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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

Delaware (State or other jurisdiction of incorporation or organization)	01-0609375 (I.R.S. Employer Identification No.)
2905 Premiere Parkway NW, Suite 300 Duluth, Georgia	30097
(Address of principal executive offices)	(Zip Code)

(770) 418-8200
(Registrant's telephone number, including area code)

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

Large Accelerated Filer	x	Accelerated Filer	o

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of common stock outstanding as of July 24, 2018 was 20,352,895.

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ASBURY AUTOMOTIVE GROUP, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value and share data)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2.5	$ 4.7
Contracts-in-transit	145.2	193.3
Accounts receivable, net	111.9	128.5
Inventories	967.4	826.0
Assets held for sale	28.3	30.3
Other current assets	130.7	119.3
Total current assets	1,386.0	1,302.1
PROPERTY AND EQUIPMENT, net	871.9	834.2
GOODWILL	181.2	160.8
INTANGIBLE FRANCHISE RIGHTS	69.5	49.6
OTHER LONG-TERM ASSETS	12.3	10.0
Total assets	$2,520.9	$ 2,356.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable—trade, net	$105.0	$ 104.2
Floor plan notes payable—non-trade, net	767.6	627.9
Current maturities of long-term debt	13.1	12.9
Accounts payable and accrued liabilities	283.3	313.2
Total current liabilities	1,169.0	1,058.2
LONG-TERM DEBT	855.6	862.6
DEFERRED INCOME TAXES	16.6	12.5
OTHER LONG-TERM LIABILITIES	29.2	29.2
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value; 90,000,000 shares authorized; 41,164,584 and 40,969,987 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	569.2	563.5
Retained earnings	842.8	750.3
Treasury stock, at cost; 20,810,183 and 20,156,962 shares, respectively	(963.9)	(919.1)
Accumulated other comprehensive income (loss)	2.0	(0.9)
Total shareholders' equity	450.5	394.2
Total liabilities and shareholders' equity	$2,520.9	$ 2,356.7

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE:				
New vehicle	$928.7	$882.9	$1,785.8	$1,715.4
Used vehicle	516.9	479.2	1,001.5	941.0
Parts and service	204.5	200.8	403.8	392.3
Finance and insurance, net	73.5	68.9	141.7	134.8
TOTAL REVENUE	1,723.6	1,631.8	3,332.8	3,183.5
COST OF SALES:				
New vehicle	888.1	841.9	1,706.6	1,634.0
Used vehicle	482.8	446.5	933.9	874.4
Parts and service	74.9	76.3	149.1	147.9
TOTAL COST OF SALES	1,445.8	1,364.7	2,789.6	2,656.3
GROSS PROFIT	277.8	267.1	543.2	527.2
OPERATING EXPENSES:				
Selling, general, and administrative	190.6	185.6	374.8	366.7
Depreciation and amortization	8.5	8.0	16.7	15.9
Other operating (income) expenses, net	(0.9)	1.9	(1.1)	0.7
INCOME FROM OPERATIONS	79.6	71.6	152.8	143.9
OTHER EXPENSES:				
Floor plan interest expense	8.0	6.1	14.6	11.3
Other interest expense, net	13.2	13.4	26.2	26.8
Swap interest expense	0.2	0.6	0.4	1.2
Total other expenses, net	21.4	20.1	41.2	39.3
INCOME BEFORE INCOME TAXES	58.2	51.5	111.6	104.6
Income tax expense	15.0	19.6	28.3	38.7
NET INCOME	$43.2	$31.9	$83.3	$65.9
EARNINGS PER COMMON SHARE:				
Basic—				
Net income	$2.13	$1.53	$4.08	$3.15
Diluted—				
Net income	$2.11	$1.52	$4.02	$3.12
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	20.3	20.8	20.4	20.9
Restricted stock	0.1	0.1	0.1	0.1
Performance share units	0.1	0.1	0.2	0.1
Diluted	20.5	21.0	20.7	21.1

See accompanying Notes to Condensed Consolidated Financial Statements

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ASBURY AUTOMOTIVE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$43.2	$31.9	$83.3	$65.9
Other comprehensive income (loss):				
Change in fair value of cash flow swaps	1.2	(0.5)	4.0	0.2
Income tax (expense) benefit associated with cash flow swaps	(0.4)	0.2	(1.1)	(0.1)
Comprehensive income	$44.0	$31.6	$86.2	$66.0

See accompanying Notes to Condensed Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$83.3	$ 65.9
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	16.7	15.9
Stock-based compensation	5.7	6.4
Deferred income taxes	—	0.2
Loaner vehicle amortization	11.2	11.3
Other adjustments, net	1.6	1.9
Changes in operating assets and liabilities, net of acquisitions and divestitures—		
Contracts-in-transit	48.1	57.7
Accounts receivable	16.8	26.3
Inventories	(25.8)	59.3
Other current assets	(96.8)	(108.3)
Floor plan notes payable—trade, net	0.8	21.1
Accounts payable and accrued liabilities	(32.8)	(40.1)
Other long-term assets and liabilities, net	0.3	0.7
Net cash provided by operating activities	29.1	118.3
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures—excluding real estate	(12.2)	(11.5)
Capital expenditures—real estate	(17.6)	(0.3)
Acquisitions	(91.3)	(80.1)
Proceeds from the sale of assets	2.0	—
Net cash used in investing activities	(119.1)	(91.9)
CASH FLOW FROM FINANCING ACTIVITIES:		
Floor plan borrowings—non-trade	2,240.5	1,991.4
Floor plan borrowings—acquisitions	22.7	25.1
Floor plan repayments—non-trade	(2,123.5)	(2,001.7)
Repayments of borrowings	(7.1)	(7.6)
Repurchases of common stock, including shares associated with net share settlement of employee share-based awards	(44.8)	(34.3)
Net cash provided by (used in) financing activities	87.8	(27.1)
Net decrease in cash and cash equivalents	(2.2)	(0.7)
CASH AND CASH EQUIVALENTS, beginning of period	4.7	3.4
CASH AND CASH EQUIVALENTS, end of period	$2.5	$ 2.7

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

ASBURY AUTOMOTIVE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We are one of the largest automotive retailers in the United States, operating 97 new vehicle franchises (83 dealership locations) in 17 metropolitan markets within nine states as of June 30, 2018. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, which includes repair and maintenance services, replacement parts, and collision repair services; and finance and insurance products. As of June 30, 2018, we offered 29 brands of new vehicles and our new vehicle revenue brand mix consisted of 47% imports, 33% luxury, and 20% domestic brands. We also operated 25 collision repair centers that serve customers in our local markets.

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

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

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

Basis of Presentation

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

In the opinion of management, all adjustments, consisting only of normal, recurring adjustments, considered necessary for a fair presentation of the Condensed Consolidated Financial Statements as of June 30, 2018, and for the three and six months ended June 30, 2018 and 2017, have been included. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period, or any full year period. Our Condensed Consolidated Financial Statements should be read together with our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly and the effects of any revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying Condensed Consolidated Financial Statements include, but are not limited to, those relating to inventory valuation reserves, variable consideration and constraint considerations related to retro-commission arrangements, reserves for chargebacks against revenue recognized from the sale of finance and insurance products, reserves for insurance programs, certain assumptions related to intangible and long-lived assets, and reserves for certain legal or similar proceedings relating to our business operations.

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Contracts-In-Transit

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

Revenue Recognition

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and all subsequent amendments issued thereafter (collectively "ASC 606"), on January 1, 2018. Refer to Note 2 for additional information related to the Company's adoption of ASC 606.

Income Taxes

We use the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all the deferred tax assets will not be realized.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, a reduction in the U.S. federal corporate income tax rate from 35% to 21%.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income Taxes ("ASC 740"). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but the company is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances and impact future taxable income.

We have not yet been able to make a reasonable estimate of the potential impact of the effect of the new limitations under Internal Revenue Code Section 162(m) as it relates to the deferred tax asset for certain components of share-based compensation and continue to account for the deferred tax asset based on the provisions of the tax laws that were in effect immediately prior to enactment of the Tax Act. We will complete our accounting for the Tax Act in 2018 after we have considered additional guidance issued by the U.S. Treasury Department, state tax authorities and other standard-setting bodies, and we have gathered and analyzed additional data relative to our calculations. This may result in adjustments to our provisional amounts, which would impact our provision for income taxes and effective tax rate in the period the adjustments are made.

Earnings per Common Share

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

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

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

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

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Statements of Cash Flows
Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the manufacturer from which we purchase a particular new vehicle ("Non-Trade") and all floor plan notes payable relating to pre-owned vehicles (together referred to as "Floor Plan Notes Payable—Non-Trade") are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the manufacturer from which we purchase a particular new vehicle (collectively referred to as "Floor Plan Notes Payable—Trade") is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions and repayments made in connection with all divestitures are classified as financing activities in the accompanying Condensed Consolidated Statement of Cash Flows. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the manufacturer from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the manufacturer from which we purchased the related inventory.
Loaner vehicles account for a significant portion of Other Current Assets. We acquire loaner vehicles either with available cash or through borrowing from either our manufacturer affiliated lenders or through our senior secured credit agreement with Bank of America, as administrative agent, and the other agents and lenders party thereto (the "2016 Senior Credit Facility"). Loaner vehicles are initially used by our service department for a short period of time (typically six to twelve months) before we seek to sell them. Therefore, we classify the acquisition of loaner vehicles in Other Current Assets and the borrowings and repayments of loaner vehicle notes payable in Accounts Payable and Accrued Liabilities in the accompanying Condensed Consolidated Statements of Cash Flows. Loaner vehicles are depreciated over the service period to their estimated value. At the end of the loaner service period, loaner vehicles are transferred from Other Current Assets to used vehicle inventory. These transfers are reflected as non-cash transfers between Other Current Assets and Inventories in the accompanying Condensed Consolidated Statements of Cash Flows.
Recent Accounting Pronouncements
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this update address several specific cash flow issues with the objective of reducing the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update were effective for interim and annual periods beginning after December 15, 2017 and include retrospective application. The Company adopted this ASU during the first quarter of 2018. The adoption of this ASU did not have a material impact to our consolidated financial statements for the six months ended June 30, 2018 and 2017.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business in order to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU were to be applied prospectively and were effective for interim and annual periods beginning after December 15, 2017. The Company adopted ASU 2017-01 during the first quarter of 2018. The adoption of this update did not have a material impact to our consolidated financial statements.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This new standard, and its related amendments, will supersede the existing lease accounting guidance and apply to all entities. This new standard defines new principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. This new standard will become effective for us on January 1, 2019. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we are still evaluating the impact of this new standard, we expect that the right-of-use assets and the associated lease liabilities will be material to our consolidated financial statements. We are unable to quantify the impact at this time as the ultimate impact of adopting this new

standard will depend on the total amount of our lease commitments as of the adoption date.
In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This new standard is intended to simplify hedge accounting by better aligning how an entity’s risk management activities and hedging relationships are presented in its financial statements and simplifies the application of hedge accounting guidance in certain situations. This new standard expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This new standard will become effective for us on January 1, 2019;

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however, early adoption is permitted. For cash flow hedges existing at the adoption date, this new standard requires adoption on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the effective date. The amendments to presentation guidance and disclosure requirements are required to be adopted prospectively. We are currently evaluating the date upon which we will adopt this new standard and the impact this new standard may have on our consolidated financial statements.

2. REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts not completed as of the date of adoption. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to retained earnings as of January 1, 2018. Therefore, prior period comparative information has not been adjusted and continues to be reported under accounting standards ("previous guidance" or "ASC 605") in effect for those periods.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three and six months ended June 30, 2018:

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
	(In millions)	
Revenue:		
New vehicle	$928.7	$1,785.8
Used vehicle retail	470.9	906.7
Used vehicle wholesale	46.0	94.8
New and used vehicle	1,445.6	2,787.3
Sale of vehicle parts and accessories	34.3	68.1
Vehicle repair and maintenance services	170.2	335.7
Parts and services	204.5	403.8
Finance and insurance, net	73.5	141.7
Total revenue	$1,723.6	$3,332.8

The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer. Sales and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

New vehicle and used vehicle retail

Revenue from the sale of new and used vehicles (which excludes sales and other taxes) is recognized when the terms of the customer contract are satisfied which generally occurs with the signing of the sales contract and transfer of control of the vehicle to the customer. Incidental items that are immaterial in the context of the contract are accrued at the time of sale.

Used vehicle wholesale

Proceeds from the sale of these vehicles are recognized in used vehicle revenue upon transfer of control to end-users at auction.

Sale of vehicle parts and accessories

The Company recognizes revenue upon transfer of control to the customer which occurs at a point in time. When the Company performs shipping and handling activities after the transfer of control to the customer (e.g., when control transfers prior to delivery), they are considered as fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized.

Vehicle repair and maintenance services

The Company provides vehicle repair and maintenance services to its customers pursuant to the terms and conditions included within the customer contract ("repair order"). Satisfaction of this performance obligation creates an asset with no alternative use for which an enforceable right to payment for performance to date exists within our contractual agreements. As such, the Company recognizes revenue over time as the Company satisfies its performance obligation. Additionally, the

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Company has determined that parts and labor are not individually distinct in the context of a repair order and therefore are treated as a single performance obligation.

Finance and Insurance, net

We receive commissions from third-party lending and insurance institutions for arranging customer financing and from the sale of vehicle service contracts, guaranteed auto protection (known as "GAP") insurance, and other insurance, to end-users. Finance and insurance commission revenue is recognized at the point of sale since our performance obligation is to arrange financing or facilitating the sale of a third party's products or services to our customers.

The Company's commission arrangements with third-party lenders and insurance administrators consists of fixed ("upfront") and variable consideration. Variable consideration includes commission chargebacks ("chargebacks") in the event a contract is prepaid, defaulted upon, or terminated by the end-user. The Company reserves for future chargebacks based on historical chargeback experience and the termination provisions of the applicable contract and are established in the same period that the related revenue is recognized.

We also participate in future profits pursuant to retrospective commission arrangements, which meet the definition of variable consideration, for certain insurance products associated with a third-party portfolio. The Company estimates the amount of variable consideration to be included in the transaction price based on historical payment trends and further constrains the variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur. In making these assessments the Company considers the likelihood and magnitude of a potential reversal of revenue and updates its assessment when uncertainties associated with the constraint are removed.

Financial Statement Impact of Adopting ASC 606

The Company adopted ASC 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to accounts on the Condensed Consolidated Balance Sheet as of January 1, 2018:

	As Reported	Adjustments		Balance at
	December 31, 2017	Vehicle Repair and Maintenance Services	Finance and Insurance, net	January 1, 2018
	(In millions)			
Assets:				
Inventories	$ 826.0	$ (4.1)	$ —	$ 821.9
Other current assets	119.3	6.4	10.0	135.7
Liabilities:				
Deferred income taxes	$ 12.5	$ 0.6	$ 2.5	$ 15.6
Equity:				
Retained earnings	$ 750.3	$ 1.7	$ 7.5	$ 759.5

Vehicle repair and maintenance services

Under the previous guidance, revenue was recognized at the time all repairs were completed. Under ASC 606, revenue is recognized as the Company satisfies its performance obligation. The amounts reflected within the table above relate to the Company's measure of progress for open contracts as of January 1, 2018. In addition, contract assets are reported within Other Current Assets on the Company's Condensed Consolidated Balance Sheet.

Finance and Insurance, net

Under the previous guidance, retrospective commissions were not fixed or determinable, as a result, the associated revenue was recognized on a cash basis. Under ASC 606, the Company recognizes an estimate of the variable consideration to be received, subject to constraint, as it satisfies its performance obligation. As the Company’s performance obligation is satisfied at the time of arranging the insurance product sale, the Company recorded a contract asset and corresponding increase to retained earnings based on an estimate, subject to constraint, of amounts expected to be received associated with previously satisfied performance obligations.

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Impact of New Revenue Guidance on Financial Statement Line Items

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our Condensed Consolidated Balance Sheet and Statements of Income was as follows:

	As of June 30, 2018		
	As Reported	Amounts Under ASC 605	Effect of Change Increase/(Decrease)
	(In millions)		
Balance Sheet:			
Assets:			
Accounts receivable	$111.9	$ 118.4	$ (6.5)
Inventories	967.4	969.9	(2.5)
Other current assets	130.7	117.8	12.9
Liabilities:			
Accounts payable and accrued liabilities	$283.3	$ 283.7	$ (0.4)
Deferred income taxes	16.6	13.5	3.1
Equity:			
Retained earnings	$842.8	$ 841.6	$ 1.2

	For the Three Months Ended June 30, 2018		
	As Reported	Amounts Under ASC 605	Effect of Change (Decrease)
	(In millions, except per share data)		
Statement of Income:			
Revenue:			
Parts and service	$204.5	$ 205.6	$ (1.1)
Finance and insurance, net	73.5	74.0	(0.5)
Cost of Sales:			
Parts and service	74.9	75.7	(0.8)
Income before income taxes	58.2	59.0	(0.8)
Income tax expense	15.0	15.2	(0.2)
Net income	$43.2	$ 43.8	$ (0.6)
Earnings Per Common Share:			
Basic	$2.13	$ 2.16	$ (0.03)
Diluted	$2.11	$ 2.14	$ (0.03)

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	For the Six Months Ended June 30, 2018		
	As Reported	Amounts Under ASC 605	Effect of Change (Decrease)
	(In millions, except per share data)		
Statement of Income:			
Revenue:			
Parts and service	$403.8	$ 406.2	$ (2.4)
Finance and insurance, net	141.7	142.8	(1.1)
Cost of Sales:			
Parts and service	149.1	150.7	(1.6)
Income before income taxes	111.6	113.5	(1.9)
Income tax expense	28.3	28.7	(0.4)
Net income	$83.3	$ 84.8	$ (1.5)
Earnings Per Common Share:			
Basic	$4.08	$ 4.16	$ (0.08)
Diluted	$4.02	$ 4.10	$ (0.08)

The following summarizes the changes to the Company's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018 as a result of the adoption of ASC 606 on January 1, 2018 compared to if the Company had continued to recognize revenues under ASC 605:

- ASC 606 accelerated the recognition of revenue and costs related to open vehicle repair orders in which recognition was previously deferred until the completion of the repair order. During the three months ended June 30, 2018, gross profit decreased $0.3 million due to differences in open repair orders as of June 30, 2018 compared to open repair orders as of March 31, 2018. During the six months ended June 30, 2018, gross profit decreased $0.8 million due to differences in open repair orders as of June 30, 2018 compared to open repair orders as of December 31, 2017.
- ASC 606 accelerated the timing of recognition of certain retro-commission arrangements (i.e. variable consideration) reported within Finance and Insurance, net. Under ASC 605, retro-commission income was recorded at the time it was received from our third-party provider. During the three and six months ended June 30, 2018, net revenue decreased $0.5 million and $1.1 million, respectively, due to the difference between the amounts received compared to the Company's estimate of variable consideration, subject to a constraint, for products arranged during the same comparative periods.

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Contract Assets

Changes in contract assets during the period are reflected in the table below. Contract assets related to vehicle repair and maintenance services are transferred to receivables when a repair order is completed and invoiced to the customer.

	Vehicle Repair and Maintenance Services	Finance and Insurance, net	Total
	(In millions)		
Contract Assets (Current), January 1, 2018	$6.4	$ 10.0	$16.4
Transferred to receivables from contract assets recognized at the beginning of the period	(6.4)	(3.2)	(9.6)
Increases related to revenue recognized, net of constraint amount, during the period	5.1	2.6	7.7
Contract Assets (Current), March 31, 2018	5.1	9.4	14.5
Transferred to receivables from contract assets recognized at the beginning of the period	(5.1)	(3.2)	(8.3)
Increases related to revenue recognized, net of constraint amount, during the period	4.0	2.7	6.7
Contract Assets (Current), June 30, 2018	$4.0	$ 8.9	$12.9

3. ACQUISITIONS

Results of acquired dealerships are included in our accompanying Condensed Consolidated Statements of Income commencing on the date of acquisition. Our acquisitions are accounted for such that the assets acquired and liabilities assumed are recognized at their acquisition date fair values, with any excess of the consideration transferred over the estimated fair values of the identifiable net assets acquired recorded as goodwill. Goodwill is an asset representing operational synergies and future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The fair value of our manufacturer franchise rights are determined at the acquisition date, by discounting the projected cash flows specific to each franchise. Included in this analysis are market participant assumptions, at a dealership level, regarding the cash flows directly attributable to the franchise rights, revenue growth rates, future gross margins and future selling, general, and administrative expenses. Using an estimated weighted average cost of capital, estimated residual values at the end of the forecast period and estimated future capital expenditure requirements, the Company calculates the fair value of the franchise rights.

During the six months ended June 30, 2018, we acquired the assets of one franchise (one dealership location) in the Indianapolis, Indiana market and two franchises (two dealership locations) in the Atlanta, Georgia market for a combined purchase price of $93.2 million. Consideration paid (or payable) to fund these acquisitions included $68.6 million of cash, $22.7 million of floor plan borrowings for the purchase of the related new vehicle inventory, and purchase price holdbacks of $1.9 million for potential indemnity claims.

During the six months ended June 30, 2017, we acquired the assets of two franchises (two dealership locations) and one collision center in the Indianapolis, Indiana market for a purchase price of $80.1 million. We funded these acquisitions with $55.0 million of cash and $25.1 million of floor plan borrowings for the purchase of the related new vehicle inventory.

Below is the preliminary allocation of purchase price for the acquisitions completed during the six months ended June 30, 2018. We have not finalized our internal valuation of manufacturer franchise rights. The $40.3 million of goodwill and manufacturer rights associated with our acquisitions will be deductible for federal and state income tax purposes ratably over a

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15 year period.

	As of June 30, 2018
	(In millions)
Inventory	$ 27.3
Real estate	23.5
Property and equipment	0.6
Goodwill	20.4
Manufacturer franchise rights	19.9
Loaner vehicles	1.7
Liabilities assumed	(0.2)
Total purchase price	$ 93.2

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	As of June 30, 2018	December 31, 2017
	(In millions)	
Vehicle receivables	$41.9	$ 48.3
Manufacturer receivables	39.5	47.0
Other receivables	31.9	34.8
Total accounts receivable	113.3	130.1
Less—Allowance for doubtful accounts	(1.4)	(1.6)
Accounts receivable, net	$111.9	$ 128.5

5. INVENTORIES

Inventories consisted of the following:

	As of June 30, 2018	December 31, 2017
	(In millions)	
New vehicles	$776.1	$ 646.5
Used vehicles	151.3	135.9
Parts and accessories	40.0	43.6
Total inventories	$967.4	$ 826.0

The lower of cost and net realizable value reserves reduced total inventories by $6.2 million and $5.7 million as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017, certain automobile manufacturer incentives reduced new vehicle inventory cost by $9.1 million and $7.4 million, respectively, and reduced new vehicle cost of sales for the six months ended June 30, 2018 and 2017 by $19.7 million and $19.5 million, respectively.

6. ASSETS AND LIABILITIES HELD FOR SALE

During the six months ended June 30, 2018, we sold one vacant property with a net book value of $2.0 million. Assets held for sale, comprising real estate not currently used in our operations, totaled $28.3 million and $30.3 million as of June 30, 2018 and December 31, 2017, respectively. There were no liabilities associated with these real estate assets held for sale as of June 30, 2018 or December 31, 2017.

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7. FLOOR PLAN NOTES PAYABLE

Floor plan notes payable consisted of the following:

	As of June 30, 2018	December 31, 2017
	(In millions)	
Floor plan notes payable—trade	$117.0	$ 114.8
Floor plan notes payable offset account	(12.0)	(10.6)
Floor plan notes payable—trade, net	$105.0	$ 104.2
Floor plan notes payable—non-trade	$783.4	$ 666.6
Floor plan notes payable offset account	(15.8)	(38.7)
Floor plan notes payable—non-trade, net	$767.6	$ 627.9

We have established a floor plan notes payable offset account with Ford Motor Credit Company which allows us to transfer cash to the account as an offset of our outstanding Floor Plan Notes Payable—Trade. Additionally, we have a similar floor plan offset account with Bank of America which allows us to offset our outstanding Floor Plan Notes Payable—Non-Trade. These accounts allow us to transfer cash to reduce the amount of outstanding floor plan notes payable that would otherwise accrue interest, while retaining the ability to transfer amounts from the floor plan offset accounts into our operating cash accounts within one to two days. As of June 30, 2018 and December 31, 2017, we had $27.8 million and $49.3 million, respectively, in these floor plan offset accounts.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

	As of June 30, 2018	December 31, 2017
	(In millions)	
6.0% Senior Subordinated Notes due 2024	$600.0	$ 600.0
Mortgage notes payable bearing interest at fixed rates	136.2	139.1
Real estate credit agreement	46.9	48.5
Restated master loan agreement	85.9	88.5
Capital lease obligations	3.2	3.2
Total debt outstanding	872.2	879.3
Add—unamortized premium on 6.0% Senior Subordinated Notes due 2024	6.4	6.8
Less—debt issuance costs	(9.9)	(10.6)
Long-term debt, including current portion	868.7	875.5
Less—current portion, net of current portion of debt issuance costs	(13.1)	(12.9)
Long-term debt	$855.6	$ 862.6

We are a holding company with no independent assets or operations. For all relevant periods presented, our 6.0% Senior Subordinated Notes due 2024 (our "6.0% Notes") have been fully and unconditionally guaranteed, on a joint and several basis, by substantially all of our subsidiaries. Any subsidiaries which have not guaranteed such notes are "minor" (as defined in Rule 3-10(h) of Regulation S-X). As of June 30, 2018, there were no significant restrictions on the ability of our subsidiaries to distribute cash to us or our guarantor subsidiaries.

9. FINANCIAL INSTRUMENTS AND FAIR VALUE

In determining fair value, we use various valuation approaches, including market and income approaches. Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the assumptions market

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participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:
Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.
Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include interest rate swap instruments, exchange-traded debt securities that are not actively traded or do not have a high trading volume, mortgage notes payable, and certain real estate properties on a non-recurring basis.
Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating the fair value of certain non-financial assets and non-financial liabilities in purchase acquisitions and those used in the assessment of impairment for manufacturer franchise rights.
The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.
Fair value is a market-based exit price measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use inputs that are current as of the measurement date, including during periods of significant market fluctuations.
Financial instruments consist primarily of cash and cash equivalents, contracts-in-transit, accounts receivable, cash surrender value of corporate-owned life insurance policies, accounts payable, floor plan notes payable, subordinated long-term debt, mortgage notes payable, and interest rate swap instruments. The carrying values of our financial instruments, with the exception of subordinated long-term debt and mortgage notes payable, approximate fair value due to (i) their short-term nature, (ii) recently completed market transactions, or (iii) existence of variable interest rates, which approximate market rates. The fair value of our subordinated long-term debt is based on reported market prices in an inactive market which reflects Level 2 inputs. We estimate the fair value of our mortgage notes payable using a present value technique based on current market interest rates for similar types of financial instruments which reflect Level 2 inputs.
A summary of the carrying values and fair values of our 6.0% Notes and our mortgage notes payable is as follows:

	As of June 30, 2018	As of December 31, 2017
	(In millions)	
Carrying Value:		
6.0% Senior Subordinated Notes due 2024	$606.4	$ 606.8
Mortgage notes payable	269.0	276.1
Total carrying value	$875.4	$ 882.9
Fair Value:		
6.0% Senior Subordinated Notes due 2024	$592.5	$ 625.5
Mortgage notes payable	262.0	275.3
Total fair value	$854.5	$ 900.8

Interest Rate Swap Agreements

In June 2015, we entered into an interest rate swap agreement with a notional principal amount of $100.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month London Interbank Offered Rate ("LIBOR"), through maturity in February 2025. The notional value of this swap was $87.7 million as of June 30, 2018 and is reducing over its remaining term to $53.1 million at maturity.

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In November 2013, we entered into an interest rate swap agreement with a notional principal amount of $75.0 million. This swap was designed to provide a hedge against changes in variable rate cash flows regarding fluctuations in the one month LIBOR rate, through maturity in September 2023. The notional value of this swap was $58.3 million as of June 30, 2018 and is reducing over its remaining term to $38.7 million at maturity.

The fair value of cash flow swaps is calculated as the present value of expected future cash flows, determined on the basis of forward interest rates and present value factors. Fair value estimates reflect a credit adjustment to the discount rate applied to all expected cash flows under the swaps. Other than this input, all other inputs used in the valuation of these swaps are designated to be Level 2 fair values. The fair value of our swaps was a $2.3 million asset as of June 30, 2018 and a $1.7 million liability as of December 31, 2017.

The following table provides information regarding the fair value of our interest rate swap agreements and the impact on the Condensed Consolidated Balance Sheets:

	As of June 30, 2018	December 31, 2017
	(In millions)	
Accounts payable and accrued liabilities	$—	$ 1.0
Other long-term (assets) or liabilities	(2.3)	0.7
Total fair value	$(2.3)	$ 1.7

Both of our interest rate swaps qualify for cash flow hedge accounting treatment. During the three and six months ended June 30, 2018 and 2017, neither of our cash flow swaps contained any ineffectiveness, nor was any ineffectiveness recognized in earnings. Information about the effect of our interest rate swap agreements on the accompanying Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income, is as follows (in millions):

For the Three Months Ended June 30,	Results Recognized in Accumulated Other Comprehensive Income/(Loss) (Effective Portion)	Location of Results Reclassified from Accumulated Other Comprehensive Income/(Loss) to Earnings	Results Reclassified from Accumulated Other Comprehensive Income/(Loss) to Earnings - Active Swaps
2018	$ 1.0	Swap interest expense	$ (0.2)
2017	$ (1.1)	Swap interest expense	$ (0.6)

For the Six Months Ended June 30,	Results Recognized in Accumulated Other Comprehensive Income/(Loss) (Effective Portion)	Location of Results Reclassified from Accumulated Other Comprehensive Income/(Loss) to Earnings	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) to Earnings–Active Swaps
2018	$ 3.6	Swap interest expense	$ (0.4)
2017	$ (1.0)	Swap interest expense	$ (1.2)

On the basis of yield curve conditions as of June 30, 2018 and including assumptions about future changes in fair value, we expect the amount to be reclassified out of Accumulated Other Comprehensive Income into earnings within the next 12 months will be losses of less than $0.1 million.

10. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2018 and 2017, we made interest payments, including amounts capitalized, totaling $39.8 million and $37.9 million, respectively. Included in these interest payments are $14.0 million and $11.1 million, of floor plan interest payments during the six months ended June 30, 2018 and 2017, respectively.

During the six months ended June 30, 2018 and 2017, we made income tax payments, net of refunds received totaling $27.3 million and $70.7 million, respectively.

During the six months ended June 30, 2018 and 2017, we transferred $92.4 million and $68.6 million, respectively, of loaner vehicles from Other Current Assets to Inventories on our Condensed Consolidated Balance Sheets.

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11. COMMITMENTS AND CONTINGENCIES

Our dealerships are party to dealer and framework agreements with applicable vehicle manufacturers. In accordance with these agreements, each dealership has certain rights and is subject to restrictions typical in the industry. The ability of these manufacturers to influence the operations of the dealerships or the loss of any of these agreements could have a materially negative impact on our operating results.

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

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

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

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

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

We had $16.0 million of letters of credit outstanding as of June 30, 2018, which are required by certain of our insurance providers. In addition, as of June 30, 2018, we maintained a $5.0 million surety bond line in the ordinary course of our business. Our letters of credit and surety bond line are considered to be off balance sheet arrangements. Our other material commitments include (i) floor plan notes payable, (ii) operating leases, (iii) long-term debt and (iv) interest on long-term debt, as described elsewhere herein.

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

Forward-Looking Information

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

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

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

- changes in general economic and business conditions, including changes in employment levels, consumer demand, preferences and confidence levels, the availability and cost of credit, fuel prices, levels of discretionary personal income and interest rates;
- our ability to execute our balanced automotive retailing and service business strategy;
- adverse conditions affecting the vehicle manufactures whose brands we sell, and their ability to design, manufacture, deliver, and market their vehicles successfully;
- changes in the mix, and total number, of vehicles we are able to sell;
- our outstanding indebtedness and our continued ability to comply with applicable covenants in our various financing and lease agreements, or to obtain waivers of these covenants as necessary;
- high levels of competition in our industry, which may create pricing and margin pressures on our products and services;

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- our relationships with manufacturers of the vehicles we sell and our ability to renew, and enter into new framework and dealer agreements with vehicle manufacturers whose brands we sell, on terms acceptable to us;
- the availability of manufacturer incentive programs and our ability to earn these incentives;
- failure of our management information systems or any security breaches;
- changes in laws and regulations governing the operation of automobile franchises, including consumer protections, accounting standards, taxation requirements, and environmental laws;
- changes in, or the imposition of, new tariffs or trade restrictions on imported vehicles or parts;
- adverse results from litigation or other similar proceedings involving us;
- our ability to generate sufficient cash flows, maintain our liquidity and obtain any necessary additional funds for working capital, capital expenditures, acquisitions, stock repurchases and/or dividends, debt maturity payments, and other corporate purposes;
- any disruptions in the financial markets, which may impact our ability to access capital;
- our relationships with, and the financial stability of, our lenders and lessors;
- significant disruptions in the production and delivery of vehicles and parts for any reason, including natural disasters, product recalls, work stoppages, significant property loss or other occurrences that are outside of our control;
- our ability to execute our initiatives and other strategies; and
- our ability to leverage gains from our dealership portfolio.

Many of these factors are beyond our ability to control or predict, and their ultimate impact could be material. Moreover, the factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and other cautionary statements made in this report should be read and considered as forward-looking statements subject to such uncertainties. Forward-looking statements speak only as of the date they are made, and we expressly disclaim any obligation to update any forward-looking statement contained herein.

OVERVIEW

We are one of the largest automotive retailers in the United States. As of June 30, 2018 we owned and operated 97 new vehicle franchises (83 dealership locations), representing 29 brands of automobiles and 25 collision centers in 17 metropolitan markets within nine states. Our stores offer an extensive range of automotive products and services, including new and used vehicles; parts and service, which includes repair and maintenance services, replacement parts, and collision repair services; and finance and insurance products. As of June 30, 2018, our new vehicle revenue brand mix consisted of 47% imports, 33% luxury, and 20% domestic brands.

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

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

Our revenues are derived primarily from: (i) the sale of new vehicles; (ii) the sale of used vehicles to individual retail customers ("used retail") and to other dealers at auction ("wholesale") (the terms "used retail" and "wholesale" collectively referred to as "used"); (iii) repair and maintenance services, including collision repair, the sale of automotive replacement parts, and the reconditioning of used vehicles (collectively referred to as "parts and service"); and (iv) the arrangement of third-party vehicle financing and the sale of a number of vehicle protection products (defined below and collectively referred to as "F&I").

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We evaluate the results of our new and used vehicle sales based on unit volumes and gross profit per vehicle sold, our parts and service operations based on aggregate gross profit, and our F&I business based on F&I gross profit per vehicle sold.

Our continued organic growth is dependent upon the execution of our balanced automotive retailing and service business strategy, the continued strength of our brand mix, and the production and allocation of desirable vehicles from the automobile manufacturers whose brands we sell. Our vehicle sales have historically fluctuated with product availability as well as local and national economic conditions, including consumer confidence, availability of consumer credit, fuel prices, and employment levels. Additionally, our ability to sell certain new and used vehicles can be negatively impacted by a number of factors, some of which are outside of our control and may include manufacturer imposed stop-sales or open safety recalls, primarily due to, but not limited to, vehicle safety concerns or a vehicle's failure to meet environmental related requirements. Further, governmental actions, such as the imposition of tariffs or trade restrictions on imported goods, may adversely affect vehicle sales and depress demand. However, we believe that the impact on our business of any future negative trends in new vehicle sales would be partially mitigated by (i) the expected relative stability of our parts and service operations over the long-term, (ii) the variable nature of significant components of our cost structure, and (iii) our diversified brand and geographic mix.

The seasonally adjusted annual rate ("SAAR") of new vehicle sales in the U.S. during the three months ended June 30, 2018 was 17.2 million compared 16.8 million during the three months ended June 30, 2017. The automotive retail business continues to benefit from the availability of credit to consumers, strong consumer confidence and relatively low unemployment levels, fuel prices, and interest rates. Demand for new vehicles is generally highest during the second, third, and fourth quarters of each year and, accordingly, we expect our revenues to generally be higher during these periods. We typically experience higher sales of luxury vehicles in the fourth quarter, which have higher average selling prices and gross profit per vehicle retailed. Revenues and operating results may be impacted significantly from quarter-to-quarter by changing economic conditions, vehicle manufacturer incentive programs, adverse weather events, or other developments outside our control.

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

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

We had total available liquidity of $349.4 million as of June 30, 2018, which consisted of cash and cash equivalents of $2.5 million, $27.8 million of funds in our floor plan offset accounts, $190.0 million of availability under our new vehicle floorplan facility that is able to be re-designated to our revolving credit facility, $44.0 million of availability under our revolving credit facility, and $85.1 million of availability under our used vehicle revolving floor plan facility. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2018 Compared to the Three Months Ended June 30, 2017

	For the Three Months Ended June 30,		Increase (Decrease)	% Change
	2018	2017		
	(Dollars in millions, except per share data)			
REVENUE:				
New vehicle	$928.7	$882.9	$ 45.8	5 %
Used vehicle	516.9	479.2	37.7	8 %
Parts and service	204.5	200.8	3.7	2 %
Finance and insurance, net	73.5	68.9	4.6	