor plan notes payable relating to used vehicles (together referred to as "Floor Plan Notes Payable—Non-Trade"), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan

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notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as "Floor Plan Notes Payable—Trade") is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions and repayments made in connection with all divestitures are classified as a financing activity in the accompanying Condensed Consolidated Statement of Cash Flows. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory. The majority of our floor plan notes are payable to parties unaffiliated with the entities from which we purchase our new vehicle inventory, with the exception of floor plan notes payable relating to the financing of new Ford and Lincoln vehicles.

Floor plan borrowings are required by all vehicle manufacturers for the purchase of new vehicles, and all floor plan lenders require amounts borrowed for the purchase of a vehicle to be repaid within a short time period after the related vehicle is sold. As a result, we believe that it is important to understand the relationship between the cash flows of all of our floor plan notes payable and new vehicle inventory in order to understand our working capital and operating cash flow and to be able to compare our operating cash flow to that of our competitors (i.e., if our competitors have a different mix of trade and non-trade floor plan financing as compared to us). In addition, we include all floor plan borrowings and repayments in our internal operating cash flow forecasts. As a result, we use the non-GAAP measure "cash provided by operating activities, as adjusted" (defined below) to compare our results to forecasts. We believe that splitting the cash flows of floor plan notes payable between operating activities and financing activities, while all new vehicle inventory activity is included in operating activities, results in significantly different operating cash flow than if all the cash flows of floor plan notes payable were classified together in operating activities.

Cash provided by operating activities, as adjusted, includes borrowings and repayments of floor plan notes payable to lenders not affiliated with the manufacturer from which we purchase the related new vehicles. Cash provided by operating activities, as adjusted, has material limitations, and therefore, may not be comparable to similarly titled measures of other companies and should not be considered in isolation, or as a substitute for analysis of our operating results in accordance with GAAP. In order to compensate for these potential limitations we also review the related GAAP measures.

We have provided below a reconciliation of cash flow from operating activities, as if all changes in floor plan notes payable, except for (i) borrowings associated with acquisitions and repayments associated with divestitures and (ii) borrowings and repayments associated with the purchase of used vehicle inventory, were classified as an operating activity.

	For the Six Months Ended June 30, 2017 2016 (In millions)	
Reconciliation of Cash provided by operating activities to Cash provided by operating activities, as adjusted		
Cash provided by operating activities, as reported	\$ 118.3	\$ 69.8
New vehicle floor plan (repayments) borrowings—non-trade, net	(10.3)	153.9
Cash provided by operating activities, as adjusted	\$ 108.0	\$ 223.7
Operating Activities—		

Net cash provided by operating activities totaled \$118.3 million and \$69.8 million, for the six months ended June 30, 2017 and 2016, respectively. Net cash provided by operating activities, as adjusted, totaled \$108.0 million and \$223.7 million for the six months ended June 30, 2017 and 2016, respectively.

The \$115.7 million decrease in our net cash provided by operating activities, as adjusted, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 was primarily the result of the following:

\$84.1 million related to a increase in inventory, net of floor plan notes payable

\$34.3 million related to the change in other current and non-current assets and liabilities;

\$25.5 million related to a decrease in accounts payable and accrued liabilities

\$4.7 million related to the non-cash adjustments to net income.

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The decrease in our cash provided by operating activities, as adjusted, was partially offset by \$32.9 million related to sales volume and the timing of collection of accounts receivable and contracts-in-transit during 2017 as compared to 2016.

Investing Activities—

Net cash used in investing activities totaled \$91.9 million and \$51.8 million, for the six months ended June 30, 2017 and 2016, respectively. Capital expenditures, excluding the purchase of real estate, were \$11.5 million and \$28.7 million for the six months ended June 30, 2017 and 2016, respectively. We expect that capital expenditures during 2017 will total approximately \$50.0 million to upgrade or replace our existing facilities, construct new facilities, expand our service capacity, and invest in technology and equipment.

During the six months ended June 30, 2017, we acquired two franchises (two dealership locations) and one collision center in the Indianapolis, Indiana market for an aggregate purchase price of \$80.1 million.

During the six months ended June 30, 2016, the purchases of real estate, including previously leased real estate, totaled \$23.1 million.

As part of our capital allocation strategy, we continually evaluate opportunities to purchase properties currently under lease and acquire properties in connection with future dealership relocations. No assurances can be provided that we will have or be able to access capital at times or on terms in amounts deemed necessary to execute this strategy.

Financing Activities—

Net cash used in financing activities totaled \$27.1 million and \$19.0 million for the six months ended June 30, 2017 and 2016, respectively.

During the six months ended June 30, 2017 and 2016, we had non-trade floor plan borrowings, excluding floor plan borrowings associated with acquisitions, of \$1.99 billion and \$1.94 billion, respectively, and non-trade floor plan repayments of \$2.00 billion and \$1.79 billion, respectively.

In addition, during the six months ended June 30, 2017 we had non-trade floor plan borrowings of \$25.1 million related to acquisitions.

Repayments of borrowings totaled \$7.6 million and \$7.2 million, for the six months ended June 30, 2017 and 2016, respectively.

During the six months ended June 30, 2017, we repurchased a total of 493,996 shares of our common stock under our Repurchase Program for a total of \$29.7 million and 70,789 shares of our common stock for \$4.6 million from employees in connection with a net share settlement feature of employee equity-based awards.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements during any of the periods presented other than those disclosed in Note 11 "Commitments and Contingencies" of the Notes hereto.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to risk from changes in interest rates on a significant portion of our outstanding indebtedness. Based on \$806.6 million of total variable interest rate debt, which includes our floor plan notes payable and certain mortgage liabilities, outstanding as of June 30, 2017, a 100 basis point change in interest rates could result in a change of as much as \$8.1 million to our total annual interest expense in our Consolidated Statements of Income.

We periodically receive floor plan assistance from certain automobile manufacturers, which is accounted for as a reduction in our new vehicle inventory cost. Floor plan assistance reduced our cost of sales for the six months ended June 30, 2017 and 2016 by \$17.5 million and \$16.5 million, respectively. We cannot provide assurance as to the future amount of floor plan assistance and these amounts may be negatively impacted due to future changes in interest rates.

As part of our strategy to mitigate our exposure to fluctuations in interest rates, we have various interest rate swap agreements. All of our interest rate swaps qualify for cash flow hedge accounting treatment and do not contain any ineffectiveness.

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In June 2015, we entered into an interest rate swap agreement with a notional principal amount of \$100.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in February 2025. The notional value of this swap was \$93.0 million as of June 30, 2017 and is reducing over its remaining term to \$53.1 million at maturity.

In November 2013, we entered into an interest rate swap agreement with a notional principal amount of \$75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in September 2023. The notional values of this swap as of June 30, 2017 was \$62.1 million and will reduce over its remaining term to \$38.7 million at maturity.

For additional information about the effect of our derivative instruments on the accompanying Condensed Consolidated Financial Statements, see Note 9 "Financial Instruments and Fair Value" of the Notes thereto.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, our principal executive officer and principal financial officer concluded that as of the end of such period such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time period specified in the rules and forms of the U.S. Securities and Exchange Commission, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. Management, including the principal executive officer and the principal financial officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the intentional acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we and our dealerships may become involved in various claims relating to, and arising out of our business and our operations. These claims may involve, but are not limited to, financial and other audits by vehicle manufacturers or lenders, and certain federal, state, and local government authorities, which relate primarily to (i) incentive and warranty payments received from vehicle manufacturers, or allegations of violations of manufacturer agreements or policies, (ii) compliance with lender rules and covenants and (iii) payments made to government authorities relating to federal, state, and local taxes, as well as compliance with other government regulations. Claims may also arise through litigation, government proceedings, and other dispute resolution processes. Such claims,

including class actions, can relate to, but are not limited to, the practice of charging administrative fees, employment-related matters, truth-in-lending practices, contractual disputes, actions brought by governmental authorities, and other matters. We evaluate pending and threatened claims and establish loss contingency reserves based upon outcomes we currently believe to be probable and reasonably estimable.

We currently do not anticipate that any known claim will materially adversely affect our financial condition, liquidity or results of operations. However, the outcome of any matter cannot be predicted with certainty, and an unfavorable resolution of one or more matters presently known or arising in the future could have a material adverse effect on our financial condition, liquidity or results of operations.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 30, 2014, our Board of Directors authorized our Repurchase Program. On January 27, 2016, our Board of Directors reset the authorization under our Repurchase Program to \$300.0 million in the aggregate, for the repurchase of our common stock in open market transactions or privately negotiated transactions. Any repurchases will be subject to applicable limitations in our debt or other financing agreements that may be in existence from time to time.

During the three months ended June 30, 2017, we repurchased 264,362 shares of our common stock under the Repurchase Program. As of June 30, 2017, we had remaining authorization to repurchase \$58.4 million in shares of our common stock under the Repurchase Program.

The following table sets forth information regarding stock repurchases by the Company on a monthly basis during the three month period ended June 30, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in millions)
04/01/2017 - 04/30/2017	94,500	\$ 58.09	94,500	\$ 67.9
05/01/2017 - 05/31/2017	36,800	\$ 56.57	36,800	\$ 65.8
06/01/2017 - 06/30/2017	133,062	\$ 55.52	133,062	\$ 58.4

Item 4. Mine Safety Disclosures

Not applicable.

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Item 6. Exhibits

Exhibit Number	Description of Documents
10.1	Letter Agreement between Asbury Automotive Group, Inc. and Sean Goodman, dated as of May 3, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 5, 2017)*
10.2	Severance Pay Agreement for Key Employee between Asbury Automotive Group, Inc. and Sean Goodman dated as of July 7, 2017
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Asbury Automotive Group, Inc.

Date: July 26, 2017 By: /s/ Craig T. Monaghan
Name: Craig T. Monaghan
Title: Chief Executive Officer and President
Asbury Automotive Group, Inc.

Date: July 26, 2017 By: /s/ Sean D. Goodman
Name: Sean D. Goodman
Title: Senior Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

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