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

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ ¨ Accelerated filer

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

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

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

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited, in thousands, except per share amounts) | | | |
| REVENUES: | | | | |
| New vehicle retail sales | $1,540,759 | $1,534,262 | $2,950,609 | $2,866,986 |
| Used vehicle retail sales | 715,778 | 682,294 | 1,403,949 | 1,305,487 |
| Used vehicle wholesale sales | 96,279 | 101,512 | 197,871 | 201,704 |
| Parts and service sales | 322,073 | 303,193 | 630,665 | 585,382 |
| Finance, insurance and other, net | 107,560 | 105,219 | 207,710 | 199,775 |
| Total revenues | 2,782,449 | 2,726,480 | 5,390,804 | 5,159,334 |
| COST OF SALES: | | | | |
| New vehicle retail sales | 1,459,611 | 1,458,132 | 2,797,734 | 2,721,125 |
| Used vehicle retail sales | 667,513 | 636,235 | 1,306,484 | 1,213,307 |
| Used vehicle wholesale sales | 96,331 | 102,445 | 196,474 | 199,958 |
| Parts and service sales | 148,875 | 138,095 | 290,891 | 269,487 |
| Total cost of sales | 2,372,330 | 2,334,907 | 4,591,583 | 4,403,877 |
| GROSS PROFIT | 410,119 | 391,573 | 799,221 | 755,457 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 299,022 | 280,568 | 592,687 | 552,037 |
| DEPRECIATION AND AMORTIZATION EXPENSE | 12,713 | 11,946 | 25,177 | 23,630 |
| ASSET IMPAIRMENTS | 1,024 | 1,039 | 1,956 | 1,039 |
| INCOME FROM OPERATIONS | 97,360 | 98,020 | 179,401 | 178,751 |
| OTHER EXPENSE: | | | | |
| Floorplan interest expense | (11,593) | (10,015) | (22,603) | (19,362) |
| Other interest expense, net | (16,705) | (14,228) | (33,634) | (28,139) |
| INCOME BEFORE INCOME TAXES | 69,062 | 73,777 | 123,164 | 131,250 |
| PROVISION FOR INCOME TAXES | (22,482) | (27,467) | (42,293) | (49,126) |
| NET INCOME | $46,580 | $46,310 | $80,871 | $82,124 |
| BASIC EARNINGS PER SHARE | $2.12 | $1.91 | $3.57 | $3.38 |
| Weighted average common shares outstanding | 21,057 | 23,312 | 21,753 | 23,377 |
| DILUTED EARNINGS PER SHARE | $2.12 | $1.91 | $3.57 | $3.38 |
| Weighted average common shares outstanding | 21,070 | 23,315 | 21,762 | 23,380 |
| CASH DIVIDENDS PER COMMON SHARE | $0.23 | $0.20 | $0.45 | $0.40 |

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

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

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

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

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

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

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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

## 1. INTERIM FINANCIAL INFORMATION

### Business and Organization

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

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

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

### Basis of Presentation

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

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

### Business Segment Information

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

Variable Interest Entity

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

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

Recently Adopted Accounting Pronouncements

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

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

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments. The amendments in the accounting standard eliminate the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The amendments also require that the acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The amendments in this ASU were to be applied prospectively to adjustments to provisional amounts that occur after the effective date and were effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-16 during the first quarter of fiscal 2016. The adoption of this amendment did not materially impact the Company's financial statements.

Recent Accounting Pronouncements

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

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

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

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

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

2. ACQUISITIONS AND DISPOSITIONS

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

In addition, during the six months ended June 30, 2016, the Company disposed of two U.S. dealerships and four dealerships in Brazil. As a result of these U.S. and Brazil dealership dispositions, a net pretax gain of $0.7 million and a net pretax loss of $1.4 million, respectively, were recognized for the six months ended June 30, 2016.

During the six months ended June 30, 2015, the Company acquired two U.S. dealerships, sold one U.S. dealership and terminated one U.S. dealership franchise. The Company also terminated two franchises in Brazil. As a result of these dispositions, a net pretax gain of $0.7 million, including related asset impairments, was recognized for the three and six months ended June 30, 2015.

3. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

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

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

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

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

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

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

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

| Derivatives in Cash Flow Hedging Relationship | Amount of Unrealized Loss, Net of Tax, Recognized in Other Comprehensive Income (Loss) | |
|---|---|---|
| | Six Months Ended June 30, | |
| | 2016 | 2015 |
| | (In thousands) | |
| Interest rate swap contracts | $ (16,763) | $ (4,709) |

| Location of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations | Amount of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations | |
|---|---|---|
| | Six Months Ended June 30, | |
| | 2016 | 2015 |
| | (In thousands) | |
| Floorplan interest expense | $ (5,623) | $ (5,470) |
| Other interest expense | (1,186) | (845) |

The amount expected to be reclassified out of other comprehensive income (loss) into earnings as additional floorplan interest expense or other interest expense in the next twelve months is $13.8 million.

## 4. STOCK-BASED COMPENSATION PLANS

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

### Long Term Incentive Plan

The Incentive Plan provides for the grant of options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 and options that are non-qualified), restricted stock, performance awards, bonus stock, and phantom stock to the Company's employees, consultants, non-employee directors and officers. The Incentive Plan expires on May 21, 2024. The terms of the awards (including vesting schedules) are established by the Compensation Committee of the Company’s Board of Directors. As of June 30, 2016, there were 1,241,041 shares available for issuance under the Incentive Plan.

### Restricted Stock Awards

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

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

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

Employee Stock Purchase Plan

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

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

Stock-Based Compensation

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

5. EARNINGS PER SHARE

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

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

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

## 6. INCOME TAXES

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

For the three and six months ended June 30, 2016, the Company's effective tax rate decreased to 32.6% and 34.3%, respectively, as compared to 37.2% and 37.4% for the same periods in 2015. This decrease was primarily due to the mix effect resulting from proportionately more pretax income generated in the Company's U.K. region, as well as changes to valuation allowances provided for net operating losses and other deferred tax assets in certain U.S. states and in Brazil, in addition to the tax impact of a dealership disposition in Brazil during the period ended June 30, 2016.

As of June 30, 2016 and December 31, 2015, the Company had no unrecognized tax benefits with respect to uncertain tax positions and did not incur any interest and penalties nor did it accrue any interest for the six months ended June 30, 2016. When applicable, consistent with prior practice, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

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

7. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Accounts and notes receivable consisted of the following:

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

Inventories consisted of the following:

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

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

Property and equipment consisted of the following:

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

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

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

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

## 8. CREDIT FACILITIES

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

### Revolving Credit Facility

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

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

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

Ford Motor Credit Company Facility

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

Other Credit Facilities

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

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

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

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

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

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

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

5.00% Senior Notes

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

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

5.25% Senior Notes

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

June 15 and December 15, beginning June 15, 2016. Using proceeds of certain equity offerings, the Company may redeem up to 35.0% of the 5.25% Notes prior to December 15, 2018, subject to certain conditions, at a redemption price equal to 105.25% of principal amount of the 5.25% Notes plus accrued and unpaid interest. Otherwise, the Company may redeem some or all of the 5.25% Notes prior to December 15, 2018 at a redemption price equal to 100% of the principal amount of the 5.25% Notes redeemed, plus an applicable make-whole premium, and plus accrued and unpaid interest. On or after December 15, 2018, the Company may redeem some or all of the 5.25% Notes at specified prices, plus accrued and unpaid interest. The Company may be required to purchase the 5.25% Notes if it sells certain assets or triggers the change in control provisions defined in the 5.25% Notes indenture. The 5.25% Notes are senior unsecured obligations and rank equal in right of payment to all of the Company's existing and future senior unsecured debt and senior in right of payment to all of its future subordinated debt. The 5.25% Notes are guaranteed by substantially all of the Company's U.S. subsidiaries. The U.S. subsidiary guarantees rank equally in the right of payment to all of the Company's U.S. subsidiary guarantor's existing and future subordinated debt. In addition, the 5.25% Notes are structurally subordinated to the liabilities of its non-guarantor subsidiaries and are subject to customary covenants, including a restricted payment basket and debt limitations. The restricted payment basket calculation under the terms of the 5.25% Notes is the same as under the Credit Facility Restricted Payment Basket.

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

Acquisition Line

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

Real Estate Related and Other Long-Term Debt

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

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

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

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

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

Fair Value of Long-Term Debt

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

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

## 10. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

| | As of June 30, 2016 | |
|---|---|---|
| | Level 2 | Total |
| | (In thousands) | |
| Assets: | | |
| Investments | $2,765 | $2,765 |
| Demand obligations | $132 | $132 |
| Total | $2,897 | $2,897 |
| Liabilities: | | |
| Interest rate derivative financial instruments | $51,134 | $51,134 |
| Total | $51,134 | $51,134 |

| | As of December 31, 2015 | |
|---|---|---|
| | Level 2 | Total |
| | (In thousands) | |
| Assets: | | |
| Investments | $4,235 | $4,235 |
| Demand obligations | $131 | $131 |
| Interest rate derivative financial instruments | $31 | $31 |
| Total | $4,397 | $4,397 |
| Liabilities: | | |
| Interest rate derivative financial instruments | $31,153 | $31,153 |
| Total | $31,153 | $31,153 |

## 11. COMMITMENTS AND CONTINGENCIES

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

### Legal Proceedings

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

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Other Matters

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

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

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

12. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

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

| | Intangible Franchise Rights | | | |
|---|---|---|---|---|
| | U.S. | U.K. | Brazil | Total |
| | (In thousands) | | | |
| BALANCE, December 31, 2015 | $285,659 | $7,773 | $14,156 | $307,588 |
| Additions through acquisitions | — | 14,087 | — | 14,087 |
| Currency translation | — | (1,903) | 3,202 | 1,299 |
| BALANCE, June 30, 2016 | $285,659 | $19,957 | $17,358 | $322,974 |

| | Goodwill | | | |
|---|---|---|---|---|
| | U.S. | U.K. | Brazil | Total |
| | (In thousands) | | | |
| BALANCE, December 31, 2015 | $809,775 | $35,320 | $9,820 | $854,915 [(1)] |
| Additions through acquisitions | — | 30,755 | 1,018 | 31,773 |
| Purchase price allocation adjustments | 39 | 1,077 | — | 1,116 |
| Disposals | (2,035) | — | (191) | (2,226) |
| Currency translation | — | (5,902) | 2,305 | (3,597) |
| BALANCE, June 30, 2016 | $807,779 | $61,250 | $12,952 | $881,981 [(1)] |

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

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| | Six Months Ended June 30, 2016 | | |
|---|---|---|---|
| | Accumulated foreign currency translation loss | Accumulated loss on interest rate swaps | Total |
| | (In thousands) | | |
| Balance, December 31, 2015 | $(118,532) | $ (19,452) | $(137,984) |
| Other comprehensive loss before reclassifications: | | | |
| Pre-tax | (3,913) | (26,821) | (30,734) |
| Tax effect | — | 10,058 | 10,058 |
| Amounts reclassified from accumulated other comprehensive loss to: | | | |
| Floorplan interest expense | — | 5,623 | 5,623 |
| Other interest expense | — | 1,186 | 1,186 |
| Tax effect | — | (2,553) | (2,553) |
| Net current period other comprehensive loss | (3,913) | (12,507) | (16,420) |
| Balance, June 30, 2016 | $(122,445) | $ (31,959) | $(154,404) |

| | Six Months Ended June 30, 2015 | | |
|---|---|---|---|
| | Accumulated foreign currency translation loss | Accumulated loss on interest rate swaps | Total |
| | (In thousands) | | |
| Balance, December 31, 2014 | $(64,075) | $ (17,909) | $(81,984) |
| Other comprehensive loss before reclassifications: | | | |
| Pre-tax | (20,595) | (7,534) | (28,129) |
| Tax effect | — | 2,825 | 2,825 |
| Amounts reclassified from accumulated other comprehensive loss to: | | | |
| Floorplan interest expense | — | 5,470 | 5,470 |
| Other interest expense | — | 845 | 845 |
| Tax effect | — | (2,368) | (2,368) |
| Net current period other comprehensive loss | (20,595) | (762) | (21,357) |
| Balance, June 30, 2015 | $(84,670) | $ (18,671) | $(103,341) |

14. SEGMENT INFORMATION

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

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

| | Three Months Ended June 30, 2016 | | | | Six Months Ended June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | U.S. | U.K. | Brazil | Total | U.S. | U.K. | Brazil | Total |
| | (In thousands) | | | | (In thousands) | | | |
| Total revenues | $2,207,381 | $467,792 | $107,276 | $2,782,449 | $4,289,014 | $899,688 | $202,102 | $5,390,804 |
| Income (loss) before income taxes | 61,784 | 7,929 | (651) | 69,062 | 111,989 | 13,449 | (2,274) | 123,164 |
| (Provision) benefit for income taxes | (22,854) | (1,586) | 1,958 | (22,482) | (41,685) | (2,756) | 2,148 | (42,293) |
| Net income (loss) [1] | $38,930 | $6,343 | $1,307 | $46,580 | 70,304 | 10,693 | (126) | 80,871 |

| | Three Months Ended June 30, 2015 | | | | Six Months Ended June 30, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | U.S. | U.K. | Brazil | Total | U.S. | U.K. | Brazil | Total |
| | (In thousands) | | | | (In thousands) | | | |
| Total revenues | $2,287,446 | $308,167 | $130,867 | $2,726,480 | $4,285,946 | $607,708 | $265,680 | $5,159,334 |
| Income (loss) before income taxes | 69,431 | 4,831 | (485) | 73,777 | 122,589 | 9,951 | (1,290) | 131,250 |
| Provision for income taxes | (26,288) | (1,010) | (169) | (27,467) | (46,651) | (2,009) | (466) | (49,126) |
| Net income (loss) | $43,143 | $3,821 | $(654) | $46,310 | 75,938 | 7,942 | (1,756) | 82,124 |

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

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

| | As of June 30, 2016 | | | |
|---|---|---|---|---|
| | U.S. | U.K. | Brazil | Total |
| | (In thousands) | | | |
| Total assets | $3,874,447 | $485,596 | $140,757 | $4,500,800 |

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | U.S. | U.K. | Brazil | Total |
| | (In thousands) | | | |
| Total assets | $3,923,001 | $358,476 | $115,239 | $4,396,716 |

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15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

CONDENSED CONSOLIDATED BALANCE SHEET

June 30, 2016

| | Group 1 Automotive, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Elimination | Total Company |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ — | $ 5,495 | $ 19,470 | $ — | $ 24,965 |
| Contracts-in-transit and vehicle receivables, net | — | 173,024 | 39,280 | — | 212,304 |
| Accounts and notes receivable, net | — | 116,770 | 34,885 | — | 151,655 |
| Intercompany accounts receivable | — | 4,386 | — | (4,386 ) | — |
| Inventories, net | — | 1,532,707 | 251,407 | — | 1,784,114 |
| Prepaid expenses and other current assets | 684 | 8,643 | 19,592 | — | 28,919 |
| Total current assets | 684 | 1,841,025 | 364,634 | (4,386 ) | 2,201,957 |
| PROPERTY AND EQUIPMENT, net | — | 938,378 | 142,854 | — | 1,081,232 |