

GROUP 1 AUTOMOTIVE INC
Form 10-Q
August 01, 2013

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, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

76-0506313

(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 No

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

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

Large accelerated filer Accelerated filer

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

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

As of July 29, 2013, the registrant had 24,406,659 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, 2013 (Unaudited)	December 31, 2012
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,852	\$ 4,650
Contracts-in-transit and vehicle receivables, net	185,626	204,396
Accounts and notes receivable, net	132,513	111,228
Inventories, net	1,358,294	1,194,288
Deferred income taxes	22,072	19,750
Prepaid expenses and other current assets	21,443	31,869
Total current assets	1,730,800	1,566,181
PROPERTY AND EQUIPMENT, net	706,293	667,768
GOODWILL	680,857	582,384
INTANGIBLE FRANCHISE RIGHTS	274,973	196,058
OTHER ASSETS	16,395	10,624
Total assets	\$ 3,409,318	\$ 3,023,015
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility and other	\$ 1,016,896	\$ 968,959
Offset account related to floorplan notes payable - credit facility	(81,996	) (112,261
Floorplan notes payable - manufacturer affiliates	301,670	211,965
Current maturities of long-term debt and short-term financing	24,338	31,358
Accounts payable	237,573	167,439
Accrued expenses	144,361	128,118
Total current liabilities	1,642,842	1,395,578
LONG-TERM DEBT, net of current maturities	541,709	555,016
DEFERRED INCOME TAXES	130,517	94,130
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	28,116	43,089
OTHER LIABILITIES	44,810	42,413
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
TEMPORARY EQUITY - Redeemable equity portion of the 3.00% Convertible Senior Notes	30,835	32,505
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; 25,934 and 25,836 issued, respectively	259	258
Additional paid-in capital	367,569	332,836
Retained earnings	729,869	677,864
Accumulated other comprehensive loss	(48,682	) (33,057
Treasury stock, at cost; 1,523 and 3,110 shares, respectively	(58,526	) (117,617
Total stockholders' equity	990,489	860,284
Total liabilities and stockholders' equity	\$ 3,409,318	\$ 3,023,015

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(Unaudited, in thousands, except per share amounts)			
REVENUES:				
New vehicle retail sales	\$1,376,219	\$1,080,710	\$2,486,454	\$1,993,305
Used vehicle retail sales	534,804	456,234	1,006,203	871,208
Used vehicle wholesale sales	83,316	73,134	157,867	139,991
Parts and service sales	260,950	220,313	498,460	433,414
Finance, insurance and other, net	79,821	65,435	149,958	122,653
Total revenues	2,335,110	1,895,826	4,298,942	3,560,571
COST OF SALES:				
New vehicle retail sales	1,295,854	1,016,868	2,343,453	1,876,643
Used vehicle retail sales	491,299	417,388	922,422	795,965
Used vehicle wholesale sales	82,804	72,811	154,933	136,964
Parts and service sales	123,879	103,415	236,371	205,231
Total cost of sales	1,993,836	1,610,482	3,657,179	3,014,803
GROSS PROFIT	341,274	285,344	641,763	545,768
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	251,159	214,327	484,592	413,439
DEPRECIATION AND AMORTIZATION EXPENSE	8,884	7,742	17,297	14,978
ASSET IMPAIRMENTS	609	187	609	288
INCOME FROM OPERATIONS	80,622	63,088	139,265	117,063
OTHER EXPENSE:				
Floorplan interest expense	(10,873	) (7,863	) (20,237	) (15,482
Other interest expense, net	(9,570	) (9,190	) (18,812	) (18,230
Other expense, net	—	—	(789) —
INCOME BEFORE INCOME TAXES	60,179	46,035	99,427	83,351
PROVISION FOR INCOME TAXES	(22,791	) (17,410	) (39,921	) (31,609
NET INCOME	\$37,388	\$28,625	\$59,506	\$51,742
BASIC EARNINGS PER SHARE	\$1.53	\$1.25	\$2.49	\$2.26
Weighted average common shares outstanding	23,315	21,650	22,796	21,640
DILUTED EARNINGS PER SHARE	\$1.43	\$1.20	\$2.32	\$2.18
Weighted average common shares outstanding	24,980	22,513	24,544	22,522
CASH DIVIDENDS PER COMMON SHARE	\$0.16	\$0.15	\$0.31	\$0.29

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(Unaudited, in thousands)			
NET INCOME	\$37,388	\$28,625	\$59,506	\$51,742
Other comprehensive loss, net of taxes:				
Foreign currency translation adjustment	(19,268)	(1,400)	(26,724)	(6)
Unrealized gain on marketable securities, net of tax provision of \$0, \$3, \$0 and \$5, respectively	—	5	—	8
Net unrealized gain (loss) on interest rate swaps:				
Unrealized gain (loss) arising during the period, net of tax benefit (provision) of (\$4,622), \$4,273, (\$4,614) and \$4,566, respectively	7,704	(7,122)	7,690	(7,610)
Reclassification adjustment for loss included in interest expense, net of tax provision of \$1,020, \$1,076, \$2,045 and \$2,210, respectively	1,701	1,793	3,409	3,684
Net unrealized gain (loss) on interest rate swaps, net of tax	9,405	(5,329)	11,099	(3,926)
OTHER COMPREHENSIVE LOSS, NET OF TAXES	(9,863)	(6,724)	(15,625)	(3,924)
COMPREHENSIVE INCOME	\$27,525	\$21,901	\$43,881	\$47,818

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Loss	Stock	
	(Unaudited, in thousands)						
BALANCE, December 31, 2012	25,836	\$258	\$332,836	\$677,864	\$(33,057)	\$(117,617)	\$860,284
Net income	—	—	—	59,506	—	—	59,506
Other comprehensive (loss), net	—	—	—	—	(15,625)	—	(15,625)
Treasury stock used in acquisition	—	—	28,827	—	—	54,731	83,558
3.00% Convertible Notes reclassification from temporary equity	—	—	1,669	—	—	—	1,669
Net issuance of treasury shares to employee stock compensation plans	98	1	(3,827)	—	—	4,360	534
Stock-based compensation	—	—	6,935	—	—	—	6,935
Tax effect from stock-based compensation plans	—	—	1,129	—	—	—	1,129
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(7,501)	—	—	(7,501)
BALANCE, June 30, 2013	25,934	\$259	\$367,569	\$729,869	\$(48,682)	\$(58,526)	\$990,489

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months June 30,	
	2013	2012
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$59,506	\$51,742
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,297	14,978
Deferred income taxes	9,288	6,075
Asset impairments	609	288
Stock-based compensation	6,960	5,915
Amortization of debt discount and issue costs	6,827	6,388
Gain on disposition of assets	(9,670)	(1,588)
Tax effect from stock-based compensation	(1,129)	(707)
Other	1,020	764
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	46,280	17,623
Accounts and notes receivable	(3,115)	(14,720)
Inventories	(111,889)	(160,082)
Contracts-in-transit and vehicle receivables	19,211	23,871
Prepaid expenses and other assets	2,117	6,215
Floorplan notes payable - manufacturer affiliates	43,871	(3,077)
Deferred revenues	125	594
Net cash provided by (used in) operating activities	87,308	(45,721)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(89,775)	(114,958)
Proceeds from disposition of franchises, property and equipment	77,921	213
Purchases of property and equipment, including real estate	(47,300)	(38,434)
Other	574	396
Net cash used in investing activities	(58,580)	(152,783)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - Floorplan Line and other	3,120,902	2,797,532
Repayments on credit facility - Floorplan Line and other	(3,042,696)	(2,622,793)
Borrowings on mortgage facility	—	18,080
Principal payments on mortgage facility	(7,241)	(1,065)
Borrowings of other long-term debt	777	36
Principal payments of long-term debt related to real estate loans	(12,986)	(4,703)
Borrowings of short-term and long-term debt related to real estate	6,008	21,708
Principal payments of other long-term debt	(80,797)	(2,815)
Repurchases of common stock, amounts based on settlement date	—	(8,496)
Issuance of common stock to benefit plans	532	2,051
Tax effect from stock-based compensation	1,129	707
Dividends paid	(7,525)	(6,609)
Net cash provided by (used in) financing activities	(21,897)	193,633
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(629)	(480)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,202	(5,351)

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CASH AND CASH EQUIVALENTS, beginning of period	4,650	14,895
CASH AND CASH EQUIVALENTS, end of period	\$10,852	\$9,544
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable and accrued expenses	\$1,856	\$3,844

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, through its regions, is a leading operator in the automotive retailing industry with operations in 15 states in the United States of America (“U.S.”), 13 towns in the United Kingdom (“U.K.”) and two 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, service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts.

As of June 30, 2013, the Company’s U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (a) the East (44 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York and South Carolina), and (b) the West (65 dealerships in California, Kansas, Louisiana, Oklahoma, and Texas). Each region is managed by a regional vice president who reports directly to the Company’s Chief Executive Officer and is responsible for the overall performance of their regions. The financial matters of each region are managed by a regional chief financial officer who reports directly to the Company’s Chief Financial Officer. The Company’s two international regions consist of 14 dealerships in the U.K. and 18 dealerships in Brazil, which are also managed locally with direct reporting responsibilities to the Company’s corporate management team.

The Company’s operating results are generally subject to changes in the economic environment as well as seasonal variations. Generally there are higher volumes of vehicles sales and service in the second and third calendar quarters of each year in the U.S., in the first and third quarters in the U.K. and during the third and fourth quarters in Brazil. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. 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 our 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. 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 accounting principles generally accepted in the U.S. 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 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, 2012 (“2012 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. 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. All of the segments sell new and used cars and light trucks, arrange related vehicle financing, service and insurance contracts, provide automotive maintenance and repair services and sell vehicle parts. Effective with the acquisition of UAB Motors Participações S.A. (“UAB Motors”) on February 28, 2013, the Company is aligned into four geographic regions: the East and West Regions in the U.S., the U.K. Region, and the Brazil Region. Also, in conjunction with the acquisition

of UAB Motors and consistent with how the Company's chief operating decision maker is evaluating performance and allocating resources, the Company reaffirmed that each region represents an operating segment. As part of this determination, the Company, as it has historically, concluded that the East and West Regions of the U.S. are economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments and, therefore, the Company aggregates these two regions into one reportable segment. As such, the Company's three reportable segments are the U.S., which includes the activities of the Company's corporate office, the U.K. and Brazil.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Variable Interest Entity

In 2013, the Company entered into arrangements to provide a fixed-interest-rate working capital loan and various administrative services to a related-party entity that owns and operates retail automotive dealerships 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 no equity ownership interest in the entity, and 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 rights 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 100% of the assets and liabilities of the VIE as of June 30, 2013, as well as 100% of the results of operations of the VIE beginning on the effective date of the variable interests arrangements to June 30, 2013. The floorplan notes payable liability of the VIE is securitized by the new and used vehicle inventory of the VIE, as well as the associated receivable balances from the sale of such inventory to the extent necessary. The preliminary carrying amounts and classification of assets and liabilities (for which creditors do not have recourse to the general credit of the Company) are included within amounts from the Company's purchase price allocations. As discussed in Note 2, "Acquisitions and Dispositions," the allocations are based on estimates and assumptions that are subject to change within the purchase price allocation period. The assets and liabilities included in the Company's consolidated statements of financial position for the consolidated VIE are as follows (in thousands):

	June 30, 2013
Current Assets	\$25,280
Non-current Assets	75,817
Total Assets	\$101,097
Current Liabilities	\$21,701
Non-current Liabilities	26,928
Total Liabilities	\$48,629

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-2, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The Company's adoption of ASU No. 2013-2 as of March 31, 2013 did not have a material impact on the Company's consolidated financial statements.

2. ACQUISITIONS AND DISPOSITIONS

During the first six months ended June 30, 2013, the Company purchased all of the outstanding stock of UAB Motors. At the time of acquisition, UAB Motors consisted of 18 dealerships and 22 franchises in Brazil, as well as five collision centers. As discussed in Note 1, "Interim Financial Information," in connection with this acquisition, the Company entered into arrangements that are variable interests in a VIE. The Company qualifies as the primary beneficiary of the VIE. The consolidation of the VIE into the financial statements of the Company was accounted for as a business combination. Also during the six months ended June 30, 2013, the Company acquired certain assets of four dealerships in the U.K. and one dealership in the U.S. In conjunction with the acquisitions, the Company incurred \$6.5 million of costs, primarily related to professional services associated with the Brazil transaction. The Company included these costs in SG&A in the Consolidated Statement of Operations for the six months ended June 30, 2013.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Aggregate consideration paid for these acquisitions totaled \$173.3 million, including \$89.8 million of cash and 1.45 million shares of the Company's common stock. The Company also assumed debt in conjunction with the acquisitions, of which \$65.1 million was contemporaneously extinguished. In conjunction with the extinguishment, the Company recognized a loss of \$0.8 million that is included in Other Expense, net on the Consolidated Statement of Operations for the six months ended June 30, 2013. The purchase price has been allocated as set forth below 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 acquisition date). Goodwill was assigned to the U.S., U.K. and Brazil reportable segments in the amounts of \$8.8 million, \$1.5 million and \$106.4 million, respectively.

	As of Acquisition Date (In thousands)
Current Assets	\$32,385
Inventory	97,723
Property and Equipment	31,730
Goodwill & Intangible Franchise Rights	211,391
Other assets	1,870
Total Assets	\$375,099
Current Liabilities	\$109,937
Deferred Income Taxes	23,189
Long-term Debt	68,639
Total Liabilities	\$201,765

The intangible franchise rights are expected to continue for an indefinite period, therefore these rights are not amortized. These intangible assets will be evaluated on an annual basis in accordance with ASC 350. Goodwill represents the excess of consideration paid compared to net assets received in the acquisition. The goodwill relative to the Brazil reportable segment is not currently deductible for tax purposes.

Our supplemental pro forma revenue and net income had the acquisition date for each of the Company's 2013 acquisitions been January 1, 2012, are as follows:

Supplemental Pro forma:	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(In thousands)			
Revenue	\$2,348,987	\$2,136,511	\$4,460,040	\$4,068,884
Net income	\$37,934	\$32,743	\$68,047	\$59,332

The supplemental pro forma revenue and net income are presented for informational purposes only and may not necessarily reflect the future results of operations of the Company or what the results of operations would have been had the Company owned and operated these businesses as of January 1, 2012.

During the six months ended June 30, 2013, the Company sold three dealerships in California, one dealership in Georgia and one franchise in Texas. As a result of the dispositions, a net gain of \$8.4 million and \$9.0 million was recognized for the three and six months ended June 30, 2013, respectively.

During the six months ended June 30, 2012, the Company acquired six dealerships in the U.S. and six dealerships in the U.K. Consideration paid for these dealerships totaled \$115.0 million.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

3. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

The periodic interest rates of the Revolving Credit Facility (as defined in Note 8, “Credit Facilities”), the Mortgage Facility (as defined in Note 9, “Long-Term Debt”) and certain variable-rate real estate related borrowings 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 the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

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.

The Company held interest rate swaps in effect as of June 30, 2013 of \$450.0 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.6%. The Company records the majority of the impact of the periodic settlements of these swaps as a component of floorplan interest expense. For the three and six months ended June 30, 2013, the impact of the Company’s interest rate hedges in effect increased floorplan interest expense by \$2.4 million and \$4.8 million, respectively; for the three and six months ended June 30, 2012, the impact of the Company’s interest rate hedges in effect increased floorplan interest expense by \$2.6 million and \$5.3 million, respectively. Total floorplan interest expense was \$10.9 million and \$7.9 million for the three months ended June 30, 2013 and 2012, respectively, and \$20.2 million and \$15.5 million for the six months ended June 30, 2013 and 2012, respectively.

In addition to the \$450.0 million of swaps in effect as of June 30, 2013, the Company held ten additional interest rate swaps with forward start dates between December 2014 and December 2016 and expiration dates between December 2017 and December 2019. As of June 30, 2013, the aggregate notional value of these ten forward-starting swaps was \$525.0 million, and the weighted average interest rate was 2.7%. The combination of the interest rate swaps currently in effect and these forward-starting swaps is structured such that the notional value in effect at any given time through

December 2019 does not exceed \$600.0 million, which is less than the Company's expectation for variable rate debt outstanding during such period.

As of June 30, 2013 and December 31, 2012, the Company reflected liabilities from interest rate risk management activities of \$28.1 million and \$43.1 million, respectively, in its Consolidated Balance Sheets. In addition, as of June 30, 2013, the Company reflected \$2.8 million of assets from interest rate risk management activities included in Other Assets in its Consolidated Balance Sheets. Included in Accumulated Other Comprehensive Loss at June 30, 2013 and 2012 were accumulated unrealized losses, net of income taxes, totaling \$15.8 million and \$25.2 million, respectively, related to these interest rate swaps.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2013, 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 months ended June 30, 2013 or 2012, respectively. The following table presents the impact during the current and comparative prior year period 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 Gain (Loss), Net of Tax, Recognized in Other Comprehensive Loss Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Interest rate swap contracts	\$7,690	\$(7,610)

Location of Loss Reclassified from Other Comprehensive Loss into Statements of Operations	Amount of Loss Reclassified from Other Comprehensive Loss into Statements of Operations Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Floorplan interest expense	\$(4,848)	\$(5,344)
Other interest expense	(606)	(550)

The amount expected to be reclassified out of other comprehensive loss into earnings (through floorplan interest expense or other interest expense) in the next twelve months is \$10.5 million.

4. STOCK-BASED COMPENSATION PLANS

The Company provides stock-based compensation benefits to employees and non-employee directors pursuant to its 2007 Long Term Incentive Plan, as amended ("the Incentive Plan"), as well as to employees pursuant to its Employee Stock Purchase Plan (the "Purchase Plan"), as amended.

2007 Long Term Incentive Plan

The Incentive Plan provides for the issuance up to 7.5 million shares for grants to non-employee directors, officers and other employees of the Company and its subsidiaries of: (a) options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 and options that are non-qualified), the exercise price of which may not be less than the fair market value of the common stock on the date of the grant; and (b) stock appreciation rights, restricted stock, performance awards, and bonus stock, each granted at the market price of the Company's common stock at the date of grant. The Incentive Plan expires on March 8, 2017. 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, 2013, there were 817,174 shares available for issuance under the Incentive Plan.

In 2005, the Company began granting to non-employee directors and certain employees, at no cost to the recipient, restricted stock awards or, at their election, restricted stock units pursuant to the Incentive Plan. Restricted stock awards qualify as participating securities as each contain 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 ranging from six months to five years. Vested restricted stock units, which are not considered outstanding at the grant date, will settle in shares of common stock 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. Compensation expense for these 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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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

A summary of these awards as of June 30, 2013, along with the changes during the six months then ended follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2012	1,023,350	\$38.19
Granted	261,786	59.17
Vested	(120,300	) 35.84
Forfeited	(42,920	) 42.50
Nonvested at June 30, 2013	1,121,916	\$43.19

Employee Stock Purchase Plan

In 1997, the Company adopted the Purchase Plan. The Purchase Plan authorizes the issuance of up to 3.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after March 6, 2016. 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, 2013, there were 665,734 shares available for issuance under the Purchase Plan. During the six months ended June 30, 2013 and 2012, the Company issued 58,525 and 56,149 shares, respectively, of common stock to employees participating in the Purchase Plan.

The weighted average fair value of employee stock purchase rights issued pursuant to the Purchase Plan was \$13.40 and \$11.68 during the six months ended June 30, 2013 and 2012, 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 \$3.6 million and \$3.0 million for the three months ended June 30, 2013 and 2012, respectively, and \$7.0 million and \$5.9 million for the six months ended June 30, 2013 and 2012, respectively. Cash received from Purchase Plan purchases was \$3.0 million for the six months ended June 30, 2013. Cash received from both option exercises and Purchase Plan purchases was \$3.1 million for the six months ended June 30, 2012. The tax benefit realized for the tax deductions from the vesting of restricted shares, which increased additional paid in capital, totaled \$1.1 million for the six months ended June 30, 2013; in addition, the tax benefit realized for the tax deductions from both options exercised and vesting of restricted shares, which increased additional paid in capital, totaled \$1.6 million for the six months ended June 30, 2012.

The Company issues new shares or treasury shares, if available, when restricted stock vests. 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.

5. EARNINGS PER SHARE

The two-class method is utilized for the computation of 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. The Company’s restricted stock awards qualify as participating securities as each contain non-forfeitable rights to dividends. Income allocated to these participating securities is excluded from net earnings available to common shares, as shown in the table below. Basic EPS is computed by dividing net income available to basic common shares by the weighted average number of basic common shares outstanding during the period. Diluted EPS is computed by dividing net income available to diluted common shares by the weighted average number of dilutive common shares outstanding during the period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table sets forth the calculation of EPS for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(In thousands, except per share amounts)			
Weighted average basic common shares outstanding	23,315	21,650	22,796	21,640
Dilutive effect of contingently convertible notes and warrants	1,660	851	1,743	871
Dilutive effect of stock options, net of assumed repurchase of treasury stock	—	4	—	5
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	5	8	5	6
Weighted average dilutive common shares outstanding	24,980	22,513	24,544	22,522
Basic:				
Net Income	\$37,388	\$28,625	59,506	51,742
Less: Earnings allocated to participating securities	1,689	1,628	2,684	2,822
Earnings available to basic common shares	\$35,699	\$26,997	\$56,822	\$48,920
Basic earnings per common share	\$1.53	\$1.25	\$2.49	\$2.26
Diluted:				
Net Income	\$37,388	\$28,625	59,506	51,742
Less: Earnings allocated to participating securities	1,592	1,576	2,522	2,730
Earnings available to diluted common shares	\$35,796	\$27,049	\$56,984	\$49,012
Diluted earnings per common share	\$1.43	\$1.20	\$2.32	\$2.18

The weighted average number of stock-based awards not included in the calculation of the dilutive effect of stock-based awards was immaterial for the three and six months ended June 30, 2013 and 2012.

As discussed in Note 9, "Long-Term Debt" below, the Company is required to include the dilutive effect, if applicable, of the net shares issuable under the 2.25% Notes (as defined in Note 9) and the 2.25% Warrants sold in connection with the 2.25% Notes ("2.25% Warrants") in its diluted common shares outstanding for the diluted earnings calculation. Although the ten-year call options that the Company purchased on its common stock in connection with the issuance of the 2.25% Notes ("2.25% Purchased Options") have the economic benefit of decreasing the dilutive effect of the 2.25% Notes, the Company cannot factor this benefit into the diluted common shares outstanding for the diluted earnings calculation since the impact would be anti-dilutive. The average adjusted closing price of the Company's common stock for the three months ended March 31, 2013 and June 30, 2013 was more than the conversion price in effect at the end of each period. Therefore, the dilutive effect of the 2.25% Notes was included in the computation of diluted EPS for the three and six months ended June 30, 2013. Since the average price of the Company's common stock for the three months ended March 31, 2012 and June 30, 2012 was less than the conversion price in effect at the end of the respective period, no net shares were included in the computation of diluted EPS for the three and six months ended June 30, 2012, as the impact would have been anti-dilutive. Refer to Note 9, "Long-Term Debt" for a description of the change to the conversion price, which occurred during the three months ended June 30, 2013 as a result of the Company's decision to pay a cash dividend in excess of \$0.14.

In addition, the Company is required to include the dilutive effect, if applicable, of the net shares issuable under the 3.00% Notes (as defined in Note 9, "Long-Term Debt") and the 3.00% Warrants sold in connection with the 3.00% Notes ("3.00% Warrants"). Although the ten-year call options that the Company purchased on its common stock in connection with the issuance of the 3.00% Notes ("3.00% Purchased Options") have the economic benefit of decreasing the dilutive effect of the 3.00% Notes, the Company cannot factor this benefit into the diluted common shares outstanding for the diluted earnings calculation since the impact would be anti-dilutive. Since the average price of the Company's common stock for the three months ended March 31, 2013 and 2012, as well as June 30, 2013 and 2012

was more than the conversion price in effect at the end of the respective periods, the dilutive effect of the 3.00% Notes was included in the computation of diluted earnings per share for the three and six months ended June 30, 2013 and 2012. The dilutive effect of the 3.00% Warrants was also included in the computation for the three and six months ended June 30, 2013. Refer to Note 9, "Long-Term Debt" for a description of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

the change to the conversion price, which occurred during the three months ended June 30, 2013 as a result of the Company's decision to pay a cash dividend.

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 effective income tax rate of 37.9% of pretax income for the three months ended June 30, 2013 differed from the federal statutory rate of 35.0% due primarily to taxes provided for the taxable state and foreign jurisdictions in which the Company operates, and the dispositions of certain dealerships with non-deductible goodwill.

For the six months ended June 30, 2013, the Company's effective tax rate increased to 40.2% from 37.9% for the same period in 2012. The change was primarily due to the mix of pretax income from the taxable state jurisdictions in which the Company operates, the tax effect of acquisition costs, and the dispositions of certain dealerships with non-deductible goodwill.

As of June 30, 2013 and December 31, 2012, 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, 2013. When applicable, consistent with prior practice, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Taxable years 2008 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, 2013 (unaudited) (In thousands)	December 31, 2012
Amounts due from manufacturers	\$66,518	\$64,039
Parts and service receivables	32,649	17,879
Finance and insurance receivables	15,863	16,060
Other	19,887	14,895
Total accounts and notes receivable	134,917	112,873
Less allowance for doubtful accounts	(2,404	) (1,645
Accounts and notes receivable, net	\$132,513	\$111,228

Inventories consisted of the following:

	June 30, 2013 (unaudited) (In thousands)	December 31, 2012
New vehicles	\$1,001,360	\$895,484
Used vehicles	225,897	184,775
Rental vehicles	77,511	68,014
Parts, accessories and other	59,131	50,370
Total inventories	1,363,899	1,198,643
Less lower of cost or market reserves	(5,605	) (4,355
Inventories, net	\$1,358,294	\$1,194,288

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 or market determined on either a first-in, first-out basis or on an average cost basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Property and equipment consisted of the following:

	Estimated Useful Lives in Years (unaudited)	June 30, 2013	December 31, 2012
		(Dollars in thousands)	
Land	—	\$238,087	\$232,944
Buildings	30 to 40	352,682	331,526
Leasehold improvements	varies	111,397	97,651
Machinery and equipment	7 to 20	73,371	69,630
Furniture and fixtures	3 to 10	67,449	61,627
Company vehicles	3 to 5	8,478	9,239
Construction in progress	—	20,592	28,188
Total		872,056	830,805
Less accumulated depreciation		(165,763	) (163,037
Property and equipment, net		\$706,293	\$667,768

During the six months ended June 30, 2013, the Company incurred \$32.4 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. In addition, the Company purchased real estate during the six months ended June 30, 2013 associated with existing dealership operations totaling \$10.7 million. And, in conjunction with the Company's acquisition of 23 separate dealerships and five collision centers during the six months ended June 30, 2013, the Company acquired \$31.7 million of real estate and other property and equipment.

8. CREDIT FACILITIES

In the U.S., the Company has a \$1.7 billion revolving syndicated credit arrangement with 25 financial institutions including six manufacturer-affiliated finance companies ("Revolving Credit Facility"). The Company also has a \$200.0 million floorplan financing arrangement with Ford Motor Credit Company ("FMCC Facility") for financing of Ford new vehicles in the U.S. and with several other automobile manufacturers for financing of a portion of its 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 payable for the purchase of vehicles whereby financing is provided by the FMCC Facility, the financing of 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 20, 2013, the Company amended its Revolving Credit Facility principally to increase the total borrowing capacity from \$1.35 billion to \$1.7 billion and to extend the term from an expiration date on June 1, 2016 to June 20, 2018. The Revolving Credit Facility consists of two tranches, providing a maximum of \$1.6 billion for U.S. vehicle inventory floorplan financing ("Floorplan Line"), as well as a maximum of \$320.0 million and a minimum of \$100.0 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 \$1.7 billion commitment, subject to the original limits of a maximum of \$1.6 billion for the Floorplan Line, as well as a maximum of \$320.0 million and a minimum of \$100.0 million for the Acquisition Line. Up to \$125.0 million of the Acquisition Line can be borrowed in either

Euros or Pound Sterling. The Revolving Credit Facility can be expanded to its maximum commitment of \$1.95 billion, subject to participating lender approval. The Floorplan Line bears interest at rates equal to the one-month LIBOR plus 125 basis points for new vehicle inventory and the one-month LIBOR plus 150 basis points for used vehicle inventory. The Acquisition Line bears interest at the one-month LIBOR plus 150 basis points plus a margin that ranges from zero to 100 basis points for borrowings in U.S. Dollars and 150 to 250 basis points on

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

borrowings in Euros or Sterling, depending on the Company's total adjusted leverage ratio. The Floorplan Line also requires a commitment fee of 0.20% per annum on the unused portion. The Acquisition Line requires a commitment fee ranging from 0.25% to 0.45% per annum, depending on the Company's total adjusted leverage ratio, based on a minimum commitment of \$100.0 million less outstanding borrowings. In conjunction with the Revolving Credit Facility, the Company has \$7.6 million of related unamortized costs as of June 30, 2013 that are being amortized over the term of the facility.

After considering the outstanding balance of \$929.3 million at June 30, 2013, the Company had \$450.7 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$450.7 million available borrowings under the Floorplan Line was \$82.0 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.7% as of June 30, 2013 and December 31, 2012, under the Revolving Credit Facility, excluding the impact of the Company's interest rate swaps. 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. With regards to the Acquisition Line, no borrowings were outstanding as of June 30, 2013 or December 31, 2012, under the Revolving Credit Facility. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants. After considering \$29.3 million of outstanding letters of credit and other factors included in the Company's available borrowing base calculation, there was \$263.6 million of available borrowing capacity under the Acquisition Line as of June 30, 2013.

All of the Company's domestic 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 domestic personal property (other than equity interests in dealership-owning subsidiaries), including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries. 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 fixed charge coverage, total adjusted leverage, and senior secured adjusted leverage. 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 \$125.0 million plus (or minus if negative) (a) one-half of the aggregate consolidated net income of the Company for the period beginning on January 1, 2013 and ending on the date of determination and (b) the amount of net cash proceeds received from the sale of capital stock on or after January 1, 2013 and ending on the date of determination less (c) cash dividends and share repurchases ("Restricted Payment Basket"). For purposes of the calculation of the 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, 2013, the Restricted Payment Basket totaled \$146.3 million. As of June 30, 2013, 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, including affiliated brands. This arrangement provides for \$200.0 million of floorplan financing and is an evergreen arrangement that may be canceled with 30 days notice by either party. As of June 30, 2013, the Company had an outstanding balance of \$150.2 million under the FMCC Facility with an available floorplan borrowing capacity of \$49.8 million. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives; however, the prime rate is defined to be a minimum of 3.50%. As of June 30, 2013, the interest rate on the FMCC Facility was 5.00% before considering the applicable incentives.

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 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. Dependent upon the type of inventory financed, the interest rates charged on borrowings outstanding under these facilities ranged from 1.37% to 3.95% as of June 30, 2013.

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 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. As of June 30, 2013, the interest rates charged on borrowings outstanding under these facilities ranged from 12.00% to 16.76%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Excluding rental vehicles financed through the Revolving Credit Facility, financing for 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. As of June 30, 2013, the interest rate charged on borrowings related to the Company's rental vehicle fleet varied up to 5.00%. Rental vehicles are typically transferred to used vehicle inventory when they are removed from rental service and repayment of the borrowing is required at that time.

9. LONG-TERM DEBT

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
2.25% Convertible Senior Notes	\$156,272	\$152,363
3.00% Convertible Senior Notes	82,468	80,706
Mortgage Facility	49,435	56,677
Other Real Estate Related and Long-Term Debt	235,499	249,710
Capital lease obligations related to real estate, maturing in varying amounts through June 2034 with a weighted average interest rate of 10.6%	41,605	38,232
	565,279	577,688
Less current maturities of mortgage facility and other long-term debt	23,570	22,672
	\$541,709	\$555,016

Included in current maturities of long-term debt and short-term financing in the Company's Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 was \$0.7 million and \$8.7 million, respectively, of short-term financing that is due within one year of the respective balance sheet date.

Fair Value of Long-Term Debt

The Company's outstanding 2.25% Convertible Senior Notes due 2036 ("2.25% Notes") had a fair value of \$220.1 million and \$214.6 million as of June 30, 2013 and December 31, 2012, respectively. The Company's outstanding 3.00% Convertible Senior Notes due 2020 ("3.00% Notes") had a fair value of \$211.0 million and \$203.5 million as of June 30, 2013 and December 31, 2012, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of June 30, 2013 and December 31, 2012. 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. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented. The carrying value of the Company's variable rate debt approximates fair value due to the short-term nature of the interest rates.

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2.25% Convertible Senior Notes

As of June 30, 2013 and December 31, 2012, the carrying value of the 2.25% Notes, related discount and equity component consisted of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
Carrying amount of equity component	\$65,270	\$65,270
Allocated underwriter fees, net of taxes	(1,475	) (1,475
Allocated debt issuance cost, net of taxes	(58	) (58
Total net equity component	\$63,737	\$63,737
Deferred income tax component	\$9,463	\$10,846
Principal amount of 2.25% Notes	\$182,753	\$182,753
Unamortized discount	(25,483	) (29,244
Unamortized underwriter fees	(998	) (1,146
Net carrying amount of liability component	\$156,272	\$152,363
Unamortized debt issuance cost	\$40	\$45

For the six months ended June 30, 2013 and 2012, the contractual interest expense and the discount amortization, which is recorded as other interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Six Months Ended June 30,	
	2013	2012
	(Dollars in thousands)	
Year-to-date contractual interest expense	\$2,056	\$2,056
Year-to-date discount amortization ⁽¹⁾	\$3,689	\$3,404
Effective interest rate of liability component	7.7	% 7.7

(1) Represents the incremental impact of the accounting for convertible debt as primarily codified in ASC 470, Debt.

The Company determined the discount using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 7.50% was estimated by comparing debt issuances from companies with similar credit ratings during the same annual period as the Company. The effective interest rate differs due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount and are being amortized to interest expense through 2016. The effective interest rate may change in the future as a result of future repurchases of the 2.25% Notes. The Company utilized a ten-year term for the assessment of the fair value of its 2.25% Notes.

The 2.25% Notes are convertible into cash and, if applicable, common stock based on the conversion rate, subject to adjustment, including a quarterly cash dividend in excess of \$0.14 per share, under the following circumstances: (a) during any calendar quarter (and only during such calendar quarter) beginning after September 30, 2006, if the closing price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the applicable conversion price per share (or \$77.18 as of June 30, 2013); (b) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount for each day of the ten day trading period was less than 98% of the product of the last reported sale/bid price of the Company's common stock and the conversion rate on that day; and (c) upon the occurrence of specified corporate transactions set forth in the indenture governing the 2.25% Notes (the "2.25% Notes Indenture"). Upon conversion, a holder will receive an amount in cash and common shares of the Company's common stock, determined in the manner set forth in the 2.25% Notes Indenture. The if-converted value of the 2.25% Notes exceeded the principal amount of the 2.25% Notes by \$15.5 million at June 30, 2013.

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As of June 30, 2013, the conversion rate was 16.8439 shares of common stock per \$1,000 principal amount of 2.25% Notes, with a conversion price of \$59.37 per share, which was reduced during the second quarter of 2013 as the result of the Company's decision to pay a cash dividend in excess of \$0.14 per share. As of June 30, 2013, the exercise price of the 2.25% Warrants, which are related to the issuance of the 2.25% Notes, was reduced to \$80.23 due to the Company's decision to pay a cash dividend in excess of \$0.14 per share during the second quarter of 2013. If any cash dividend or distribution is made to all, or substantially all, holders of the Company's common stock in excess of \$0.14 per share in the future, the conversion rate will be further adjusted based on the formula defined in the 2.25% Notes Indenture.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Under the terms of the 2.25% Purchased Options, which become exercisable upon conversion of the 2.25% Notes, the Company has the right to receive a total of 3.1 million shares of its common stock at the conversion price then in effect. The exercise price is subject to certain adjustments that mirror the adjustments to the conversion price of the 2.25% Notes (including payments of cash dividends in excess of \$0.14 per share).

3.00% Convertible Senior Notes

As of June 30, 2013 and December 31, 2012, the carrying value of the 3.00% Notes, related discount and equity component consisted of the following:

	June 30, 2013 (In thousands)	December 31, 2012
Carrying amount of equity component (including temporary equity)	\$25,359	\$25,359
Allocated underwriter fees, net of taxes	(760)	(760)
Allocated debt issuance cost, net of taxes	(112)	(112)
Total net equity component	\$24,487	\$24,487
Deferred income tax component	\$11,248	\$11,844
Principal amount of 3.00% Notes	\$115,000	\$115,000
Unamortized discount	(30,835)	(32,505)
Unamortized underwriter fees	(1,697)	(1,789)
Net carrying amount of liability component	\$82,468	\$80,706
Unamortized debt issuance costs	\$250	\$264

For the six months ended June 30, 2013 and 2012, the contractual interest expense and the discount amortization, which is recorded as interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Six Months Ended June 30,	
	2013	2012
	(Dollars in thousands)	
Year-to-date contractual interest expense	\$1,725	\$1,725
Year-to-date discount amortization ⁽¹⁾	\$1,588	\$1,449
Effective interest rate of liability component	8.6	% 8.6

(1) Represents the incremental impact of the accounting for convertible debt as primarily codified in ASC 470, Debt.

The Company determined the discount using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 8.25% was estimated by receiving a range of quotes from the underwriters for the estimated rate that the Company could reasonably expect to issue non-convertible debt for the same tenure. The effective interest rate differs from the 3.00%, due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount and are being amortized to interest expense through 2020. The effective interest rate may change in the future as a result of future repurchases of the 3.00% Notes. The Company utilized a ten-year term for the assessment of the fair value of its 3.00% Notes.

The 3.00% Notes are convertible into cash and, if applicable, common stock based on the conversion rate, subject to adjustment, on the business day preceding September 15, 2019, under the following circumstances: (a) during any fiscal quarter (and only during such fiscal quarter) beginning after September 30, 2010, if the last reported sale price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the applicable conversion price per share (or \$48.72 as of June 30, 2013) ("Stock Price Trigger"); (b) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount for each day of the ten day trading period was less than 98% of the product of the last reported sale/bid price of the Company's common stock and the conversion rate on that day; and (c) upon the occurrence of specified corporate transactions set forth in the indenture governing the 3.00% Notes (the "3.00% Notes Indenture"). Upon conversion, a holder will receive an amount in cash and common shares of the Company's common stock, determined in the manner set forth in the 3.00%

Notes Indenture.

As a result of the Stock Price Trigger on June 30, 2013, the 3.00% Notes are convertible at the option of the holders during the three months ending September 30, 2013. As such, the Company reclassified the redeemable equity portion of the 3.00% Notes to temporary equity from the additional paid-in capital component of permanent equity on the Consolidated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Balance Sheet as of June 30, 2013. The debt portion of the 3.00% Notes continued to be classified as a long-term liability as of June 30, 2013, since the Company has the intent and ability to refinance any conversion of the 3.00% Notes with another long-term debt instrument. The combination of the debt portion and temporary equity portion represents the aggregate principal obligation of the 3.00% Notes redeemable at the option of the holders as of June 30, 2013. The if-converted value of the 3.00% Notes exceeded the principal amount of the 3.00% Notes by \$82.6 million at June 30, 2013.

As of June 30, 2013, the conversion rate was 26.6822 shares of common stock per \$1,000 principal amount of 3.00% Notes, with a conversion price of \$37.48 per share, which was reduced during the second quarter of 2013 as the result of the Company's decision to pay a cash dividend. As of June 30, 2013, the exercise price of the 3.00% Warrants, which are related to the issuance of the 3.00% Notes, was reduced to \$55.07 due to the Company's decision to pay a cash dividend during the second quarter of 2013. If any cash dividend or distribution is made to all, or substantially all, holders of the Company's common stock in the future, the conversion rate will be further adjusted based on the formula defined in the 3.00% Notes Indenture.

Under the terms of the 3.00% Purchased Options, which become exercisable upon conversion of the 3.00% Notes, the Company has the right to receive a total of 3.1 million shares of its common stock at the conversion price then in effect. The exercise price is subject to certain adjustments that mirror the adjustments to the conversion price of the 3.00% Notes (including payments of cash dividends).

Real Estate Credit Facility

Group 1 Realty, Inc., a wholly-owned subsidiary of the Company, has entered into a real estate credit facility with Bank of America, N.A. and Comerica Bank (as amended and restated, the "Mortgage Facility") provides the right for up to \$83.4 million of term loans, of which \$60.7 million has been used as of June 30, 2013. The term loans can be expanded provided that (a) no default or event of default exists under the Mortgage Facility; (b) the Company obtains commitments from the lenders who would qualify as assignees for such increased amounts; and (c) certain other agreed upon terms and conditions have been satisfied. This facility is guaranteed by the Company and substantially all of the domestic subsidiaries of the Company and is secured by the real property owned by the Company that is mortgaged under the Mortgage Facility. The Company capitalized debt issuance costs related to the Mortgage Facility that are being amortized over the term of the facility, \$0.5 million of which were still unamortized as of June 30, 2013. The interest rate is equal to (a) the per annum rate equal to one-month LIBOR plus 2.50% per annum, determined on the first day of each month; or (b) 1.45% per annum in excess of the higher of (i) the Bank of America prime rate (adjusted daily on the day specified in the public announcement of such price rate), (ii) the Federal Funds Rate adjusted daily, plus 0.5% or (iii) the per annum rate equal to the one-month LIBOR plus 1.05% per annum. The Federal Funds Rate is the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the business day succeeding such day.

The Company is required to make quarterly principal payments equal to 1.25% of the principal amount outstanding and is required to repay the aggregate amount outstanding on the maturity dates of the individual property borrowings, ranging, from December 29, 2015 through February 27, 2017. For the six months ended June 30, 2013, the Company made no additional borrowings and principal payments of \$7.3 million on outstanding borrowings from the Mortgage Facility. As of June 30, 2013, borrowings outstanding under the Mortgage Facility totaled \$49.4 million, with \$2.7 million recorded as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

The Mortgage Facility also contains usual and customary provisions limiting the Company's ability to engage in certain transactions, including limitations on the Company's ability to incur additional debt, additional liens, make investments, and pay distributions to its stockholders. In addition, the Mortgage Facility requires certain financial covenants that are identical to those contained in the Company's Revolving Credit Facility. As of June 30, 2013, the Company was in compliance with all applicable covenants and ratios under the Mortgage Facility.

Real Estate Related Debt

The Company, as well as certain of its wholly-owned subsidiaries, has entered into separate term mortgage loans in the U.S. with four of its manufacturer-affiliated finance partners – Toyota Motor Credit Corporation (“TMCC”), Mercedes-Benz Financial Services USA, LLC (“MBFS”), BMW Financial Services NA, LLC (“BMWFS”), FMCC and several third-party financial institutions (collectively, “Real Estate Notes”). The Real Estate Notes are on 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 3.67% and 9.00%, and at variable indexed rates plus a spread between 2.25% and 3.35% per annum. The Company

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

capitalized debt issuance costs related to the Real Estate Notes that are being amortized over the terms of the notes, \$0.8 million of which were still unamortized as of June 30, 2013.

The loan agreements with TMCC consist of seven term loans. As of June 30, 2013, \$47.2 million was outstanding under the TMCC term loans, with \$5.4 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. The maturity dates vary from three to seven years and provide for monthly payments based on a 20-year amortization schedule. These seven loans are cross-collateralized and cross-defaulted with each other and are cross-defaulted with the Revolving Credit Facility.

The loan agreements with MBFS consist of three term loans. As of June 30, 2013, \$46.3 million was outstanding under the MBFS term loans, with \$1.7 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. The agreements provide for monthly payments based on a 20-year amortization schedule and have a maturity date of five years. These three loans are cross-collateralized and cross-defaulted with each other and are also cross-defaulted with the Revolving Credit Facility.

The loan agreements with BMWFS consist of 13 term loans. As of June 30, 2013, \$67.6 million was outstanding under the BMWFS term loans, with \$3.8 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. The agreements provide for monthly payments based on a 15-year amortization schedule and have a maturity date of 7 years. In the case of three properties owned by subsidiaries, the applicable loan is also guaranteed by the subsidiary real property owner. These 13 loans are cross-collateralized with each other. In addition, they are cross-defaulted with each other, the Revolving Credit Facility, and certain dealership franchising agreements with BMW of North America, LLC.

In addition, agreements with third-party financial institutions consist of 11 term loans for an aggregate principal amount of \$59.4 million, to finance real estate associated with the Company's dealerships. These loans are inclusive of the Company's one term loan with FMCC with \$5.5 million outstanding and \$0.2 million classified as current. The loans are being repaid in monthly installments that began in July 1998 and will mature by November 2022. As of June 30, 2013, borrowings under these notes totaled \$53.1 million, with \$3.0 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. Nine of these loans are cross-defaulted with the Revolving Credit Facility. The other two loans, including the FMCC loan, are subject to separate restrictions and covenants. The Company was in compliance with all applicable covenants and ratios under the agreements.

The Company has also entered into separate term mortgage loans in the U.K. with another third-party financial institution which are secured by the Company's U.K. properties. These mortgage loans (collectively, "Foreign Notes") are being repaid in monthly installments that began in March 2010 and mature August 2027. As of June 30, 2013, borrowings under the Foreign Notes totaled \$16.3 million, with \$2.3 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

10. FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("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; 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 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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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.

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 investments in marketable securities, debt instruments, and interest rate derivative financial instruments as having met such criteria. The respective fair values measured on a recurring basis as of June 30, 2013 and December 31, 2012, respectively, were as follows:

	As of June 30, 2013		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Interest rate derivative financial instruments	\$—	\$2,785	\$2,785
Debt securities:			
Demand obligations	\$—	\$60	\$60
Total	\$—	\$2,845	\$2,845
Liabilities:			
Interest rate derivative financial instruments	\$—	\$28,116	\$28,116
Total	\$—	\$28,116	\$28,116
	As of December 31, 2012		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Debt securities:			
Demand obligations	\$—	\$616	\$616
Total	\$—	\$616	\$616
Liabilities:			
Interest rate derivative financial instruments	\$—	\$43,089	\$43,089
Total	\$—	\$43,089	\$43,089

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 SG&A 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

resolution of one or more of such matters could have a material adverse effect on the Company's results of operations, financial condition, or cash flows.

Other Matters

The Company, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by the Company's subsidiaries of their respective dealership premises. Pursuant to these leases, the Company's subsidiaries generally agree to indemnify the lessor and other parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, the Company enters into agreements in connection with the sale of assets or businesses in which it agrees to indemnify the purchaser, or other parties, from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, the Company enters into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability would be limited by the terms of the applicable agreement. From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries assign or sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships. In general, the Company's subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, the Company and its subsidiaries generally remain subject to the terms of any guarantees made by the Company and its subsidiaries in connection with such leases. Although the Company generally has indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, and the Company presently has no reason to believe that it or its subsidiaries will be called on to perform under any such assigned leases or subleases, the Company estimates that lessee rental payment obligations during the remaining terms of these leases were \$17.2 million as of June 30, 2013. 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. 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, 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.

In the ordinary course of business, the Company is subject to numerous laws and regulations, including automotive, environmental, health and safety, and other laws and regulations. The Company does not anticipate that the costs of such compliance will have a material adverse effect on its business, consolidated results of operations, financial condition, or cash flows, although such outcome is possible given the nature of its operations and the extensive legal and regulatory framework applicable to its business. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, established a new consumer financial protection agency with broad regulatory powers. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers through its regulation of automotive finance companies and other financial institutions. In addition, the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, has the potential to increase the Company's future annual employee health care costs. Further, new laws and regulations, particularly at the federal level, may be enacted, which could also have a materially adverse impact on its business.

12. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

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

	Intangible Franchise Rights (In thousands)	Goodwill	
BALANCE, December 31, 2012	\$ 196,058	\$ 582,384	(1)

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Additions through acquisitions	95,304	115,526	
Disposals	(5,826)) (4,728)
Currency Translation	(10,563) (12,258)
Tax adjustments	—	(67)
BALANCE, June 30, 2013	274,973	680,857	(1)

⁽¹⁾ Net of accumulated impairment of \$40.3 million

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The increase in the Company's goodwill and intangible franchise rights is primarily related to the purchase of franchises in the U.K. and Brazil.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the balances of each component of accumulated other comprehensive loss for the six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended June 30, 2013			
	Accumulated foreign currency translation loss	Accumulated gain (loss) on marketable securities	Accumulated (loss) gain on interest rate swaps	Total
	(In thousands)			
Balance, December 31, 2012	\$ (6,126)	\$ —	\$ (26,931)	\$ (33,057)
Other comprehensive income before reclassifications:				—
Pre-tax	(26,724)	—	12,304	(14,420)
Tax effect	—	—	(4,614)	(4,614)
Amounts reclassified from accumulated other comprehensive income to:				
Floorplan interest expense	—	—	4,848	4,848
Other interest expense	—	—	606	606
Tax effect	—	—	(2,045)	(2,045)
Net current period other comprehensive (loss) income	(26,724)	—	11,099	(15,625)
Balance, June 30, 2013	\$ (32,850)	\$ —	\$ (15,832)	\$ (48,682)

	Six Months Ended June 30, 2012			
	Accumulated foreign currency translation loss	Accumulated gain (loss) on marketable securities	Accumulated (loss) gain on interest rate swaps	Total
	(In thousands)			
Balance, December 31, 2011	\$ (7,969)	\$ 8	\$ (21,275)	\$ (29,236)
Other comprehensive income before reclassifications:				
Pre-tax	(6)	8	(12,176)	(12,174)
Tax effect	—	—	4,566	4,566
Amounts reclassified from accumulated other comprehensive income to:				
Floorplan interest expense	—	—	5,344	5,344
Other interest expense	—	—	550	550
Tax effect	—	—	(2,210)	(2,210)
Net current period other comprehensive (loss) income	(6)	8	(3,926)	(3,924)
Balance, June 30, 2012	\$ (7,975)	\$ 16	\$ (25,201)	\$ (33,160)

14. SEGMENT INFORMATION

As of June 30, 2013, 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 vehicles, used vehicles, parts and automotive services and finance and insurance products, and collision centers. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The reportable segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer. Reportable segment revenue, gross profit, SG&A, floorplan interest expense, net income and capital expenditures are as follows:

	Three Months Ended June 30, 2013				Six Months Ended June 30, 2013			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Revenues	\$1,881,654	\$207,436	\$246,020	\$2,335,110	\$3,603,440	\$378,514	\$316,988	\$4,298,942
Gross profit	290,476	23,744	27,054	341,274	563,418	42,915	35,430	641,763
Selling, general and administrative expense ⁽¹⁾	210,820	18,570	21,769	251,159	420,304	34,606	29,682	484,592
Floorplan interest expense	8,645	421	1,807	10,873	16,941	727	2,569	20,237
Other interest expense, net	9,301	293	(24)	9,570	18,341	507	(36)	18,812
Net income	32,209	2,972	2,207	37,388	53,674	4,488	1,344	59,506
Capital expenditures	15,420	675	684	16,779	30,695	760	929	32,384

⁽¹⁾ Includes a net gain on the disposition of dealerships of \$8.4 million and \$9.0 million for the three and six months ended June 30, 2013, respectively, in the U.S. segment. Also includes losses due to catastrophic events of \$11.1 million and \$11.9 million for the three and six months ended June 30, 2013, respectively, in the U.S. segment. For the six months ended June 30, 2013, includes acquisition costs included of \$5.2 million, \$0.1 million and \$1.2 million in the U.S., U.K. and Brazil segments, respectively.

	Three Months Ended June 30, 2012				Six Months Ended June 30, 2012			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Revenues	\$1,757,634	\$138,192	\$—	\$1,895,826	\$3,343,854	\$216,717	\$—	\$3,560,571
Gross profit	269,567	15,777	—	285,344	520,484	25,284	—	545,768
Selling, general and administrative expense ⁽²⁾	201,316	13,011	—	214,327	392,893	20,546	—	413,439
Floorplan interest expense	7,546	317	—	7,863	15,028	454	—	15,482
Other interest expense, net	9,070	120	—	9,190	17,989	241	—	18,230
Net income	27,300	1,325	—	28,625	49,477	2,265	—	51,742
Capital expenditures	16,416	48	—	16,464	25,999	160	—	26,159

⁽²⁾ Includes a loss due to catastrophic events of \$2.7 million, as well as a net gain on real estate transactions of \$1.1 million for both the three and six months ended June 30, 2012, in the U.S. segment.

Reportable segment goodwill and intangible franchise rights and total assets by segment are as follows:

	As of June 30, 2013			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Goodwill and Intangible Franchise Rights	\$754,539	\$26,076	\$175,215	\$955,830
Total assets	2,886,311	205,034	317,973	3,409,318
	As of December 31, 2012			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Goodwill and Intangible Franchise Rights	\$752,372	\$26,070	\$—	\$778,442

Total assets	2,860,771	162,244	—	3,023,015
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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) includes certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). This information includes statements regarding our plans, goals or current expectations with respect to, among other things:

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

Although we believe that the expectations reflected in these forward-looking statements are reasonable when and as made, we cannot assure that these expectations will prove to be correct. When used in this Form 10-Q, the words “anticipate,” “believe,” “estimate,” “expect,” “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements. Our forward-looking statements are not assurances of future performance and involve risks and uncertainties. Actual results may differ materially from anticipated results in the forward-looking statements for a number of reasons, including:

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

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

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see (a) Part II, “Item 1A. Risk Factors” in this Form 10-Q and (b) Part I, “Item 1A. Risk Factors” in our 2012 Form 10-K.

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

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

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

Overview

We are a leading operator in the automotive retail industry. Through our operating subsidiaries, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Effective with the acquisition of UAB Motors on February 28, 2013, we are aligned into four geographic regions: the East and West Regions in the United States, the United Kingdom Region, and the Brazil Region. Also, in conjunction with the acquisition of UAB Motors and associated changes in how our chief operating decision maker is evaluating performance and allocating resources, we reaffirmed that each region represents an operating segment. Each region is managed by a regional vice president who reports directly to our Chief Executive Officer and is responsible for the overall performance of their region. The financial matters of each region are managed by a regional chief financial officer who reports directly to our Chief Financial Officer. As part of this determination, we further concluded that the East and West Regions of the United States continue to be economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments and, therefore we aggregate these two regions into one reportable segment. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K. and Brazil.

As of June 30, 2013, we owned and operated 180 franchises, representing 34 brands of automobiles, at 141 dealership locations and 36 collision service centers worldwide. We own 139 franchises at 109 dealerships, and 27 collision centers in the U.S., 19 franchises at 14 dealerships and four collision centers in the U.K. as well as 22 franchises at 18 dealerships and five collision service centers in Brazil. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina and Texas in the U.S., in 13 towns in the U.K. and in key metropolitan markets in the states of Sao Paulo and Parana in Brazil.

Outlook

During the first six months of 2013, consumer demand for new and used vehicles in the U.S. improved. According to industry experts, the average seasonally adjusted annual rate of sales in the U.S. (or "SAAR") through the first six months of 2013 was 15.3 million units, compared to 14.1 million units for the same period in 2012. We believe that the improving economic trends provide opportunities for us to improve our operating results as we: (a) expand our new and used vehicle unit sales and improve our sales efficiency; (b) continue to focus on our higher margin parts and service business, implementing strategic selling methods, and improving operational efficiencies; (c) invest capital where necessary to support our anticipated growth, particularly in our parts and service business; and (d) further leverage our revenue and gross profit growth through continued cost controls.

The U.K. economy represents the sixth largest economy in the world. The U.K. market continues to outperform the rest of Europe. Vehicle registrations increased 13.4% in June 2013 and are up 10.0% through the first six months of 2013, when compared to the same period a year ago. The latest industry estimates have new vehicle sales continuing to grow for the remainder of the year.

The Brazilian economy represents the seventh largest in the world and recently has been one of the fastest growing economies in the world. We believe the Brazilian government's recent decision to not implement the planned increases in Industrial Products taxes ("IPI") that were scheduled for April 1, 2013 and the freeze of current tax rates indefinitely are positive developments for the market. However, the Brazilian economy is facing many challenges and is not demonstrating significant growth at the moment. During the three months ended June 30, 2013, we have seen a rise in inflation and interest rates and a decrease in the value of the Brazilian Real compared to the U.S. Dollar. We expect industry sales in Brazil to be flat in 2013, but we remain optimistic for growth in the longer run.

Our operations have generated, and we believe that our operations will continue to generate, positive cash flow. As such, we are focused on maximizing the return that we generate from our invested capital and positioning our balance sheet to take advantage of investment opportunities as they arise. We continue to closely scrutinize all planned future capital spending and work closely with our original equipment manufacturer (“OEM”) partners in this area to make prudent investment decisions that are expected to generate an adequate return and/or improve the customer experience. We anticipate that our capital spending for the full year of 2013 will be approximately \$70.0 million.

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We remain committed to our growth-by-acquisition strategy. We believe that significant opportunities exist to enhance our portfolio with dealerships that meet our stringent investment criteria in the U.S., U.K. and Brazil. During the first six months of 2013, we completed the acquisition of 23 dealerships in the U.S., U.K. and Brazil. We will continue to pursue dealership investment opportunities that we believe will add value for our stockholders.

Financial and Operational Highlights

Our operating results reflect the combined performance of each of our interrelated business activities, which include the sale of new vehicles, used vehicles, finance and insurance products, and parts, as well as maintenance and collision repair services. Historically, each of these activities has been directly or indirectly impacted by a variety of supply/demand factors, including vehicle inventories, consumer confidence, discretionary spending, availability and affordability of consumer credit, manufacturer incentives, weather patterns, fuel prices and interest rates. For example, during periods of sustained economic downturn or significant supply/demand imbalances, new vehicle sales may be negatively impacted as consumers tend to shift their purchases to used vehicles. Some consumers may even delay their purchasing decisions altogether, electing instead to repair their existing vehicles. In such cases, however, we believe the new vehicle sales impact on our overall business is mitigated by our ability to offer other products and services, such as used vehicles and parts, as well as maintenance and collision repair services. In addition, our ability to reduce our costs in response to lower sales also tempers the impact of lower new vehicle sales volume.

We generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year in the U.S., in the first and third quarters in the U.K. and expect higher volumes during the third and fourth quarters in Brazil. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, our revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. 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 our revenues and operating income.

For the three months ended June 30, 2013, total revenues increased 23.2% from 2012 levels to \$2.3 billion and gross profit improved 19.6% to \$341.3 million. For the six months ended June 30, 2013, total revenues increased 20.7% from 2012 levels to \$4.3 billion and gross profit improved 17.6% to \$641.8 million. Operating income increased from 2012 levels by 27.8% to \$80.6 million for the three months ended June 30, 2013 and by 19.0% to \$139.3 million for the six months ended June 30, 2013. Income before income taxes increased to \$60.2 million for the second quarter of 2013, which was a 30.7% improvement over the second quarter last year, and increased to \$99.4 million for the first half of 2013, which was a 19.3% improvement over 2012. For the three months ended June 30, 2013, we realized a 30.6% improvement in net income to \$37.4 million and a 19.2% increase in diluted income per share to \$1.43. For the six months ended June 30, 2013, we realized a 15.0% increase in net income to \$59.5 million and a 6.4% increase in diluted income per share to \$2.32. For the six months ended June 30, 2013, our net cash provided by operations was \$87.3 million compared to net cash used in operations of \$45.7 million in the same period in 2012.

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Key Performance Indicators

Consolidated Statistical Data

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

	Three Months Ended		Six Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
Unit Sales					
Retail Sales					
New Vehicle	41,531	32,924	74,627	60,854	
Used Vehicle	25,634	22,004	48,872	42,753	
Total Retail Sales	67,165	54,928	123,499	103,607	
Wholesale Sales	13,072	11,244	24,407	21,238	
Total Vehicle Sales	80,237	66,172	147,906	124,845	
Gross Margin					
New Vehicle Retail Sales	5.8	% 5.9	% 5.8	% 5.9	%
Total Used Vehicle Sales	7.1	% 7.4	% 7.4	% 7.7	%
Parts and Service Sales	52.5	% 53.1	% 52.6	% 52.6	%
Total Gross Margin	14.6	% 15.1	% 14.9	% 15.3	%
SG&A ⁽¹⁾ as a % of Gross Profit	73.6	% 75.1	% 75.5	% 75.8	%
Operating Margin	3.5	% 3.3	% 3.2	% 3.3	%
Pretax Margin	2.6	% 2.4	% 2.3	% 2.3	%
Finance and Insurance Revenues per Retail Unit Sold	\$1,188	\$1,191	\$1,214	\$1,184	

(1) Selling, general and administrative expenses.

The following discussion briefly highlights certain of the results and trends occurring within our business. Throughout the following discussion, references are made to Same Store results and variances which are discussed in more detail in the "Results of Operations" section that follows.

SAAR has risen from an average of 14.1 million units for the six months ended June 30, 2012 to 15.3 million units for the same period in 2013. Our new vehicle retail sales revenues increased 27.3% and 24.7% for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. This growth primarily reflects an increase in new vehicle unit sales of 26.1% and 22.6%, for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, as a result of stronger consumer confidence in the U.S., improved inventory levels and strong execution by our operating team, as well as dealership acquisition activity. New vehicle retail gross margin declined 10 basis points to 5.8% for both the three and six months ended June 30, 2013, as compared to the same periods in 2012 as gross profit per retail unit sold remained relatively flat on increased average retail sales prices.

Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory. Our used vehicle retail sales revenues increased 17.2% and 15.5%, for the three and six months ended June 30, 2013, as compared to the same periods in 2012. This growth primarily reflects increases in the used vehicle retail unit sales of 16.5% and 14.3%, as compared to the respective periods in 2012, including the impact if our recent dealership acquisitions in the U.K. and Brazil. The improving U.S. economic environment that has benefited new vehicle sales also supported improved used vehicle demand. Used vehicle retail gross margin declined 40 and 30 basis points, respectively, for the three and six months ended June 30, 2013, as compared to the same periods in 2012. Used vehicle margins are generally lower in our U.K. and Brazil segments. So, this decline in used vehicle gross margin primarily relates to the mix shift effect, as a result of a larger contribution from these foreign segments.

Our parts and service sales increased 18.4% and 15.0%, for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. This growth was driven by increases in all aspects of our business: collision, customer-pay, warranty, and wholesale parts. Our parts and service gross margin decreased 60

basis points for the second quarter of 2013, primarily due to a mix shift with the acquisition of our Brazil segment, which generally realizes lower parts and service gross

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margins particularly within the warranty parts and service business. Parts and service gross margin remained flat for the six months ended June 30, 2013, as compared to the same period in 2012.

Our consolidated finance and insurance revenues per retail unit sold decreased by \$3 for the three months ended June 30, 2013, as compared to the same period in 2012, more than explained by the mix effect of our recent Brazil and U.K. acquisitions. Finance and insurance revenues per retail unit sold increased \$30 for the six months ended June 30, 2013, as compared to the same period in 2012, primarily as a result of higher income per contract, partially offset by unfavorable country mix.

Our total gross margin decreased 50 basis points for the three months ended June 30, 2013 and 40 basis points for the first half of 2013, as compared to the same periods in 2012, primarily due to the shift in business mix towards the lower margin new and used vehicle businesses and growing contribution from our foreign segments.

Our consolidated SG&A expenses decreased as a percentage of gross profit by 150 basis points to 73.6% for the three months ended June 30, 2013 and by 30 basis points to 75.5% for the six months ended June 30, 2013, as compared to the same periods in 2012, reflecting the leverage of our cost structure realized with the improved revenue and gross profit, partially offset by unfavorable country mix.

For the three and six months ended June 30, 2013, floorplan interest expense increased 38.3% and 30.7%, respectively, as compared to the same periods in 2012, primarily as a result of an increase in our floorplan borrowings from dealership acquisitions, particularly in Brazil, and improved inventory supply. Other interest expense, net increased 4.1% and 3.2%, respectively, for the three and six months ended June 30, 2013, as compared to the same periods in 2012, primarily reflecting increased mortgage borrowings associated with dealership real estate.

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

Critical Accounting Policies and Accounting Estimates

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions.

We disclosed certain critical accounting policies and estimates in our Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K"), and no significant changes have occurred since that time.

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Results of Operations

The following tables present comparative financial and non-financial data for the three and six months ended June 30, 2013 and 2012 of (a) our “Same Store” locations, (b) those locations acquired or disposed of during the periods (“Transactions”), and (c) the consolidated company. Same Store amounts include the results of dealerships for the identical months in each period presented in the comparison, commencing with the first full month in which the dealership was owned by us and, in the case of dispositions, ending with the last full month it was owned by us. Same Store results also include the activities of our corporate headquarters.

Total Same Store Data

The following table summarizes our combined Same Store results for the three and six months ended June 30, 2013, as compared to 2012:

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,			Six Months Ended June 30,			
	2013	% Change	2012	2013	% Change	2012	
Revenues							
New vehicle retail	\$1,117,203	6.7%	\$1,047,135	\$2,084,535	7.7%	\$1,936,297	
Used vehicle retail	466,996	5.7%	441,638	887,462	4.8%	846,603	
Used vehicle wholesale	67,987	(3.1)%	70,140	130,143	(3.3)%	134,530	
Parts and service	231,110	8.8%	212,324	450,751	7.1%	420,751	
Finance, insurance and other	73,646	15.3%	63,851	139,109	16.0%	119,940	
Total revenues	\$1,956,942	6.6%	\$1,835,088	\$3,692,000	6.8%	\$3,458,121	
Cost of Sales							
New vehicle retail	\$1,055,229	7.1%	\$984,919	\$1,970,279	8.1%	\$1,822,518	
Used vehicle retail	427,846	5.9%	403,855	812,020	5.0%	773,207	
Used vehicle wholesale	67,746	(2.9)%	69,737	127,728	(2.8)%	131,461	
Parts and service	107,532	7.8%	99,795	211,182	5.9%	199,426	
Total cost of sales	\$1,658,353	6.4%	\$1,558,306	\$3,121,209	6.6%	\$2,926,612	
Gross profit	\$298,589	7.9%	\$276,782	\$570,791	7.4%	\$531,509	
SG&A	\$223,740	8.0%	\$207,158	\$433,250	8.1%	\$400,654	
Depreciation and amortization expenses	\$7,997	6.5%	\$7,508	\$15,686	7.0%	\$14,659	
Floorplan interest expense	\$8,716	14.5%	\$7,612	\$16,783	11.5%	\$15,054	
Gross Margin							
New vehicle retail	5.5	%	5.9	5.5	%	5.9	%
Total used vehicle	7.4	%	7.5	7.7	%	7.8	%
Parts and service	53.5	%	53.0	53.1	%	52.6	%
Total gross margin	15.3	%	15.1	15.5	%	15.4	%
SG&A as a % of gross profit	74.9	%	74.8	75.9	%	75.4	%
Operating margin	3.4	%	3.4	3.3	%	3.4	%
Finance and insurance revenues per retail unit sold	\$1,328	10.1%	\$1,206	\$1,328	10.9%	\$1,197	

The discussion that follows provides explanation for the material variances noted above. In addition, each table presents, by primary statement of operations line item, comparative financial and non-financial data of our Same Store locations, Transactions and the consolidated company for the three and six months ended June 30, 2013 and 2012.

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New Vehicle Retail Data

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,			
	2013	% Change	2012	2013	% Change	2012
Retail Unit Sales						
Same Stores						
U.S.	31,234	5.3%	29,650	58,657	5.5%	55,579
U.K.	2,111	2.2%	2,065	3,323	3.5%	3,212
Total - Same Stores	33,345	5.1%	31,715	61,980	5.4%	58,791
Transactions						
U.S.	1,355		1,130	2,710		1,984
U.K.	1,494		79	3,109		79
Brazil	5,337		—	6,828		—
Total	41,531	26.1%	32,924	74,627	22.6%	60,854
Retail Sales Revenues						
Same Stores						
U.S.	\$1,043,855	7.2%	\$973,510	\$1,969,874	8.1%	\$1,823,065
U.K.	73,348	(0.4)%	73,625	114,661	1.3%	113,232
Total - Same Stores	1,117,203	6.7%	1,047,135	2,084,535	7.7%	1,936,297
Transactions						
U.S.	34,751		30,061	71,365		53,494
U.K.	37,126		3,514	90,637		3,514
Brazil	187,139		—	239,917		—
Total	\$1,376,219	27.3%	\$1,080,710	\$2,486,454	24.7%	\$1,993,305
Gross Profit						
Same Stores						
U.S.	\$56,630	(0.6)%	\$56,969	\$105,817	0.3%	\$105,477
U.K.	5,344	1.8%	5,247	8,439	1.7%	8,302
Total - Same Stores	61,974	(0.4)%	62,216	114,256	0.4%	113,779
Transactions						
U.S.	1,696		1,366	4,089		2,623
U.K.	1,816		260	5,354		260
Brazil	14,879		—	19,301		—
Total	\$80,365	25.9%	\$63,842	\$143,000	22.6%	\$116,662
Gross Profit per Retail Unit Sold						
Same Stores						
U.S.	\$1,813	(5.6)%	\$1,921	\$1,804	(5.0)%	\$1,898
U.K.	\$2,532	(0.4)%	\$2,541	\$2,540	(1.7)%	\$2,585
Total - Same Stores	\$1,859	(5.2)%	\$1,962	\$1,843	(4.8)%	\$1,935
Transactions						
U.S.	\$1,252		\$1,209	\$1,509		\$1,322
U.K.	\$1,216		\$3,291	\$1,722		\$3,291
Brazil	\$2,788		\$—	\$2,827		\$—
Total	\$1,935	(0.2)%	\$1,939	\$1,916	(0.1)%	\$1,917

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	Three Months Ended June 30,			Six Months Ended June 30,				
	2013	% Change	2012	2013	% Change	2012		
Gross Margin								
Same Stores								
U.S.	5.4	%	5.9	%	5.4	%	5.8	%
U.K.	7.3	%	7.1	%	7.4	%	7.3	%
Total - Same Stores	5.5	%	5.9	%	5.5	%	5.9	%
Transactions								
U.S.	4.9	%	4.5	%	5.7	%	4.9	%
U.K.	4.9	%	7.4	%	5.9	%	7.4	%
Brazil	8.0	%	—		8.0	%	—	
Total	5.8	%	5.9	%	5.8	%	5.9	%

Same Store New Vehicle Unit Sales

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Toyota	10,300	2.1%	10,091	19,246	3.1%	18,666
BMW	4,005	7.9%	3,711	7,262	8.0%	6,723
Honda	3,496	(2.6)%	3,590	6,795	2.4%	6,637
Nissan	3,331	6.9%	3,115	6,564	6.0%	6,190
Ford	3,301	19.7%	2,758	6,319	13.6%	5,564
Volkswagen	2,138	3.8%	2,060	3,176	0.5%	3,159
General Motors	1,845	(3.3)%	1,908	3,612	(0.4)%	3,627
Mercedes-Benz	1,763	12.5%	1,567	3,259	12.8%	2,889
Chrysler	1,623	12.8%	1,439	3,038	12.2%	2,708
Hyundai	1,085	5.4%	1,029	1,832	4.4%	1,755
Other	458	2.5%	447	877	0.5%	873
Total	33,345	5.1%	31,715	61,980	5.4%	58,791

Coupled with the increase in overall industry sales, we believe the focus that we have placed on improving our dealership sales processes has contributed to increased Same Store new vehicle retail sales and profit. Our total Same Store new vehicle retail sales revenues increased 6.7% for the three months ended June 30, 2013, as compared to the same period in 2012, primarily as a result of increased U.S. new vehicle retail unit sales of 5.3%. The U.S. Same Store revenues for the three months ended June 30, 2013 improved 7.6% and 14.7% in our luxury and domestic brands, respectively, as compared to the same period in 2012. The U.S. Same Store revenues also increased by 3.6% in our import brands. The mix shift effect contributed to an increase in our U.S. Same Store revenues per retail unit (“PRU”), which grew 1.8% to \$33,421 during the second quarter of 2013, as compared to the same period in 2012. The level of retail sales, as well as our own ability to retain or grow market share during any future period, is difficult to predict. Our total Same Store new vehicle gross profit decreased 0.4% for the three months ended June 30, 2013, as compared to the same period in 2012, driven by a 5.6% decline in U.S. Same Store gross profit PRU to \$1,813. As a result, our total Same Store new vehicle gross margin for the three months ended June 30, 2013 declined 40 basis points as compared to the same period in 2012. The decline was due to lower margins at our U.S. luxury and import brand dealerships.

For the six months ended June 30, 2013, total Same Store new vehicle retail sales revenues increased 7.7% and unit sales increased 5.4%, as compared to the same period in 2012. Our U.S. Same Store new vehicle retail revenues PRU increased 2.4% to \$33,583 and unit sales increased 9.9%, 8.9%, and 2.6% in our luxury, domestic and import categories, respectively. Total Same Store gross profit PRU decreased 4.8% to \$1,843 in the first half of 2013 from \$1,935 during the same period in 2012, and, as a result, our gross margin decreased 40 basis points from 5.9% to 5.5%.

Most manufacturers offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases. This assistance varies by manufacturer, but generally provides for a defined amount, adjusted periodically for changes in market interest rates, regardless of our actual floorplan interest rate or the length of time for which the inventory is financed. We record these incentives as a reduction of new vehicle cost of sales as the vehicles are sold, impacting the gross

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profit and gross margin detailed above. The total assistance recognized in cost of sales during the three months ended June 30, 2013 and 2012 was \$10.0 million and \$8.7 million, respectively. The amount of interest assistance we recognize in a given period is primarily a function of: (a) the mix of units being sold, as U.S. domestic brands tend to provide more assistance, (b) the specific terms of the respective manufacturers' interest assistance programs and market interest rates, (c) the average wholesale price of inventory sold, and (d) our rate of inventory turnover. Over the past three years, manufacturers' interest assistance as a percentage of our total consolidated floorplan interest expense has ranged from 69.3% in the fourth quarter of 2010 to 115.9% in the third quarter of 2012 and was 92.1% for the second quarter of 2013. In the U.S., manufacturer's interest assistance was 115.8% of floorplan interest expense in the second quarter of 2013.

We increased our new vehicle inventory levels by \$105.9 million, or 11.8%, from \$895.5 million as of December 31, 2012 to \$1,001.4 million as of June 30, 2013, primarily in response to an improved selling environment and the U.S. summer selling season, as well as our recent dealership acquisitions. We increased our new vehicle inventory levels by \$236.6 million, or 30.9%, from \$764.8 million as of June 30, 2012. Our consolidated days' supply of new vehicle inventory increased to 67 days as of June 30, 2013 compared to 63 days as of December 31, 2012 and June 30, 2012.

Used Vehicle Retail Data

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Retail Unit Sales						
Same Stores						
U.S.	20,787	3.9%	19,998	40,530	3.0%	39,337
U.K.	1,319	8.9%	1,211	2,246	8.8%	2,065
Total Same Stores	22,106	4.2%	21,209	42,776	3.3%	41,402
Transactions						
U.S.	1,141		765	2,514		1,321
U.K.	1,205		30	2,006		30
Brazil	1,182		—	1,576		—
Total	25,634	16.5%	22,004	48,872	14.3%	42,753
Retail Sales Revenues						
Same Stores						
U.S.	\$430,215	5.7%	\$407,154	\$826,241	4.7%	\$789,418
U.K.	36,781	6.7%	34,484	61,221	7.1%	57,185
Total Same Stores	466,996	5.7%	441,638	887,462	4.8%	846,603
Transactions						
U.S.	18,358		13,581	40,671		23,590
U.K.	21,648		1,015	42,173		1,015
Brazil	27,802		—	35,897		—
Total	\$534,804	17.2%	\$456,234	\$1,006,203	15.5%	\$871,208

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Gross Profit						
Same Stores						
U.S.	\$36,632	4.0%	\$35,212	\$71,783	2.9%	\$69,764
U.K.	2,518	(2.1)%	2,571	3,659	0.7%	3,632
Total Same Stores	39,150	3.6%	37,783	75,442	2.8%	73,396
Transactions						
U.S.	1,708		1,013	4,175		1,797
U.K.	1,534		50	2,612		50
Brazil	1,113		—	1,552		—
Total	\$43,505	12.0%	\$38,846	\$83,781	11.3%	\$75,243
Gross Profit per Unit Sold						
Same Stores						
U.S.	\$1,762	0.1 %	\$1,761	\$1,771	(0.1)%	\$1,773
U.K.	\$1,909	(10.1)%	\$2,123	\$1,629	(7.4)%	\$1,759
Total Same Stores	\$1,771	(0.6)%	\$1,781	\$1,764	(0.5)%	\$1,773
Transactions						
U.S.	\$1,497		\$1,324	\$1,661		\$1,360
U.K.	\$1,273		\$1,667	\$1,302		\$1,667
Brazil	\$942		—	\$985		—
Total	\$1,697	(3.9)%	\$1,765	\$1,714	(2.6)%	\$1,760
Gross Margin						
Same Stores						
U.S.	8.5 %		8.6 %	8.7 %		8.8 %
U.K.	6.8 %		7.5 %	6.0 %		6.4 %
Total Same Stores	8.4 %		8.6 %	8.5 %		8.7 %
Transactions						
U.S.	9.3 %		7.5 %	10.3 %		7.6 %
U.K.	7.1 %		4.9 %	6.2 %		4.9 %
Brazil	4.0 %		—	4.3 %		—
Total	8.1 %		8.5 %	8.3 %		8.6 %

Used Vehicle Wholesale Data

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Wholesale Unit Sales						
Same Stores						
U.S.	9,405	(0.5)%	9,454	18,398	0.6%	18,282
U.K.	1,381	14.3%	1,208	2,141	12.8%	1,898
Total Same Stores	10,786	1.2%	10,662	20,539	1.8%	20,180
Transactions						
U.S.	535		551	1,199		1,027
U.K.	870		31	1,553		31
Brazil	881		—	1,116		—
Total	13,072	16.3%	11,244	24,407	14.9%	21,238

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	Three Months Ended June 30,			Six Months Ended June 30,			
	2013	% Change	2012	2013	% Change	2012	
Wholesale Sales Revenues							
Same Stores							
U.S.	\$54,602	(5.7)%	\$57,902	\$109,629	(4.5)%	\$114,853	
U.K.	13,385	9.4%	12,238	20,514	4.3%	19,677	
Total Same Stores	67,987	(3.1)%	70,140	130,143	(3.3)%	134,530	
Transactions							
U.S.	2,123		2,712	4,766		5,179	
U.K.	4,573		282	11,208		282	
Brazil	8,633		—	11,750		—	
Total	\$83,316	13.9%	\$73,134	\$157,867	12.8%	\$139,991	
Gross Profit							
Same Stores							
U.S.	\$471	(29.7)%	\$670	\$2,576	(20.3)%	\$3,232	
U.K.	(230)	(13.9)%	(267)	(161)	(1.2)%	(163)	
Total Same Stores	241	(40.2)%	403	2,415	(21.3)%	3,069	
Transactions							
U.S.	(224)		(56)	(202)		(18)	
U.K.	(383)		(24)	(369)		(24)	
Brazil	878		—	1,090		—	
Total	\$512	58.5%	\$323	\$2,934	(3.1)%	\$3,027	
Gross Profit per Wholesale Unit Sold							
Same Stores							
U.S.	\$50	(29.6)%	\$71	\$140	(20.9)%	\$177	
U.K.	\$(167)	(24.4)%	\$(221)	\$(75)	(12.8)%	\$(86)	
Total Same Stores	\$22	(42.1)%	\$38	\$118	(22.4)%	\$152	
Transactions							
U.S.	\$(419)		\$(102)	\$(168)		\$(18)	
U.K.	\$(440)		(774)	\$(238)		(774)	
Brazil	\$997		—	\$977		—	
Total	\$39	34.5%	\$29	\$120	(16.1)%	\$143	
Gross Margin							
Same Stores							
U.S.	0.9	%	1.2	2.3	%	2.8	%
U.K.	(1.7))%	(2.2)	(0.8))%	(0.8))%
Total Same Stores	0.4	%	0.6	1.9	%	2.3	%
Transactions							
U.S.	(10.6))%	(2.1)	(4.2))%	(0.3))%
U.K.	(8.4))%	(8.5)	(3.3))%	(8.5))%
Brazil	10.2	%	—	9.3	%	—	%
Total	0.6	%	0.4	1.9	%	2.2	%

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Total Used Vehicle Data

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Used Vehicle Unit Sales						
Same Stores						
U.S.	30,192	2.5%	29,452	58,928	2.3%	57,619
U.K.	2,700	11.6%	2,419	4,387	10.7%	3,963
Total Same Stores	32,892	3.2%	31,871	63,315	2.8%	61,582
Transactions						
U.S.	1,676		1,316	3,713		2,348
U.K.	2,075		61	3,559		61
Brazil	2,063		—	2,692		—
Total	38,706	16.4%	33,248	73,279	14.5%	63,991
Sales Revenues						
Same Stores						
U.S.	\$484,816	4.2%	\$465,056	\$935,870	3.5%	\$904,271
U.K.	50,167	7.4%	46,722	81,735	6.3%	76,862
Total Same Stores	534,983	4.5%	511,778	1,017,605	3.7%	981,133
Transactions						
U.S.	20,483		16,293	45,437		28,769
U.K.	26,219		1,297	53,381		1,297
Brazil	36,435		—	47,647		—
Total	\$618,120	16.8%	\$529,368	\$1,164,070	15.1%	\$1,011,199
Gross Profit						
Same Stores						
U.S.	\$37,103	3.4%	\$35,881	\$74,359	1.9%	\$72,996
U.K.	2,288	(0.7)%	2,305	3,498	0.8%	3,469
Total Same Stores	39,391	3.2%	38,186	77,857	1.8%	76,465
Transactions						
U.S.	1,485		958	3,975		1,780
U.K.	1,150		25	2,241		25
Brazil	1,991		—	2,642		—
Total	\$44,017	12.4%	\$39,169	\$86,715	10.8%	\$78,270
Gross Profit per Unit Sold						
Same Stores						
U.S.	\$1,229	0.9	% \$1,218	\$1,262	(0.4	)% \$1,267
U.K.	\$847	(11.1	)% \$953	\$797	(8.9	)% \$875
Total Same Stores	\$1,198	—	% \$1,198	\$1,230	(1.0	)% \$1,242
Transactions						
U.S.	\$886		\$728	\$1,071		\$758
U.K.	\$554		\$410	\$630		\$410
Brazil	\$965		—	\$981		\$—
Total	\$1,137	(3.5)% \$1,178	\$1,183	(3.3)% \$1,223

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Gross Margin						
Same Stores						
U.S.	7.7	%	7.7	7.9	%	8.1
U.K.	4.6	%	4.9	4.3	%	4.5
Total Same Stores	7.4	%	7.5	7.7	%	7.8
Transactions						
U.S.	7.2	%	5.9	8.7	%	6.2
U.K.	4.4	%	1.9	4.2	%	1.9
Brazil	5.5	%	—	5.5	%	—
Total	7.1	%	7.4	7.4	%	7.7

In addition to factors such as general economic conditions and consumer confidence, our used vehicle business is affected by the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory.

The improved U.S. economic conditions, uptick in U.S. consumer confidence, and a stronger new vehicle selling environment translated into an increase in total used vehicle demand. Coupled with our emphasis on improving our dealership sales processes, our total Same Store used vehicle retail revenues increased 5.7% for the three months ended June 30, 2013, as compared to the same period in 2012. This improvement reflects both an increase in total Same Store used vehicle retail unit sales and growth in our average used vehicle retail selling price. Our U.S. Same Store average used vehicle retail selling price increased 1.7%, or \$336, while our U.S. Same Store used vehicle retail units sold increased 3.9% for the three months ended June 30, 2013, as compared to the same period in 2012. For the six months ended June 30, 2013, our total Same Store used vehicle retail revenue improved by 4.8% as a result of a 3.3% increase in Same Store used vehicle retail unit sales, as compared to the same period in 2012, as well as an increase in our average selling price PRU of 1.5% to \$20,747.

Our U.S. Same Store certified pre-owned vehicles ("CPO") volume increased 1.8% to 5,805 units sold for the three months ended June 30, 2013, as compared to the same period of 2012. As a percentage of the U.S. Same Store used vehicle retail unit sales, CPO units declined 60 basis points to 27.9% for the second quarter of 2013, as compared to the same period in 2012. CPO units sold represented 28.2% of U.S. Same Store used retail units sold for the six months ended June 30, 2013, as compared to 29.2% for the same period in 2012.

In total, Same Store retail used vehicle gross profit improved 3.6% and 2.8% for the three months and six months ended in June 30, 2013, as compared to the same periods in 2012, while gross margin declined 20 basis points in both periods, as compared to the same periods in 2012. The gross margin decline was primarily driven by 10 basis point decreases in our U.S. Same Store used retail vehicle margins in both periods to 8.5% and 8.7%, respectively. Our U.S. Same Store used retail gross profit PRU remained relatively flat for the three months and six months ended June 30, 2013, as compared to the same periods in 2012, while our U.S. average sales price PRU increased by 1.7% and 1.6%, respectively, as compared to the same periods in 2012.

During the second quarter of 2013, total Same Store wholesale used vehicle revenue declined by 3.1%, as our U.S. Same Store wholesale used vehicle unit sales decreased 0.5%, as compared to the same period in 2012. This decline was partially offset by our U.K. Same Store wholesale used vehicle unit sales that increased 14.3%, corresponding to the overall rise in new and used retail sales volume. Total Same Store wholesale used vehicle gross profit per unit decreased \$16 to \$22 for the three months ended June 30, 2013 and \$34 to \$118 for the six months ended June 30, 2013, as compared to the same periods in 2012. These declines in profitability correspond with our continued focus on maximizing our used vehicle retail sales, as well as with the decrease in used vehicle market prices during the second quarter of 2013, reflected in the decline in the Manheim index.

We increased our used vehicle inventory levels by \$41.1 million, or 22.3%, from \$184.8 million as of December 31, 2012 to \$225.9 million as of June 30, 2013, primarily in response to an improved selling environment and the summer selling season, as well as our recent dealership acquisitions. We increased our used vehicle inventory levels by \$30.9

million, or 15.9%, from \$195.0 million as of June 30, 2012. Our supply of used vehicle inventory was 33 days at June 30, 2013, which was down from December 31, 2012 levels of 38 days and up from 31 days at June 30, 2012.

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Parts and Service Data

(dollars in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,				
	2013	% Change	2012	2013	% Change	2012		
Parts and Services Revenue								
Same Stores								
U.S.	\$219,440	8.7%	\$201,843	\$430,552	7.0%	\$402,554		
U.K.	11,670	11.3%	10,481	20,199	11.0%	18,197		
Total Same Stores	231,110	8.8%	212,324	450,751	7.1%	420,751		
Transactions								
U.S.	4,645		7,452	9,886		12,126		
U.K.	5,354		537	11,596		537		
Brazil	19,841		—	26,227		—		
Total	\$260,950	18.4%	\$220,313	\$498,460	15.0%	\$433,414		
Gross Profit								
Same Stores								
U.S.	\$117,431	9.9%	\$106,864	\$229,181	8.4%	\$211,435		
U.K.	6,147	8.5%	5,665	10,388	5.0%	9,890		
Total Same Stores	123,578	9.8%	112,529	239,569	8.2%	221,325		
Transactions								
U.S.	2,467		4,111	5,540		6,600		
U.K.	3,447		258	6,690		258		
Brazil	7,579		—	10,290		—		
Total	\$137,071	17.3%	\$116,898	\$262,089	14.9%	\$228,183		
Gross Margin								
Same Stores								
U.S.	53.5	%	52.9	%	53.2	%	52.5	%
U.K.	52.7	%	54.1	%	51.4	%	54.3	%
Total Same Stores	53.5	%	53.0	%	53.1	%	52.6	%
Transactions								
U.S.	53.1	%	55.2	%	56.0	%	54.4	%
U.K.	64.4	%	48.0	%	57.7	%	48.0	%
Brazil	38.2	%	—		39.2	%	—	
Total	52.5	%	53.1	%	52.6	%	52.6	%

Our total Same Store parts and service revenues increased 8.8% to \$231.1 million for the three months ended June 30, 2013 and 7.1% to \$450.8 million for the six months ended June 30, 2013, as compared to the same periods in 2012.

Our U.S. Same Store parts and service revenues increased 8.7%, or \$17.6 million, for the three months ended June 30, 2013, as compared to the same period in 2012, driven primarily by a 15.0% increase in warranty revenues, a 23.0% increase in collision revenue, a 4.5% increase in customer-pay parts and service sales, and a 5.4% increase in wholesale parts revenues, when compared to the same period in 2012. Similarly, for the six months ended June 30, 2013, our US Same Store parts and service revenues increased 7.0%, as compared to the same period in 2012. The overall increase in our U.S. Same Store parts and service revenue consisted of improvements in our warranty parts and service revenues of 11.3%, our collision revenues of 18.0%, our customer pay parts and service revenues of 3.5%, and our wholesale parts business of 4.9%. The growth of our U.S. collision revenues was bolstered by the impact of the hailstorms in Oklahoma and Texas during 2013. We continue to invest in our parts and service business through technology, facilities, and man-power. Coupled with the building of units in operations in the U.S., these investments are driving our parts and service growth.

Our total Same Store gross profit for the three and six months ended June 30, 2013 increased 9.8% and 8.2%, respectively, as compared to the same periods in 2012. For the three months ended June 30, 2013, our U.S. Same

Store parts and service margins improved 60 basis points, as compared to the same period in 2012. Similarly, for the six months ended June 30, 2013, our U.S. Same Store parts and service margins increased 70 basis points, as compared to the same period in 2012. The increases in both periods were primarily due to improved profitability in our warranty and customer-pay parts and

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service business units, as well as a higher volume of internal work between the parts and service departments of our dealerships and the new and used vehicle departments, which was generated by improved new and used retail vehicles sales volumes.

Finance and Insurance Data

(dollars in thousands, except per unit amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Retail New and Used Unit Sales						
Same Stores						
U.S.	52,021	4.8%	49,648	99,187	4.5%	94,916
U.K.	3,430	4.7%	3,276	5,569	5.5%	5,277
Total Same Stores	55,451	4.8%	52,924	104,756	4.6%	100,193
Transactions						
U.S.	2,496		1,895	5,224		3,305
U.K.	2,699		109	5,115		109
Brazil	6,519		—	8,404		—
Total	67,165	22.3%	54,928	123,499	19.2%	103,607
Retail Finance Fees						
Same Stores						
U.S.	\$24,222	15.8%	\$20,912	\$46,468	16.9%	\$39,749
U.K.	1,338	15.3%	1,160	2,114	14.8%	1,842
Total Same Stores	25,560	15.8%	22,072	48,582	16.8%	41,591
Transactions						
U.S.	832		640	1,797		1,090
U.K.	698		51	1,581		51
Brazil	732		—	949		—
Total	\$27,822	22.2%	\$22,763	\$52,909	23.8%	\$42,732
Vehicle Service Contract Fees						
Same Stores						
U.S.	\$28,608	11.0%	\$25,782	\$54,770	11.4%	\$49,153
U.K.	5	(61.5)%	13	—	(100.0)%	8
Total Same Stores	28,613	10.9%	25,795	54,770	11.4%	49,161
Transactions						
U.S.	882		528	1,769		925
U.K.	47		3	56		3
Brazil	—		—	—		—
Total	\$29,542	12.2%	\$26,326	\$56,595	13.0%	\$50,089
Insurance and Other						
Same Stores						
U.S.	18,525	21.7%	15,218	34,473	23.0%	28,036
U.K.	948	23.8%	766	1,284	11.5%	1,152
Total Same Stores	19,473	21.8%	15,984	35,757	22.5%	29,188
Transactions						
U.S.	595		339	1,179		621
U.K.	516		23	1,270		23
Brazil	1,873		—	2,248		—
Total	22,457	37.4%	16,346	40,454	35.6%	29,832

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Total						
Same Stores						
U.S.	71,355	15.3%	61,912	135,711	16.1%	116,938
U.K.	2,291	18.2%	1,939	3,398	13.2%	3,002
Total Same Stores	73,646	15.3%	63,851	139,109	16.0%	119,940
Transactions						
U.S.	2,309		1,507	4,745		2,636
U.K.	1,261		77	2,907		77
Brazil	2,605		—	3,197		—
Total	79,821	22.0%	65,435	149,958	22.3%	122,653
Finance and Insurance Revenues per Unit Sold						
Same Stores						
U.S.	1,372	10.0%	1,247	1,368	11.0%	1,232
U.K.	668	12.8%	592	610	7.2%	569
Total Same Stores	1,328	10.1%	1,206	1,328	10.9%	1,197
Transactions						
U.S.	925		795	908		798
U.K.	467		706	568		706
Brazil	400		—	380		—
Total	1,188	(0.3)%	1,191	1,214	2.5%	1,184

Our focus on improving our finance and insurance business processes, coupled with improved retail vehicle sales volumes, continued to generate growth in our finance and insurance revenues. Our total Same Store finance and insurance revenues increased 15.3%, to \$73.6 million, for the three months ended June 30, 2013, as compared to the same period in 2012. Improvement in the U.S. was primarily driven by an increase in income per contract from all of our major product offerings, as well as a 230 basis point improvement in finance penetration rates and a 4.8% increase in new and used retail units. These increases more than offset an increase in chargeback expense. As a result, our total Same Store finance and insurance revenues PRU improved 10.1% to \$1,328, as compared to the same period in 2012. For the first half of 2013, our Same Store finance and insurance revenues improved 16.0% over the same period in 2012, primarily reflecting a 4.5% increase in our U.S. new and used retail sales volumes, coupled with a 9.1% increase in our finance income per contract in the U.S. and improvements in penetration rates in our major U.S. product offerings. For the six months ended June 30, 2013, our total Same Store revenues PRU increased 10.9%, or \$131, to \$1,328, as compared to the same period in 2012.

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Selling, General and Administrative Data

(dollars in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Personnel						
Same Stores						
U.S.	\$125,613	6.3%	\$118,205	\$248,924	5.7%	\$235,407
U.K.	7,366	7.6%	6,843	12,317	7.4%	11,466
Total Same Stores	132,979	6.3%	125,048	261,241	5.8%	246,873
Transactions						
U.S.	4,972		4,279	10,113		7,489
U.K.	3,274		330	7,787		330
Brazil	12,377		—	16,159		—
Total	\$153,602	18.5%	\$129,657	\$295,300	15.9%	\$254,692
Advertising						
Same Stores						
U.S.	\$13,141	3.1%	\$12,751	\$24,591	1.5%	\$24,224
U.K.	427	21.0%	353	667	12.3%	594
Total Same Stores	13,568	3.5%	13,104	25,258	1.8%	24,818
Transactions						
U.S.	877		868	1,930		1,444
U.K.	330		31	517		31
Brazil	696		—	849		—
Total	\$15,471	10.5%	\$14,003	\$28,554	8.6%	\$26,293
Rent and Facility Costs						
Same Stores						
U.S.	\$21,965	5.3%	\$20,854	\$44,097	5.6%	\$41,770
U.K.	1,283	(13.7)%	1,487	2,039	(11.7)%	2,309
Total Same Stores	23,248	4.1%	22,341	46,136	4.7%	44,079
Transactions						
U.S.	886		1,022	1,606		1,699
U.K.	819		132	2,062		132
Brazil	4,299		—	5,793		—
Total	\$29,252	24.5%	\$23,495	\$55,597	21.1%	\$45,910
Other SG&A						
Same Stores						
U.S.	\$50,805	18.0%	\$43,061	\$95,528	20.3%	\$79,432
U.K.	3,140	(12.9)%	3,604	5,087	(6.7)%	5,452
Total Same Stores	53,945	15.6%	46,665	100,615	18.5%	84,884
Transactions						
U.S.	(7,439	)	276	(6,484	)	1,429
U.K.	1,931		231	4,129		231
Brazil	4,397		—	6,881		—
Total	\$52,834	12.0%	\$47,172	\$105,141	21.5%	\$86,544

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	Three Months Ended June 30,			Six Months Ended June 30,			
	2013	% Change	2012	2013	% Change	2012	
Total SG&A							
Same Stores							
U.S.	211,524	8.5%	194,871	413,140	8.5%	380,833	
U.K.	12,216	(0.6)%	12,287	20,110	1.5%	19,821	
Total Same Stores	223,740	8.0%	207,158	433,250	8.1%	400,654	
Transactions							
U.S.	(704)		6,445	7,165		12,061	
U.K.	6,354		724	14,495		724	
Brazil	21,769		—	29,682		—	
Total	251,159	17.2%	214,327	484,592	17.2%	413,439	
Total Gross Profit							
Same Stores							
U.S.	282,519	8.0%	261,626	545,068	7.5%	506,846	
U.K.	16,070	6.0%	15,156	25,723	4.3%	24,663	
Total Same Stores	298,589	7.9%	276,782	570,791	7.4%	531,509	
Transactions							
U.S.	7,957		7,942	18,350		13,639	
U.K.	7,674		620	17,192		620	
Brazil	27,054		—	35,430		—	
Total	341,274	19.6%	285,344	641,763	17.6%	545,768	
SG&A as a % of Gross Profit							
Same Stores							
U.S.	74.9	%	74.5	% 75.8	%	75.1	%
U.K.	76.0	%	81.1	% 78.2	%	80.4	%
Total Same Stores	74.9	%	74.8	% 75.9	%	75.4	%
Transactions							
U.S.	(8.8)	%	81.2	% 39.0	%	88.4	%
U.K.	82.8	%	116.8	% 84.3	%	116.8	%
Brazil	80.5	%	—	83.8	%	—	
Total	73.6	%	75.1	% 75.5	%	75.8	%
Employees	11,000		9,100	11,000		9,100	

Our SG&A consists primarily of salaries, commissions and incentive-based compensation, as well as rent, advertising, insurance, benefits, utilities and other fixed expenses. We believe that the majority of our personnel and all of our advertising expenses are variable and can be adjusted in response to changing business conditions. Our total Same Store SG&A increased 8.0%, or \$16.6 million, for the three months ended June 30, 2013, as compared to the same period in 2012. For the six months ended on June 30, 2013, total Same Store SG&A increased 8.1%, or \$32.6 million. Personnel costs also increased for the three and six months ended June 30, 2013, generally correlating with increased vehicle sales. Our total Same Store rent and facility costs increased \$0.9 million, or 4.1% to \$23.2 million, while our U.S. Same Store rent and facility costs increased \$1.1 million, or 5.3%, for the three months ended June 30, 2013 as compared with the same period in 2012. For the six months ended June 30, 2013, our total Same Store rent and facility costs increased 4.7% to \$46.1 million, and our U.S. Same Store rent and facility increased 5.6%, or \$2.3 million, as compared with the same period in 2012. The increases in the U.S. were primarily due to insurance deductible charges associated with building damage from certain catastrophic events that occurred during the first six months of 2013, as well as other building maintenance activities. Our total Same Store other SG&A increased 15.6% and 18.5%, respectively, for the three and six months ended June 30, 2013, as compared to the same periods in 2012. These increases were also primarily attributable to insurance deductible charges related to damages suffered to vehicle

inventory in multiple catastrophic events in the U.S. in the first half of 2013, as well as \$5.2 million of costs incurred in the first three months of 2013 from our corporate office for professional advisory services associated with the acquisition of UAB Motors. We continue to aggressively pursue opportunities that take advantage of our size and negotiating leverage with our vendors and service providers in order to rationalize our cost structure.

Primarily as a result of the costs associated with the catastrophic events and professional advisory services explained above, our total Same Store SG&A increases outpaced our Same Store gross profit growth of 7.9% and 7.4% for the three and

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six months ended on June 30, 2013. As a result our total Same Store SG&A as a percentage of gross profit increased 10 basis points to 74.9% and 50 basis points to 75.9% for three and six months ended on June 30, 2013, as compared to the same periods in 2012.

Depreciation and Amortization Data

(dollars in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Same Stores						
U.S.	\$7,562	9.1%	\$6,933	\$14,826	9.0%	\$13,598
U.K.	435	(24.3)%	575	860	(18.9)%	1,061
Total Same Stores	7,997	6.5%	7,508	15,686	7.0%	14,659
Transactions						
U.S.	313		221	618		306
U.K.	188		13	374		13
Brazil	386		—	619		—
Total	\$8,884	14.8%	\$7,742	\$17,297	15.5%	\$14,978

Our total Same Store depreciation and amortization expense increased 6.5% and 7.0%, respectively, for the three and six months ended June 30, 2013, as compared to the same period in 2012, as we continue to strategically add dealership-related real estate to our portfolio and to make improvements to our existing facilities that are designed to enhance the profitability of our dealerships and the overall customer experience. We critically evaluate all planned future capital spending, working closely with our OEM partners to maximize the return on our investments.

Floorplan Interest Expense

(dollars in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	% Change	2012	2013	% Change	2012
Same Stores						
U.S.	\$8,420	15.0%	\$7,321	\$16,449	12.5%	\$14,625
U.K.	296	1.7%	291	334	(22.1)%	429
Total Same Stores	8,716	14.5%	7,612	16,783	11.5%	15,054
Transactions						
U.S.	225		225	492		402
U.K.	125		26	393		26
Brazil	1,807		—	2,569		—
Total	\$10,873	38.3%	\$7,863	\$20,237	30.7%	\$15,482
Memo:						
Manufacturer's assistance	\$10,010	15.6%	\$8,658	\$18,183	13.1%	\$16,072

Our floorplan interest expense fluctuates with changes in our borrowings outstanding and interest rates, which are based on the one-month LIBOR (or Prime rate in some cases) in the U.S. and U.K. and a benchmark rate in Brazil plus a spread. To mitigate the impact of interest rate fluctuations, we employ an interest rate hedging strategy, whereby we swap variable interest rate exposure for a fixed interest rate over the term of the variable interest rate debt.

As of June 30, 2013, we had effective interest rate swaps with an aggregate notional amount of \$450.0 million that fixed our underlying one-month LIBOR at a weighted average interest rate of 2.6%. The majority of the monthly settlements of these interest rate swap liabilities are recognized as floorplan interest expense. From time to time, we utilize excess cash on hand to pay down our floorplan borrowings, and the resulting interest earned is recognized as an offset to our gross floorplan interest expense.

Our total Same Store floorplan interest expense increased 14.5% to \$8.7 million for the three months ended June 30, 2013, and 11.5% to \$16.8 million, during the six months ended June 30, 2013, as compared to the same period in 2012. The

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increase primarily reflects growth in our weighted average floorplan borrowings outstanding in the U.S. of \$204.5 million and \$225.5 million for the three and six months ended June 30, 2013, respectively, which was necessary to support the growth in inventory that occurred in response to an improved selling environment and the U.S. summer selling season.

Other Interest Expense, net

Other interest expense, net consists of interest charges primarily on our real estate related debt and our other long-term debt, partially offset by interest income. For the three months ended June 30, 2013, other interest expense increased \$0.4 million, or 4.1%, to \$9.6 million, as compared to the same period in 2012. For the six months ended June 30, 2013, other net interest expense increased \$0.6 million, or 3.2%, to \$18.8 million, as compared to the same period in 2012. These increases were primarily associated with additional mortgage borrowings for dealership real estate and facilities.

Included in other interest expense, net for the three months ended June 30, 2013 and 2012 is non-cash, discount amortization expense of \$2.7 million and \$2.5 million, respectively, representing the impact of the accounting for convertible debt as required by ASC 470. Based on the principal amount of 2.25% Convertible Senior Notes due 2036 ("2.25% Notes") and 3.00% Convertible Senior Notes due 2020 ("3.00% Notes") outstanding, we anticipate that the ongoing non-cash discount amortization expense related to the convertible debt instruments will average \$13.3 million annually through mid-2016, the point at which the 2.25% Note holders can first require us to redeem the 2.25% Notes, and then will be an annual average of \$4.7 million through the first quarter of 2020.

Provision for Income Taxes

Our provision for income taxes increased \$5.4 million to \$22.8 million for the three months ended June 30, 2013, as compared to the same period in 2012, primarily due to the increase of pretax book income. For the three months ended June 30, 2013, our effective tax rate increased to 37.9% from 37.8% from the same period in 2012.

Our provision for income taxes increased \$8.3 million to \$39.9 million for the six months ended June 30, 2013, as compared to the same period in 2012, primarily due to the increase of pretax book income. For the six months ended June 30, 2013, our effective tax rate increased to 40.2% from 37.9% from the same period in 2012. This increase was primarily due to the \$2.3 million tax effect of non-deductible acquisition costs, the tax effect of the dispositions of certain dealerships with non-deductible goodwill as well as the mix of our pretax income from the taxable states and foreign jurisdictions in which we operate.

We believe that it is more likely than not that our deferred tax assets, net of valuation allowances provided, will be realized, based primarily on the assumption of future taxable income and taxes available in carry back periods. We expect our effective tax rate for the remainder of 2013 will be approximately 38.0%. This excludes the first quarter tax effect of non-deductible acquisition costs, and the second quarter tax effect of the dispositions of certain dealerships with non-deductible goodwill.

Liquidity and Capital Resources

Our liquidity and capital resources are primarily derived from cash on hand, cash temporarily invested as a pay down of Floorplan Line levels, cash from operations, borrowings under our credit facilities, which provide vehicle floorplan financing, working capital, dealership and real estate acquisition financing, and proceeds from debt and equity offerings. Based on current facts and circumstances, we believe we have adequate cash flow, coupled with available borrowing capacity, to fund our current operations, capital expenditures and acquisitions for the remainder of 2013. If economic and business conditions deteriorate or if our capital expenditures or acquisition plans for 2013 change, we may need to access the private or public capital markets to obtain additional funding.

Cash on Hand. As of June 30, 2013, our total cash on hand was \$10.9 million. Included in cash on hand are balances from various investments in debt securities, such as variable-rate demand obligations with manufacturer-affiliated finance companies, which have maturities of less than six months or are redeemable on demand by us. The balance of cash on hand excludes \$82.0 million of immediately available funds that were used to pay down our Floorplan Line as of June 30, 2013. We use the pay down of our Floorplan Line as a channel for the short-term investment of excess cash.

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Cash Flows. The following table sets forth selected historical information regarding cash flows from our Consolidated Statements of Cash Flows.

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Net cash provided by (used in) operating activities	\$87,308	\$(45,721)
Net cash used in investing activities	(58,580)	(152,783)
Net cash provided by (used in) financing activities	(21,897)	193,633
Effect of exchange rate changes on cash	(629)	(480)
Net increase (decrease) in cash and cash equivalents	\$6,202	\$(5,351)

With respect to all new vehicle floorplan borrowings, the manufacturers of the vehicles draft our credit facilities directly with no cash flow to or from us. With respect to borrowings for used vehicle financing, we finance up to 80% of the value of our used vehicle inventory, except in the U.K. and Brazil, and the funds flow directly to us from the lender. All borrowings from, and repayments to, lenders affiliated with our vehicle manufacturers (excluding the cash flows from or to manufacturer-affiliated lenders participating in our syndicated lending group) are presented within Cash Flows from Operating Activities on the Consolidated Statements of Cash Flows. All borrowings from, and repayments to, the Revolving Credit Facility (including the cash flows from or to manufacturer-affiliated lenders participating in the facility) are presented within Cash Flows from Financing Activities.

Sources and Uses of Liquidity from Operating Activities

For the six months ended June 30, 2013, we generated \$87.3 million in net cash flow from operating activities, primarily driven by \$59.5 million in net income, as well as significant non-cash adjustments related to depreciation and amortization of \$17.3 million, amortization of debt discounts and debt issue costs of \$6.8 million, deferred income taxes of \$9.3 million and stock-based compensation of \$7.0 million and net changes in operating assets and liabilities of \$3.4 million. Included in the net changes of operating assets and liabilities were cash inflows of \$19.2 million from decreases of vehicle receivables and contracts-in-transit, \$46.3 million from increases in accounts payable and accrued expenses, \$2.1 million from decreases in prepaid expenses and other assets and \$43.9 million from the net increase in floorplan borrowings from manufacturer-affiliates. These cash inflows were partially offset by cash outflows of \$111.9 million from increases of inventory levels and \$3.1 million from increases in accounts and notes receivable. For the six months ended June 30, 2012, we used \$45.7 million in net cash flow from operating activities, primarily driven by \$129.6 million in net changes of operating assets and liabilities. This net use of cash was substantially offset by \$51.7 million in net income, as well as significant non-cash adjustments related to depreciation and amortization of \$15.0 million, amortization of debt discounts and debt issue costs of \$6.4 million, deferred income taxes of \$6.1 million and stock-based compensation of \$5.9 million. Included in the net changes of operating assets and liabilities are cash inflows of \$23.9 million from decreases of vehicle receivables and contracts-in-transit, \$17.6 million from increases in accounts payable and accrued expenses and \$6.2 million from decreases in prepaid expenses and other assets. These cash inflows were more than offset by cash outflows of \$160.1 million from increases of inventory levels, \$14.7 million from increases in accounts and notes receivable and \$3.1 million from the net decrease in floorplan borrowings from manufacturer-affiliates.

Working Capital. At June 30, 2013, we had \$88.0 million of working capital. Changes in our working capital are driven primarily by changes in floorplan notes payable outstanding. For the U.S. borrowings on our new vehicle floorplan notes payable, subject to agreed upon pay-off terms, are equal to 100% of the factory invoice of the vehicles and borrowings on our used vehicle floorplan notes payable, subject to agreed upon pay-off terms, are limited to 80% of the aggregate book value of our used vehicle inventory. At times, we have made payments on our floorplan notes payable using excess cash flow from operations and the proceeds of debt and equity offerings. As needed, we re-borrow the amounts later, up to the limits on the floorplan notes payable discussed below, for working capital, acquisitions, capital expenditures or general corporate purposes.

Sources and Uses of Liquidity from Investing Activities

During the first six months of 2013, we used \$58.6 million for investing activities, primarily related to the acquisition of 23 dealerships located in Brazil, the U.K. and the U.S. for \$89.8 million in cash and 1.45 million shares of the

Company's common stock. We also used \$47.3 million during the first six months of 2013 for purchases of property and equipment to construct new and improve existing facilities, consisting of \$32.4 million for capital expenditures and \$10.7 million for the purchase of real estate associated with existing dealership operations as well as a \$4.2 million net change in the accrual for capital expenditures. These cash outflows were partially offset by cash proceeds of \$77.9 million from dispositions of assets, which was primarily related to the disposition of dealerships as well as the related real estate.

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During the first six months of 2012, we used \$152.8 million for investing activities, primarily related to the acquisition of 12 dealerships located in South Carolina, Texas, Kansas, Florida and the U.K., for a total of \$115.0 million, including the amounts paid for vehicle inventory, parts inventory, equipment and furniture fixtures, as well as the purchase of some of the associated real estate. The acquired vehicle inventory related to the U.S. stores was subsequently financed through borrowing under our Floorplan Line. We also used \$38.4 million during the first six months of 2012 for purchases of property and equipment to construct new and improve existing facilities, \$8.0 million of which was accrued as of December 31, 2011.

Capital Expenditures. Our capital expenditures include uses of cash to extend the useful lives of current facilities, and expenditures to start or expand operations. Our capital expenditures exclude real estate purchases. In general, capital expenditures relating to the construction or expansion of dealership facilities are driven by new franchises being granted to us by a manufacturer, significant growth in sales at an existing facility, dealership acquisition activity, or manufacturer imaging programs. We forecast our capital expenditures for the full year of 2013 to be approximately \$70.0 million, generally funded from excess cash.

Acquisitions. We purchase businesses based on expected return on investment. In general, the purchase price, excluding real estate and floorplan liabilities, is approximately 15% to 20% of the annual revenues acquired. Cash needed to complete our acquisitions comes from excess working capital, operating cash flows of our dealerships, and borrowings under our floorplan facilities, Mortgage Facility, Real Estate Notes and our Acquisition Line.

Sources and Uses of Liquidity from Financing Activities

We used \$21.9 million in net cash outflows from financing activities during the six months ended June 30, 2013, primarily related to \$80.8 million of principal payments on debt, including \$65.1 million for the extinguishment of debt assumed in the acquisition of 18 dealerships in Brazil, as well as \$20.2 million for principal payments of long-term debt related to real estate loans. We used an additional \$7.5 million for dividend payments during the first half of 2013. These cash outflows were partially offset by inflows of \$78.2 million in net borrowings under the Floorplan Line, which included a net cash inflow of \$30.3 million due to a decrease in our floorplan offset account. We generated \$193.6 million in net cash inflows from financing activities during the six months ended June 30, 2012, primarily related to \$174.7 million in net borrowings under the Floorplan Line of our Revolving Credit Facility, which included a net cash inflow of \$7.4 million due to a decrease in our floorplan offset account. In addition, financing cash inflows included \$39.8 million in borrowings of long-term debt related to real estate loans. These cash inflows were partially offset by outflows of \$6.6 million for dividend payments and \$5.8 million for principal payments of long-term debt related to real estate loans. In addition, we used \$8.5 million to repurchase shares of our common stock during the second quarter of 2012.

Credit Facilities. Our various credit facilities are used to finance the purchase of inventory and real estate, provide acquisition funding and provide working capital for general corporate purposes.

Revolving Credit Facility. On June 20, 2013, we amended our Revolving Credit Facility principally to increase the total borrowing capacity from \$1.35 billion to \$1.7 billion and to extend the term from an expiration date on June 1, 2016 to June 20, 2018. The Revolving Credit Facility consists of two tranches, providing a maximum of \$1.6 billion for U.S. vehicle inventory floorplan financing (“Floorplan Line”), as well as a maximum of \$320.0 million and a minimum of \$100.0 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 \$1.7 billion commitment, subject to the original limits of a maximum of \$1.6 billion for the Floorplan Line, as well as a maximum of \$320.0 million and a minimum of \$100.0 million for the Acquisition Line. Up to \$125.0 million of the Acquisition Line can be borrowed in either Euros or Pound Sterling. The Revolving Credit Facility can be expanded to its maximum commitment of \$1.95 billion, subject to participating lender approval. The Floorplan Line bears interest at rates equal to the one-month LIBOR plus 125 basis points for new vehicle inventory and the one-month LIBOR plus 150 basis points for used vehicle inventory. The Acquisition Line bears interest at the one-month LIBOR plus 150 basis points plus a margin that ranges from zero to 100 basis points for borrowings in U.S. Dollars and 150 to 250 basis points on borrowings in Euros or Pounds Sterling, depending on our total adjusted leverage ratio. The Floorplan Line also requires a commitment fee of 0.20% per annum on the unused portion. The Acquisition Line also requires a commitment fee ranging from 0.25% to 0.45% per annum, depending on our total adjusted leverage ratio, based on a

minimum commitment of \$100.0 million less outstanding borrowings.

As of June 30, 2013, after considering outstanding balances, we had \$450.7 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$450.7 million available borrowings under the Floorplan Line was \$82.0 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.7% as of June 30, 2013, excluding the impact of our interest rate swaps. After considering \$29.3 million of outstanding letters of credit at June 30, 2013, and other factors included in our available borrowing base calculation, there was \$263.6 million of available borrowing capacity under the Acquisition Line as of June 30, 2013. The amount of available borrowing capacity under the Acquisition Line may be limited from time to time based upon certain debt covenants.

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All of our U.S. dealership-owning subsidiaries are co-borrowers under the Revolving Credit Facility. Our obligations under the Revolving Credit Facility are secured by essentially all of our domestic personal property (other than equity interests in dealership-owning subsidiaries) including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries. The Revolving Credit Facility contains a number of significant covenants that, among other things, restrict our 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. We are also required to comply with specified financial tests and ratios defined in the Revolving Credit Facility, such as fixed charge coverage, total adjusted leverage, and senior secured adjusted leverage. Further, the Revolving Credit Facility restricts our ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations or securities (“Restricted Payments”). The Restricted Payments are limited to the sum of \$125.0 million plus (or minus if negative) (a) one-half of the aggregate consolidated net income of the Company for the period beginning on January 1, 2013 and ending on the date of determination and (b) the amount of net cash proceeds received from the sale of capital stock on or after January 1, 2013 and ending on the date of determination less (c) cash dividends and share repurchases (“Restricted Payment Basket”). For purposes of the calculation of the Restricted Payment Basket calculation, net income represents such amounts per our consolidated financial statements, adjusted to exclude our foreign operations, non-cash interest expense, non-cash asset impairment charges, and non-cash stock-based compensation. As of June 30, 2013, the Restricted Payment Basket totaled \$146.3 million.

As of June 30, 2013, we were in compliance with all our Revolving Credit Facility’s financial covenants, including:

	As of June 30, 2013	
	Required	Actual
Senior Secured Adjusted Leverage Ratio	< 3.75	2.19
Total Adjusted Leverage Ratio	< 5.50	3.17
Fixed Charge Coverage Ratio	> 1.35	2.16

Based upon our current five-year operating and financial projections, we believe that we will remain compliant with such covenants in the future.

Ford Motor Credit Company Facility. Our FMCC Facility provides for the financing of, and is collateralized by, our U.S. Ford new vehicle inventory, including affiliated brands. This arrangement provides for \$200.0 million of floorplan financing and is an evergreen arrangement that may be canceled with 30 days notice by either party. As of June 30, 2013, we had an outstanding balance of \$150.2 million under the FMCC Facility with an available floorplan borrowing capacity of \$49.8 million. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives; however, the prime rate is defined to be a minimum of 3.50%. As of June 30, 2013, the interest rate on the FMCC Facility was 5.00% before considering the applicable incentives.

Other Credit Facilities. We have credit facilities with BMW Financial Services, Volkswagen Finance and FMCC for the financing of new, used and rental vehicle inventories related to our U.K. operations. These facilities are evergreen arrangements that may be canceled with notice by either party and bears interest of a base rate, plus a surcharge that varies based upon the type of vehicle being financed. Dependent upon the type of inventory financed, the interest rates charged on borrowings outstanding under these facilities ranged from 1.37% to 3.95% as of June 30, 2013.

We have 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 our operations in Brazil. These facilities have maturities ranging from a one month to twelve months. They may be canceled with notice by either party and bear interest at the base rate, plus a surcharge that varies based upon the type of vehicle being financed. Dependent upon the type of inventory financed, the interest rates charged on borrowings outstanding under these facilities ranged from 12.00% to 16.76% as of June 30, 2013.

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 the next two years. As of June 30, 2013, the interest rate charged on borrowings related to our rental vehicle fleet varied up to 5.00%. Rental vehicles are typically moved to used vehicle inventory when they are removed from rental service and repayment of the borrowing is required at that time.

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The following table summarizes the position of our credit facilities as of June 30, 2013.

Credit Facility	As of June 30, 2013		
	Total Commitment	Outstanding (In thousands)	Available
Floorplan Line ⁽¹⁾	\$1,380,000	\$929,314	\$450,686
Acquisition Line ⁽²⁾	320,000	29,288	263,553
Total Revolving Credit Facility	1,700,000	958,602	714,239
FMCC Facility	200,000	150,207	49,793
Total Credit Facilities ⁽³⁾	\$1,900,000	\$1,108,809	\$764,032

(1) The available balance at June 30, 2013, includes \$82.0 million of immediately available funds.

(2) The outstanding balance of \$29.3 million at June 30, 2013 is related to outstanding letters of credit. The available borrowings may be limited from time-to-time, based upon certain debt covenants.

The outstanding balance excludes \$157.0 million of borrowings with manufacturer-affiliates and third-party financial institutions for foreign and rental vehicle financing not associated with any of the Company's credit facilities.

Real Estate Credit Facility. The Mortgage Facility provides the right to expand to \$83.4 million of term loans, of which \$60.7 million has been used as of June 30, 2013. The term loans can be expanded provided that (a) no default or event of default exists under the Mortgage Facility, (b) we obtain commitments from the lenders who would qualify as assignees for such increased amounts, and (c) certain other agreed upon terms and conditions have been satisfied. The Mortgage Facility is guaranteed by us and essentially all of our existing and future direct and indirect domestic subsidiaries. Each loan is secured by the relevant real property (and improvements related thereto) that is mortgaged under the Mortgage Facility.

The interest rate is equal to (a) the per annum rate equal to one-month LIBOR plus 2.50% per annum, determined on the first day of each month, or (b) 1.45% per annum in excess of the higher of (i) the Bank of America prime rate (adjusted daily on the day specified in the public announcement of such price rate), (ii) the Federal Funds Rate adjusted daily, plus 0.50%, or (iii) the per annum rate equal to one-month LIBOR plus 1.05% per annum. The Federal Funds Rate is the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the business day succeeding such day.

We are required to make quarterly principal payments equal to 1.25% of the principal amount outstanding and are required to repay the aggregate principal amount outstanding on the maturity dates, from December 29, 2015 through February 27, 2017. During the six months ended June 30, 2013, we executed no additional borrowings and made principal payments on outstanding borrowings of \$7.3 million from the Mortgage Facility. As of June 30, 2013, borrowings outstanding under the Mortgage Facility totaled \$49.4 million, with \$2.7 million recorded as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

The Mortgage Facility also contains usual and customary provisions limiting our ability to engage in certain transactions, including limitations on our ability to incur additional debt, additional liens, make investments, and pay distributions to our stockholders. In addition, the Mortgage Facility requires certain financial covenants that are identical to those contained in our Revolving Credit Facility.

Real Estate Related Debt. We have entered into separate term mortgage loans with four of our manufacturer-affiliated finance partners, TMCC, MBFS, BMWFS, FMCC and 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 us. Each loan was made in connection with, and is secured by mortgage liens on the relevant real property owned by us that is mortgaged under the Real Estate Notes. The Real Estate Notes bear interest at fixed rates between 3.67% and 9.00%, and at variable indexed rates plus between 2.25% and 3.35% per annum. As of June 30, 2013, the aggregate outstanding balance under these Real Estate Notes was \$230.4 million, with \$16.1 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

We also entered into separate term mortgage loans in the U.K. with another third-party financial institution which are secured by our U.K. subsidiary properties. These mortgage loans (collectively, "Foreign Notes") are being repaid in monthly installments that began in July 1998 and mature by November 2022. As of June 30, 2013, borrowings under the Foreign Notes totaled \$16.3 million, with \$2.3 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

Dividends. The payment of dividends is subject to the discretion of our Board of Directors after considering the results of operations, financial condition, cash flows, capital requirements, outlook for our business, general business conditions, the political and legislative environments and other factors.

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Further, we are limited under the terms of the Revolving Credit Facility and Mortgage Facility in our ability to make cash dividend payments to our stockholders and to repurchase shares of our outstanding common stock, based primarily on our quarterly net income or loss. As of June 30, 2013, the Restricted Payment Basket under both facilities was \$146.3 million and will increase in the future periods by 50.0% of our cumulative net income, as well as the net proceeds from stock option exercises, and decrease by subsequent payments for cash dividends and share repurchases. Stock Issuances. During the six months ended June 30, 2013, we issued 1.45 million shares of treasury stock, as part of the consideration paid for UAB Motors. No shares of our common stock have been issued or received under the 3.00% Purchased Options or the 3.00% Warrants. For diluted earnings-per-share calculations, we are required to include the dilutive effect, if applicable, of the net shares issuable under the 3.00% Notes and the 3.00% Warrants as depicted in the table below under the heading “Potential Dilutive Shares.” Although the 3.00% Purchased Options have the economic benefit of decreasing the dilutive effect of the 3.00% Notes, for EPS purposes, we cannot factor this benefit into our dilutive shares outstanding as their impact would be anti-dilutive. As of June 30, 2013, changes in the average price of our common stock impacted the share settlement of the 3.00% Notes, the 3.00% Purchased Options and the 3.00% Warrants as illustrated below.

Company Stock Price	Net Shares Issuable Under the 3.00% Notes	Share Entitlement Under the Purchased Options	Shares Issuable Under the Warrants	Net Shares Issuable	Potential Dilutive Shares
(Shares in thousands)					
\$37.50	2	(2	) —	—	2
\$40.00	193	(193	) —	—	193
\$42.50	363	(363	) —	—	363
\$45.00	513	(513	) —	—	513
\$47.50	647	(647	) —	—	647
\$50.00	768	(768	) —	—	768
\$52.50	878	(878	) —	—	878
\$55.00	978	(978	) —	—	978
\$57.50	1,068	(1,068	) 130	130	1,198
\$60.00	1,152	(1,152	) 252	252	1,404
\$62.50	1,228	(1,228	) 365	365	1,593
\$65.00	1,299	(1,299	) 469	469	1,768
\$67.50	1,365	(1,365	) 565	565	1,930
\$70.00	1,426	(1,426	) 654	654	2,080
\$72.50	1,482	(1,482	) 738	738	2,220
\$75.00	1,535	(1,535	) 815	815	2,350
\$77.50	1,585	(1,585	) 888	888	2,473
\$80.00	1,631	(1,631	) 956	956	2,587
\$82.50	1,675	(1,675	) 1,020	1,020	2,695
\$85.00	1,716	(1,716	) 1,080	1,080	2,796
\$87.50	1,754	(1,754	) 1,137	1,137	2,891
\$90.00	1,791	(1,791	) 1,191	1,191	2,982
\$92.50	1,825	(1,825	) 1,242	1,242	3,067
\$95.00	1,858	(1,858	) 1,290	1,290	3,148
\$97.50	1,889	(1,889	) 1,335	1,335	3,224
\$100.00	1,918	(1,918	) 1,379	1,379	3,297

No shares of our common stock have been issued or received under the 2.25% Purchased Options or the 2.25% Warrants. For diluted earnings-per-share calculations, we are required to include the dilutive effect, if applicable, of the net shares issuable under the 2.25% Notes and the 2.25% Warrants as depicted in the table below under the heading “Potential Dilutive Shares.” Although the 2.25% Purchased Options have the economic benefit of decreasing

the dilutive effect of the 2.25% Notes, for EPS purposes, we cannot factor this benefit into our dilutive shares outstanding as their impact would be anti-dilutive. As of June 30, 2013, changes in the average price of our common stock impacted the share settlement of the 2.25% Notes, the 2.25% Purchased Options and the 2.25% Warrants as illustrated below.

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Company Stock Price	Net Shares Issuable Under the 2.25% Notes	Share Entitlement Under the Purchased Options	Shares Issuable Under the Warrants	Net Shares Issuable	Potential Dilutive Shares
(Shares in thousands)					
\$57.00	—	—	—	—	—
\$59.50	7	(7	) —	—	7
\$62.00	131	(131	) —	—	131
\$64.50	245	(245	) —	—	245
\$67.00	351	(351	) —	—	351
\$69.50	449	(449	) —	—	449
\$72.00	540	(540	) —	—	540
\$74.50	625	(625	) —	—	625
\$77.00	705	(705	) —	—	705
\$79.50	779	(779	) —	—	779
\$82.00	850	(850	) 67	67	917
\$84.50	916	(916	) 156	156	1,072
\$87.00	978	(978	) 240	240	1,218
\$89.50	1,036	(1,036	) 319	319	1,355
\$92.00	1,092	(1,092	) 394	394	1,486
\$94.50	1,144	(1,144	) 465	465	1,609
\$97.00	1,194	(1,194	) 532	532	1,726
\$99.50	1,242	(1,242	) 596	596	1,838
\$102.00					