

GROUP 1 AUTOMOTIVE INC

Form 10-Q

October 26, 2011

Table of Contents

**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 September 30, 2011

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 October 21, 2011, the registrant had 22,735,108 shares of common stock, par value \$0.01, outstanding.

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
TABLE OF CONTENTS**

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements Cautionary Statement about Forward-Looking Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	46
<u>Item 4. Controls and Procedures</u>	48

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
<u>Item 6. Exhibits</u>	51
<u>SIGNATURE</u>	52
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

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

	September 30, 2011 (Unaudited)	December 31, 2010
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,300	\$ 19,843
Contracts-in-transit and vehicle receivables, net	100,246	113,846
Accounts and notes receivable, net	71,496	75,623
Inventories	719,677	777,771
Deferred income taxes	16,482	14,819
Prepaid expenses and other current assets	18,232	17,332
 Total current assets	 937,433	 1,019,234
 PROPERTY AND EQUIPMENT, net	 550,908	 506,288
GOODWILL	526,487	507,962
INTANGIBLE FRANCHISE RIGHTS	166,818	158,694
OTHER ASSETS	13,656	9,786
 Total assets	 \$ 2,195,302	 \$ 2,201,964
 LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable credit facility	\$ 437,052	\$ 560,840
Floorplan notes payable manufacturer affiliates	122,358	103,345
Current maturities of long-term debt	14,003	53,189
Current liabilities from interest rate risk management activities	7,656	1,098
Accounts payable	128,490	92,799
Accrued expenses	92,360	83,663
 Total current liabilities	 801,919	 894,934
 LONG-TERM DEBT, net of current maturities	 473,193	 412,950
DEFERRED INCOME TAXES	70,929	58,970
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	25,112	16,426
OTHER LIABILITIES	33,252	31,036
DEFERRED REVENUES	2,133	3,280

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; 26,204 and 26,096 issued, respectively .	262	261
Additional paid-in capital	368,776	363,966
Retained earnings	573,120	519,843
Accumulated other comprehensive loss	(27,986)	(18,755)
Treasury stock, at cost; 3,480 and 2,303 shares, respectively	(125,408)	(80,947)
Total stockholders equity	788,764	784,368
Total liabilities and stockholders equity	\$ 2,195,302	\$ 2,201,964

Table of Contents

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(Unaudited, in thousands, except per share amounts)			
REVENUES:				
New vehicle retail sales	\$ 862,660	\$ 822,121	\$ 2,457,255	\$ 2,254,093
Used vehicle retail sales	377,115	340,625	1,053,609	960,376
Used vehicle wholesale sales	69,051	58,463	191,609	156,653
Parts and service sales	210,067	196,264	609,108	575,762
Finance, insurance and other, net	51,496	44,282	142,255	124,533
Total revenues	1,570,389	1,461,755	4,453,836	4,071,417
COST OF SALES:				
New vehicle retail sales	806,498	775,046	2,304,057	2,122,533
Used vehicle retail sales	345,048	310,055	958,094	870,823
Used vehicle wholesale sales	69,254	58,158	187,651	153,565
Parts and service sales	100,836	89,657	289,295	264,484
Total cost of sales	1,321,636	1,232,916	3,739,097	3,411,405
GROSS PROFIT	248,753	228,839	714,739	660,012
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	188,185	173,925	547,120	522,796
DEPRECIATION AND AMORTIZATION EXPENSE	6,845	6,772	19,881	19,936
ASSET IMPAIRMENTS .	3,644	1,639	4,008	3,121
INCOME FROM OPERATIONS	50,079	46,503	143,730	114,159
OTHER EXPENSE:				
Floorplan interest expense	(6,964)	(9,021)	(20,245)	(25,220)
Other interest expense, net	(8,644)	(6,894)	(24,811)	(20,265)
Loss on redemption of long-term debt				(3,872)
INCOME BEFORE INCOME TAXES	34,471	30,588	98,674	64,802
PROVISION FOR INCOME TAXES	(12,977)	(11,603)	(37,135)	(25,067)
NET INCOME	\$ 21,494	\$ 18,985	\$ 61,539	\$ 39,735
BASIC EARNINGS PER SHARE				
Weighted average common shares outstanding	22,020	22,419	22,377	22,877
DILUTED EARNINGS PER SHARE	\$ 0.94	\$ 0.83	\$ 2.67	\$ 1.70
Weighted average common shares outstanding	22,778	22,926	23,073	23,414

CASH DIVIDENDS PER COMMON SHARE \$ 0.13 \$ \$ 0.35 \$

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

4

Table of Contents**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 61,539	\$ 39,735
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,881	19,936
Deferred income taxes	16,280	22,224
Asset impairments	4,008	3,121
Stock-based compensation	8,333	7,505
Amortization of debt discount and issue costs	8,871	6,336
Loss on redemption of long-term debt		3,872
(Gain) loss on disposition of assets	(967)	3,170
Tax effect from stock-based compensation	(651)	985
Other	636	(131)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	39,722	9,624
Accounts and notes receivable	3,908	(4,747)
Inventories	111,704	(152,947)
Contracts-in-transit and vehicle receivables	13,525	(5,888)
Prepaid expenses and other assets	(3,454)	7,060
Floorplan notes payable manufacturer affiliates	19,028	(10,281)
Deferred revenues	(1,245)	(1,759)
Net cash provided by (used in) operating activities	301,118	(52,185)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(109,935)	(34,431)
Proceeds from disposition of franchises, property and equipment	5,768	41,001
Purchases of property and equipment, including real estate	(45,052)	(22,699)
Other	421	1,145
Net cash used in investing activities	(148,798)	(14,984)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility Floorplan Line	3,635,810	3,731,339
Repayments on credit facility Floorplan Line	(3,759,598)	(3,552,920)
Principal payments on mortgage facility	(1,065)	(35,284)
Proceeds from issuance of 3.00% Convertible Notes		115,000
Debt issue costs		(3,959)
Purchase of equity calls		(45,939)
Sale of equity warrants		29,309
Redemption of other long-term debt		(77,011)

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Borrowings of other long-term debt	202	4,909
Principal payments of long-term debt related to real estate loans	(5,684)	(2,685)
Borrowings of long-term debt related to real estate	21,823	12,804
Principal payments of other long-term debt	(2,851)	(558)
Repurchases of common stock, amounts based on settlement date	(44,912)	(26,765)
Proceeds from issuance of common stock to benefit plans	3,094	2,562
Tax effect from stock-based compensation	651	(985)
Dividends paid	(8,262)	
Net cash provided by (used in) financing activities	(160,792)	149,817
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(71)	293
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,543)	82,941
CASH AND CASH EQUIVALENTS, beginning of period	19,843	13,221
CASH AND CASH EQUIVALENTS, end of period	\$ 11,300	\$ 96,162

SUPPLEMENTAL CASH FLOW INFORMATION:

Purchases of property and equipment, including real estate, accrued in accounts payable and accrued expenses	845	526
Repurchases of common stock, accrued in accounts payable and accrued expenses	5,866	

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

Table of Contents

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

	Common Stock		Additional Paid-in Capital		Accumulated Other Comprehensive Income (Loss)			Treasury Stock	Total
	Shares	Amount	Retained Earnings	Unrealized Gains (Losses) on Interest Rate Swaps	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Currency Translation			
BALANCE, December 31, 2010	26,096	\$ 261	\$ 363,966	\$ 519,843	\$(10,953)	\$ 50	\$ (7,852)	\$ (80,947)	\$ 784,368
Comprehensive income:									
Net income				61,539					61,539
Interest rate swap adjustment, net of tax provision of \$5,717					(9,528)				(9,528)
Unrealized loss on investments, net of tax benefit of \$13						(22)			(22)
Unrealized gain on currency translation							319		319
Total comprehensive income									52,308
Purchases of treasury stock								(50,778)	(50,778)
Issuance of common and treasury shares to employee benefit plans	(188)	(2)	(7,417)					6,317	(1,102)
Proceeds from sales of common stock under employee benefit plans	81	1	3,093						3,094

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Issuance of restricted stock	300	3	(3)						
Forfeiture of restricted stock	(85)	(1)	1						
Stock-based compensation				8,333					8,333
Tax effect from options exercised and the vesting of restricted shares				803					803
Cash dividends				(8,262)					(8,262)
BALANCE, September 30, 2011	26,204	\$ 262	\$ 368,776	\$ 573,120	\$(20,481)	\$ 28	\$ (7,533)	\$(125,408)	\$ 788,764

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

Table of Contents

**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 subsidiaries, is a leading operator in the automotive retailing industry with operations in the states of Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina and Texas in the United States of America (the U.S.) and in the towns of Brighton, Farnborough, Hailsham, Hindhead and Worthing in the United Kingdom (the U.K.). Through their dealerships, these subsidiaries sell new and used cars and light trucks; arrange related financing; sell vehicle service and insurance contracts; provide maintenance and repair services; and sell replacement parts. Group 1 Automotive, Inc. and its subsidiaries are herein collectively referred to as the Company or Group 1.

As of September 30, 2011, the Company's U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (i) the East (42 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York and South Carolina) and (ii) the West (58 dealerships in California, Kansas, 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 region, as well as for overseeing the market directors and dealership general managers that report to them. Each region is also managed by a regional chief financial officer who reports directly to the Company's Chief Financial Officer. The Company's five dealerships in the U.K. are also managed locally with direct reporting responsibilities to the Company's corporate management team.

Basis of Presentation

The accompanying unaudited 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 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. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K).

All acquisitions of dealerships 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Goodwill

The Company defines its reporting units as each of its two regions in the U.S. and the U.K. Goodwill represents the excess, at the date of acquisition, of the purchase price of the business acquired over the fair value of the net tangible and intangible assets acquired. Annually, in the fourth quarter, based on the carrying values of the Company's regions as of October 31st, the Company performs a fair value and potential impairment assessment of its goodwill. An impairment analysis is done more frequently if certain events or circumstances arise that would indicate a change in the fair value of the non-financial asset has occurred (i.e., an impairment indicator).

In evaluating its goodwill, the Company compares the carrying value of the net assets of each reporting unit to its respective fair value, which is calculated by using unobservable inputs based upon the Company's internally developed assumptions (i.e., Level 3 valuation hierarchy inputs). This represents the first step of the impairment test. If the fair value of a reporting unit is less than the carrying value of its net assets, the Company must proceed to step two of the impairment test. Step two involves allocating the calculated fair value to all of the tangible and identifiable intangible

assets of the reporting unit as if the calculated fair value was the purchase price in a business combination. The Company then compares the value of the implied goodwill resulting from this second

7

Table of Contents

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

step to the carrying value of the goodwill in the reporting unit. To the extent the carrying value of the goodwill exceeds its implied fair value under step two of the impairment test, an impairment charge equal to the difference is recorded.

During the three months ended September 30, 2011, the Company did not identify an impairment indicator relative to its goodwill. As a result, the Company was not required to conduct the first step of the impairment test. However, if in future periods the Company determines that the carrying amount of the net assets of one or more of its reporting units exceeds the respective fair value as a result of step one, the Company believes that the application of step two of the impairment test could result in a material impairment charge to the goodwill associated with the reporting unit(s).

Intangible Franchise Rights

The Company's only significant identifiable intangible assets, other than goodwill, are rights under franchise agreements with manufacturers, which are recorded at an individual dealership level. The Company expects these franchise agreements to continue for an indefinite period and, for agreements that do not have indefinite terms, the Company believes that renewal of these agreements can be obtained without substantial cost. As such, the Company believes that its franchise agreements will contribute to cash flows for an indefinite period and, therefore, the carrying amounts of the franchise rights are not amortized. The Company evaluates these franchise rights for impairment annually in the fourth quarter, based on the carrying values of the Company's individual dealerships as of October 31, or more frequently if events or circumstances indicate possible impairment has occurred.

In performing its impairment assessments, the Company tests the carrying value of each individual franchise right that was recorded by using a direct value method, discounted cash flow model, or income approach, specifically the excess earnings method. This income approach for measuring fair value of each individual franchise right involves unobservable inputs based upon the Company's internally developed assumptions (i.e., Level 3 valuation hierarchy inputs). During the three months ended September 30, 2011, the Company did not identify an impairment indicator relative to its capitalized value of intangible franchise rights and, therefore, no impairment evaluation was required.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update changes certain fair value measurement principles and enhances the disclosure requirements particularly Level 3 fair value measurements. It is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption prohibited. The Company believes that the adoption of this guidance will primarily affect certain disclosures related to fair value, but will not have a material impact on the consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. This update will require entities to present the total of comprehensive income, the component of net income, and the components of other comprehensive income in either, a single continuous statement of comprehensive income, or in two separate but consecutive statements. The current option to report other comprehensive income and its components in the statement of changes in equity has been eliminated. This update is effective for reporting periods beginning after December 15, 2011, with early adoption permitted. The Company believes that the adoption of this guidance will affect the presentation of comprehensive income, but will not have a material impact on the consolidated financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*. This update will permit an entity to first assess qualitative factors to determine whether it is more likely than not likelihood more than 50%) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This update is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. The Company believes that the adoption of this guidance will not have a material impact on the consolidated financial position or results of operations.

3. ACQUISITIONS AND DISPOSITIONS

During the first nine months of 2011, the Company acquired one Ford dealership located in Houston, Texas and one Volkswagen dealership located in Irving, Texas, as well as one BMW/MINI dealership, one Ford dealership, and one Buick/GMC dealership, all

Table of Contents

located in El Paso, Texas. Consideration paid for these dealerships totaled \$109.9 million, including amounts paid for vehicle inventory, parts inventory, equipment, and furniture and fixtures, as well as the purchase of some of the associated real estate. The vehicle inventory was subsequently financed through borrowings under the FMCC Facility and the Floorplan Line, each as defined in Note 9. Further, the Company was awarded one Fiat franchise located in Houston, Texas. In addition, during the nine months ended September 30, 2011, the Company sold one of its non-operational dealership facilities that qualified as a held-for-sale asset as of December 31, 2010 for \$4.1 million with no gain or loss recognized by the Company related to this sale. The carrying value of this non-operational dealership facility was classified in Other Current Assets in the accompanying Consolidated Balance Sheet at December 31, 2010.

During the first nine months of 2010, the Company was awarded two Sprinter franchises located in two separate Mercedes-Benz stores in Georgia and New York, was granted a MINI franchise in Texas, and acquired a Lincoln franchise in Texas. The Company also acquired two BMW/MINI dealerships in the Southeast region of the U.K., a Toyota/Scion dealership and an Audi dealership located in South Carolina. Consideration paid for these dealerships totaled \$34.4 million, including amounts paid for vehicle inventory, parts inventory, equipment, and furniture and fixtures, as well as the purchase some of the associated real estate. The vehicle inventory was subsequently financed through borrowings under either the Company's credit facility with BMW Financial Services or the Floorplan Line. In addition, the Company disposed of real estate holdings of non-operating facilities in Texas and Massachusetts and a Ford-Lincoln-Mercury dealership in Florida during the nine months ended September 30, 2010.

Subsequent to September 30, 2011, the Company acquired a Cadillac/Buick/GMC dealership in Houston, Texas and was awarded a Volkswagen franchise in both San Diego, California and Beaumont, Texas.

4. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

The periodic interest rates of the Revolving Credit Facility (as defined in Note 9), the Mortgage Facility (as defined in Note 10) and certain variable-rate real estate related borrowings are indexed to 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 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.

As of September 30, 2011, the Company held interest rate swaps in effect of \$300.0 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 4.3%. Of this total notional value, \$250.0 million expire in 2012 and

Table of Contents

\$50.0 million expire in 2015. At September 30, 2011, all of the Company's derivative contracts were determined to be effective. For the three and nine months ended September 30, 2011, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by \$3.1 million and \$9.6 million, respectively; for the three and nine months ended September 30, 2010, the impact of these interest rate hedges increased floorplan interest expense by \$5.5 million and \$15.9 million, respectively. Total floorplan interest expense was \$7.0 million and \$9.0 million for the three months ended September 30, 2011 and 2010, respectively, and \$20.2 million and \$25.2 million for the nine months ended September 30, 2011 and 2010, respectively.

In addition to the \$300.0 million of swaps in effect as of September 30, 2011, the Company entered into 18 additional interest rate swaps during the nine months ended September 30, 2011 with forward start dates in either August 2012, December 2012, or August 2015 and expiration dates in August 2015, December 2016, December 2017, or December 2018. The aggregate notional value of these 18 forward-starting swaps is \$575.0 million and the weighted average interest rate of these swaps is 2.9%.

As of September 30, 2011 and December 31, 2010, the Company reflected liabilities from interest risk management activities of \$32.8 million and \$17.5 million, respectively, in its Consolidated Balance Sheets, of which a portion with expiration dates less than one year was classified as a current liability. Included in accumulated other comprehensive loss at September 30, 2011 and 2010 were unrealized losses, net of income taxes, totaling \$20.5 million and \$15.2 million, respectively, related to these hedges.

The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Statements of Operations for either the nine months ended September 30, 2011 or 2010, respectively.

Derivatives in Cash Flow Hedging Relationship	Amount of Unrealized Gain (Loss), Net of Tax, Recognized in Other Comprehensive Income Nine Months Ended September 30, 2011 2010 (In thousands)	
Interest rate swap contracts	\$ (9,528)	\$ 3,904
	Amount of Loss Reclassified from Other Comprehensive Income into Statements of Operations Nine Months Ended September 30, 2011 2010 (In thousands)	
	Location of Loss Reclassified from OCI into Statements of Operations	
Floorplan interest expense	\$ (9,587)	\$ (15,887)
Other interest expense	(749)	(2,521)

The amount expected to be reclassified out of accumulated other comprehensive income into earnings (through floorplan interest expense or other interest expense) in the next twelve months is \$11.5 million.

5. 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, as well as to employees pursuant to its Employee Stock Purchase Plan, as amended.

2007 Long Term Incentive Plan

The Group 1 Automotive, Inc. 2007 Long Term Incentive Plan (the Incentive Plan) was amended and restated in May 2010 to increase the number of shares available for issuance under the plan to 7.5 million for grants to non-employee directors, officers and other employees of the Company and its subsidiaries of: (1) options (including options qualified as incentive stock options under the

Table of Contents

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 (2) stock appreciation rights, restricted stock, performance awards, and bonus stock, each at the market price of the Company's 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. All outstanding option awards are exercisable over a period not to exceed ten years and vest over a period not to exceed five years. Certain of the Company's option awards are subject to graded vesting over a service period for the entire award. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual or expected forfeitures differ from the previous estimate. As of September 30, 2011, there were 1,298,642 shares available under the Incentive Plan for future grants of these awards.

Stock Option Awards

No stock option awards have been granted since November 2005. The following table summarizes the Company's outstanding stock options as of September 30, 2011 and the changes during the nine months then ended:

	Number	Weighted Average Exercise Price
Options outstanding, December 31, 2010	68,908	\$ 33.11
Granted		
Exercised	(32,805)	27.88
Forfeited		
Options outstanding, September 30, 2011	36,103	37.86
Options vested at September 30, 2011	36,103	37.86
Options exercisable at September 30, 2011	36,103	\$ 37.86

Restricted Stock Awards

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. In November 2006, the Company began granting to certain employees, at no cost to the recipient, performance awards pursuant to the Incentive Plan. Restricted stock awards are considered outstanding at the date of grant but are subject to forfeiture provisions for 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. Performance awards are considered outstanding at the date of grant and have forfeiture provisions that lapse based on the passage of time and the achievement of certain performance criteria established by the Compensation Committee of the Board of Directors. In the event the 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 price of the Company's common stock at the date of grant and recognized over the requisite service period or as the performance criteria are met.

A summary of these awards as of September 30, 2011, along with the changes during the nine months then ended, is as follows:

**Weighted
Average
Grant Date**

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	Awards		Fair Value
Nonvested at December 31, 2010	1,283,794	\$	23.57
Granted	300,236		40.42
Vested	(107,484)		29.32
Forfeited	(84,802)		26.77
Nonvested at September 30, 2011	1,391,744	\$	26.58

Table of Contents***Employee Stock Purchase Plan***

In September 1997, the Company adopted the Group 1 Automotive, Inc. Employee Stock Purchase Plan, as amended (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, the employee acquires shares of common stock from the Company at 85% of the fair market value of the common stock on the first or the last day of the Option Period, whichever is lower. As of September 30, 2011, there were 859,977 shares remaining in reserve for future issuance under the Purchase Plan. During the nine months ended September 30, 2011 and 2010, the Company issued 80,667 and 111,744 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 \$9.04 and \$8.30 during the nine months ended September 30, 2011 and 2010, respectively. The fair value of stock purchase rights is calculated using the quarter-end 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 \$2.8 million and \$2.3 million for the three months ended September 30, 2011 and 2010, respectively, and \$8.3 million and \$7.5 million for the nine months ended September 30, 2011 and 2010, respectively. Cash received from option exercises and Purchase Plan purchases was \$3.1 million and \$2.6 million for the nine months ended September 30, 2011 and 2010, respectively. Additional paid-in capital was increased by \$0.8 million and reduced by \$0.9 million for the nine months ended September 30, 2011 and 2010, respectively, for the effect of tax deductions for options exercised and vesting of restricted shares that were less than the associated book expense previously recognized. Total income tax benefit recognized for stock-based compensation arrangements was \$2.3 million and \$2.1 million for the nine months ended September 30, 2011 and 2010, respectively.

The Company issues new shares when options are exercised or restricted stock vests or will use treasury shares, if available. 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.

6. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted EPS is computed by including the impact of all potentially dilutive securities. The following table sets forth the calculation of EPS for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Net income	\$ 21,494	\$ 18,985	\$ 61,539	\$ 39,735
Weighted average basic shares outstanding	22,020	22,419	22,377	22,877
Dilutive effect of contingently Convertible 3.00% Notes	185		144	
Dilutive effect of stock options, net of assumed repurchase of treasury stock	5	4	9	10
Dilutive effect of restricted stock and employee stock purchases, net of assumed repurchase of treasury stock	568	503	543	527
Weighted average dilutive shares outstanding	22,778	22,926	23,073	23,414

Earnings per share from:

Basic	\$ 0.98	\$ 0.85	\$ 2.75	\$ 1.74
Diluted	\$ 0.94	\$ 0.83	\$ 2.67	\$ 1.70

Any options with an exercise price in excess of the average market price of the Company's common stock during each of the quarterly periods in the years presented are not considered when calculating the dilutive effect of stock options for the diluted earnings per share calculations. 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 nine months ended September 30, 2011. For the three and nine months ended September 30, 2010, the weighted average number of stock-based awards not included in the calculation of the dilutive effect of stock-based awards was 0.2 million.

Table of Contents

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 10) and the 2.25% Warrants sold in connection with the 2.25% Notes. Although the 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 dilutive 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 September 30, 2011 was less than \$59.43, no net shares were included in the computation of diluted earnings per share for such period, as the impact would have been anti-dilutive.

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 10) and the 3.00% Warrants sold in connection with the 3.00% Notes (the 3.00% Warrants). Although the 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 dilutive 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 September 30, 2011 was more than the conversion price in effect at the end of the period, the dilutive effect of the 3.00% Notes and 3.00% Warrants was included in the computation of diluted earnings per share for such period. Refer to Note 10 for a description of the change to the conversion price, as a result of the Company's decision to pay cash dividends during 2011.

7. INCOME TAXES

The Company is subject to U.S. federal income taxes and income taxes in numerous states. In addition, the Company is subject to income tax in the U.K. attributable to its foreign subsidiaries. The effective income tax rate of 37.6% of pretax income for the three months ended September 30, 2011 differed from the federal statutory rate of 35.0% due primarily to taxes provided for the taxable state jurisdictions in which the Company operates.

For the nine months ended September 30, 2011, the Company's effective tax rate decreased to 37.6% from 38.7% for the same period in 2010. The change was primarily due to the mix of pretax income from the taxable state jurisdictions in which the Company operates, a change in valuation allowances for certain state net operating losses that occurred during the nine months ended September 30, 2011 and an increase in federal employment tax credits.

As of September 30, 2011 and December 31, 2010, the Company had no unrecognized tax benefits. Consistent with prior practices, the Company recognizes interest and penalties related to uncertain tax positions in its provision for income taxes. The Company did not incur any interest and penalties nor did it accrue any interest for the nine months ended September 30, 2011.

Taxable years 2006 and subsequent remain open for examination by the Company's major taxing jurisdictions.

8. PROPERTY AND EQUIPMENT

The Company's property and equipment consisted of the following:

	Estimated Useful Lives in Years	September 30, 2011	December 31, 2010
(Dollars in thousands)			
Land		\$ 194,248	\$ 183,391
Buildings	30 to 40	276,473	241,355
Leasehold improvements	up to 30	82,709	68,808
Machinery and equipment	7 to 20	57,015	53,473
Furniture and fixtures	3 to 10	54,102	49,893
Company vehicles	3 to 5	9,464	9,182
Construction in progress		9,351	17,333
Total		683,362	623,435
Less accumulated depreciation and amortization		132,454	117,147

Property and equipment, net	\$ 550,908	\$ 506,288
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Table of Contents

During the nine months ended September 30, 2011, the Company incurred \$22.2 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 nine months ended September 30, 2011 associated with existing dealership operations totaling \$22.4 million. Also, in conjunction with the Company's acquisition of five separate dealerships during the nine months ended September 30, 2011, the Company acquired \$29.2 million of real estate and other property and equipment.

In the third quarter of 2011, the Company determined that certain of its real estate investments qualified as held-for-sale assets. Accordingly, the Company reclassified such investments to current assets in the accompanying Consolidated Balance Sheet as of September 30, 2011, after adjusting the carrying value to fair market value. The Company recognized a \$3.2 million pre-tax asset impairment charge as a result.

9. CREDIT FACILITIES

The Company has a \$1.35 billion revolving syndicated credit arrangement with 21 financial institutions including four manufacturer-affiliated finance companies (the Revolving Credit Facility). The Company also has a \$150.0 million floorplan financing arrangement with Ford Motor Credit Company (the FMCC Facility) as well as arrangements with BMW Financial Services for financing of its new and used vehicles in the U.K. and with several other automobile manufacturers for financing of a portion of its rental vehicle inventory. Within the Company's Consolidated Balance Sheets, Floorplan Notes Payable Credit Facility 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 specific new vehicles whereby financing is provided by the FMCC Facility, the financing of new and used vehicles in the U.K. with BMW Financial Services and the financing of rental vehicle inventory with several other manufacturers. Payments on the floorplan notes payable are generally due as the vehicles are sold. As a result, these obligations are reflected on the accompanying Consolidated Balance Sheets as current liabilities.

The Company receives interest assistance from certain automobile manufacturers. Over the past three years, manufacturers' interest assistance as a percentage of the Company's total consolidated floorplan interest expense has ranged from 49.9% in the fourth quarter of 2008 to 96.8% for the third quarter of 2011. The Company records manufacturers' interest assistance in cost of sales for new vehicle retail sales.

Revolving Credit Facility

The Revolving Credit Facility expires on June 1, 2016 and consists of two tranches: \$1.1 billion for vehicle inventory floorplan financing (the Floorplan Line) and \$250.0 million for working capital, including acquisitions (the Acquisition Line). Up to half of the Acquisition Line can be borrowed in either Euros or Pound Sterling. The capacity under these two tranches can be re-designated within the overall \$1.35 billion commitment, subject to the original limits of a minimum of \$1.1 billion for the Floorplan Line and maximum of \$250.0 million for the Acquisition Line. The Revolving Credit Facility can be expanded to its maximum commitment of \$1.60 billion, subject to participating lender approval. The Floorplan Line bears interest at rates equal to one-month LIBOR plus 150 basis points for new vehicle inventory and one-month LIBOR plus 175 basis points for used vehicle inventory. The Acquisition Line bears interest at the one-month LIBOR plus a margin that ranges from 150 to 250 basis points, depending on the Company's leverage ratio. The Floorplan Line 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 the Company's leverage ratio, based on a minimum commitment of \$100.0 million less outstanding borrowings. In conjunction with the Revolving Credit Facility, the Company had \$7.0 million of related unamortized costs as of September 30, 2011 that were being amortized over the term of the facility.

After considering outstanding balances of \$437.1 million at September 30, 2011, the Company had \$662.9 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$662.9 million available borrowings under the Floorplan Line was \$116.8 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.7% as of September 30, 2011, excluding the impact of the Company's interest rate swaps. Amounts borrowed by the Company under the Floorplan Line of the Revolving Credit Facility for specific vehicle inventory must repaid upon the sale of the vehicle financed, and in no case may a borrowing for a specific

vehicle remain outstanding for greater than one year. With regards to the Acquisition Line, no borrowings were outstanding as of September 30, 2011. After considering \$17.3 million of outstanding letters of credit and other factors included in the Company's available borrowing base calculation, there was \$232.8 million of available borrowing capacity

Table of Contents

under the Acquisition Line as of September 30, 2011. The amount of available borrowing capacity under the Acquisition Line may be limited from time to time based upon the available borrowing base calculation within the debt covenants.

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 leverage, and senior secured 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 shall not exceed the sum of \$100.0 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, 2011 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, 2011 and ending on the date of determination (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 September 30, 2011, the Restricted Payment Basket totaled \$79.7 million. As of September 30, 2011, 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 \$150.0 million of floorplan financing and is an evergreen arrangement that may be cancelled with 30 days notice by either party. As of September 30, 2011, the Company had an outstanding balance of \$73.9 million with an available floorplan borrowing capacity of \$76.1 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 4.0%. As of September 30, 2011, the interest rate on the FMCC Facility was 5.5% before considering the applicable incentives.

Other Credit Facilities

The Company has a credit facility with BMW Financial Services for the financing of new, used and rental vehicle inventories related to its U.K. operations. This facility is an evergreen arrangement that may be cancelled 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 this facility ranged from 0.2% to 3.5%, as of September 30, 2011.

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 the next two years. As of September 30, 2011, the interest rate charged on borrowings related to the Company's rental vehicle fleet ranged from 2.5% to 6.8%. 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.

Table of Contents**10. LONG-TERM DEBT**

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
2.25% Convertible Senior Notes due 2036 (principal of \$182,753 at September 30, 2011 and December 31, 2010)	\$ 143,228	\$ 138,155
3.00% Convertible Senior Notes due 2020 (principal of \$115,000 at September 30, 2011 and December 31, 2010)	76,617	74,365
Mortgage Facility	41,535	42,600
Other Real Estate Related and Long-Term Debt	185,998	170,291
Capital lease obligations related to real estate, maturing in varying amounts through November 2032 with a weighted average interest rate of 9.3%	39,818	40,728
	487,196	466,139
Less current maturities of mortgage facility and other long-term debt	14,003	53,189
	\$ 473,193	\$ 412,950

2.25% Convertible Senior Notes

The Company's outstanding 2.25% Convertible Senior Notes due 2036 (the 2.25% Notes) had a fair value based on quoted market prices utilizing public information, independent external valuations from pricing services or third-party advisors of \$179.3 million and \$180.0 million as of September 30, 2011 and December 31, 2010, respectively. The Company determined the discount applicable to its 2.25% Notes using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 7.5% 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 from the 7.5%, due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount to the 2.25% Notes 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.

As of September 30, 2011 and December 31, 2010, the carrying value of the 2.25% Notes, related discount and equity component consisted of the following:

Table of Contents

	September 30, 2011	December 31, 2010
	(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	 \$ 14,071	 \$ 15,855
 Principal amount of 2.25% Notes	 \$ 182,753	 \$ 182,753
Unamortized discount	(38,035)	(42,916)
Unamortized underwriter fees	(1,490)	(1,682)
 Net carrying amount of liability component	 \$ 143,228	 \$ 138,155
 Net impact on retained earnings	 \$ (40,394)	 \$ (37,420)
 Unamortized debt issuance cost	 \$ 59	 \$ 67

For the nine months ended September 30, 2011 and 2010, the contractual interest expense and the discount amortization, which is recorded as interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Nine Months Ended September 30, 2011 2010	
	(Dollars in thousands)	
Year-to-date contractual interest expense	\$ 3,091	\$ 3,091
Year-to-date discount amortization	\$ 4,758	\$ 4,320
 Effective interest rate of liability component	 7.7%	 7.7%

3.00% Convertible Senior Notes

The Company's outstanding 3.00% Convertible Senior Notes due 2020 (the "3.00% Notes") had a fair value based on quoted market prices utilizing public information, independent external valuations from pricing services or third-party advisors of \$128.7 million and \$143.3 million as of September 30, 2011 and December 31, 2010, respectively. The Company also determined the discount applicable to its 3.00% Notes using the estimated effective interest rate for similar debt with no convertible features. The interest rate of 8.25% was estimated by receiving a range of quotes from the underwriters of the 3.00% Notes 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 8.25%, due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount to the 3.00% Notes 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.

As of September 30, 2011 and December 31, 2010, the carrying value of the 3.00% Notes, related discount and equity component consisted of the following:

17

Table of Contents

	September 30, 2011	December 31, 2010
	(In thousands)	
Carrying amount of equity component	\$ 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	 \$ 13,219	 \$ 13,971
 Principal amount of 3.00% Notes	 \$ 115,000	 \$ 115,000
Unamortized discount	(36,381)	(38,516)
Unamortized underwriter fees	(2,002)	(2,119)
 Net carrying amount of liability component	 \$ 76,617	 \$ 74,365
 Net impact on retained earnings	 \$ (2,456)	 \$ (1,202)
 Unamortized debt issuance cost	 \$ 295	 \$ 313

For the nine months ended September 30, 2011 and 2010, the contractual interest expense and the discount amortization, which is recorded as interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Nine Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Year-to-date contractual interest expense	\$ 2,588	\$ 1,822
Year-to-date discount amortization	\$ 2,006	\$ 1,285
 Effective interest rate of liability component	 8.6%	 8.6%

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: (1) during any fiscal quarter (and only during such fiscal quarter) beginning after June 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 \$49.641 as of September 30, 2011); (2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of 3.00% Notes for each day of the ten day trading period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate of the 3.00% Notes on that day; and (3) upon the occurrence of specified corporate transactions set forth in 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.

None of the conversion features of the Company's 3.00% Notes were triggered in the three months ended September 30, 2011.

As of September 30, 2011, the conversion rate was 26.1885 shares of common stock per \$1,000 principal amount of 3.00% Notes, with a conversion price of \$38.19 per share, which was reduced during the third quarter of 2011 as the result of the Company's decision to pay a cash dividend of \$0.13 per share of common stock for the second quarter of 2011 to holders of record on September 1, 2011. 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 adjusted based on the formula defined in the 3.00% Notes Indenture.

As of September 30, 2011, the exercise price of the 3.00% Warrants, which are related to the issuance of the 3.00% Notes, was \$56.11 due to the Company's decision to pay a cash dividend of \$0.13 per share of common stock for the second quarter of 2011 to

Table of Contents

holders of record on September 1, 2011. 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 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 purchase a total of 3.0 million shares of its common stock at a purchase price of \$38.19 per share, the conversion price, as of September 30, 2011. 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

On December 29, 2010, the Company amended and restated its \$235.0 million five-year real estate credit facility with Bank of America, N.A. and Comerica Bank. As amended and restated, the Real Estate Credit Facility (the Mortgage Facility) provides for \$42.6 million of term loans with the right to expand to \$75.0 million provided that (i) no default or event of default exists under the Mortgage Facility; (ii) the Company obtains commitments from the lenders who would qualify as assignees for such increased amounts; and (iii) 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 relevant real property owned by the Company that is mortgaged under the Mortgage Facility. The Company capitalized \$0.9 million of debt issuance costs related to the Mortgage Facility that are being amortized over the term of the facility, \$0.8 million of which are still unamortized as of September 30, 2011.

As amended and restated, the Mortgage Facility now provides for only term loans and no longer has a revolving feature. The interest rate is now equal to (i) the per annum rate equal to one-month LIBOR plus 3.00% per annum, determined on the first day of each month, or (ii) 1.95% per annum in excess of the higher of (a) the Bank of America prime rate (adjusted daily on the day specified in the public announcement of such price rate), (b) the Federal Funds Rate adjusted daily, plus 0.5% or (c) 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.

The Company is required to make quarterly principal payments equal to 1.25% of the principal amount outstanding, which began in April 2011, and is required to repay the aggregate principal amount outstanding on the maturity date December 29, 2015. During the nine months ended September 30, 2011, the Company made principal payments of \$1.1 million on outstanding borrowings from the Mortgage Facility. As of September 30, 2011, borrowings under the amended and restated Mortgage Facility totaled \$41.5 million, with \$2.1 million recorded as a current maturity of long-term debt in the accompanying Consolidated Balance Sheet.

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. As amended, the Mortgage Facility contains certain covenants, including financial ratios that must be complied with, including: fixed charge coverage ratio, total funded lease adjusted indebtedness to proforma EBITDAR ratio, and current ratio. For covenant calculation purposes, EBITDAR is defined as earnings before non-floorplan interest expense, taxes, depreciation and amortization and rent expense. EBITDAR also includes interest income and is further adjusted for certain non-cash income charges. In addition, congruent with the Revolving Credit Facility, the Mortgage Facility restricts the Company's ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations or securities. As of September 30, 2011, the Company was in compliance with all of these covenants and the Mortgage Facility's Restricted Payment Basket totaled \$79.7 million. Based upon current operating and financial projections, the Company believes that it will remain compliant with such covenants for the remainder of the fiscal year.

Real Estate Related Debt

In addition to the amended and restated Mortgage Facility, the Company entered into separate term loans in 2010 and 2011, totaling \$162.5 million, with three of its manufacturer-affiliated finance partners, Toyota Motor Credit Corporation (TMCC), Mercedes-Benz Financial Services USA, LLC (MBFS), BMW Financial Services NA, LLC (BMWFS) and a third-party financial institution (collectively, the Real Estate Notes). The Company used

\$116.4 million of these borrowings to refinance a portion of its Mortgage Facility and the remaining amount to finance owned or purchased real estate to be utilized in existing dealership operations. The Real Estate Notes may be expanded, 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 relevant real property owned by the Company that is mortgaged under the Real Estate Notes. The Real Estate Notes bear interest at fixed rates between 4.62% and 5.47%, and at variable indexed rates plus

Table of Contents

between 2.25% and 3.35% per annum. The Company capitalized \$1.3 million of related debt issuance costs related to the Real Estate Notes that are being amortized over the terms of the notes, \$1.1 million of which are still unamortized as of September 30, 2011.

The loan agreements with TMCC consist of four term loans. As of September 30, 2011, \$27.0 million remained outstanding with \$0.6 million classified as current and the remainder in long-term debt. The maturity dates vary from two to seven years and provide for monthly payments based on a 20-year amortization schedule. These four loans are cross-collateralized and cross-defaulted with each other. During the first three months of 2011, the loan agreements were amended to also be cross-defaulted with the Revolving Credit Facility.

The loan agreements with MBFS consist of three term loans. As of September 30, 2011, \$49.0 million remained outstanding with \$1.5 million classified as current and the remainder in long-term debt. 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. They are also cross-defaulted with the Revolving Credit Facility.

The loan agreements with BMWFS consist of 13 term loans. As of September 30, 2011, \$71.3 million remained outstanding with \$3.4 million classified as current and the remainder in long-term debt. The agreements provide for monthly payments based on a 15-year amortization schedule and have a maturity date of seven 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.

The loan agreements with a third party financial institution consist of three term loans for an aggregate principal amount of \$16.5 million, to finance real estate associated with three of the Company's dealerships. The loans are repaid in monthly installments which began in September 2011, and mature in August 2016. As of September 30, 2011, borrowings under these notes totaled \$16.4 million, with \$0.8 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

In October 2008, the Company executed a note agreement with a third-party financial institution for an aggregate principal amount of £10.0 million (the Foreign Note), which is secured by the Company's foreign subsidiary properties. The Foreign Note is being repaid in monthly installments that began in March 2010 and matures in August 2018. As of September 30, 2011, borrowings under the Foreign Note totaled \$12.7 million, with \$1.8 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

11. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (the Fair Value Measurements Topic) 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.

Table of Contents

The Company designates its investments in marketable securities and debt instruments as available-for-sale, measures them at fair value and classifies them as either cash and cash equivalents or other assets in the accompanying Consolidated Balance Sheets based upon maturity terms and certain contractual restrictions. The Company maintains multiple trust accounts comprised of money market funds with short-term investments in marketable securities, such as U.S. government securities, commercial paper and banker's acceptances that have maturities of less than three months. The Company determined that the valuation measurement inputs of these marketable securities represent unadjusted quoted prices in active markets and, accordingly, has classified such investments within Level 1 of the hierarchy framework.

The Company, within its trust accounts, also holds investments in debt instruments, such as government obligations and other fixed income securities. The debt securities are measured based upon quoted market prices utilizing public information, independent external valuations from pricing services or third-party advisors. Accordingly, the Company has concluded the valuation measurement inputs of these debt securities to represent, at their lowest level, quoted market prices for identical or similar assets in markets where there are few transactions for the assets and has categorized such investments within Level 2 of the hierarchy framework. In addition, the Company periodically invests in unsecured, corporate demand obligations with manufacturer-affiliated finance companies, which bear interest at a variable rate and are redeemable on demand by the Company. Therefore, the Company has classified these demand obligations as cash and cash equivalents on the Consolidated Balance Sheet. 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 holds real estate investments that qualified as held-for-sale assets as of September 30, 2011. The Company adjusts the carrying value of these assets each period to an estimate of fair value, less costs to sell, that utilizes third-party appraisals and brokers' opinions of value.

The Company's derivative financial instruments are recorded at fair market value. See Note 4 Derivative Instruments and Risk Management Activities for further details regarding the Company's derivative financial instruments.

The Company determined that its investments in marketable securities, debt instruments and interest rate derivative financial instruments met the criteria for disclosure within the Fair Value Measurements Topic. The respective fair values measured on a recurring basis as of September 30, 2011 and December 31, 2010, respectively, were as follows:

	As of September 30, 2011		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Marketable securities - money market	\$ 1,391	\$	\$ 1,391
Assets held-for-sale		8,525	8,525
Debt securities:			
Demand obligations		336	336
Collateralized mortgage obligations		32	32
Corporate bonds		655	655
Municipal obligations		688	688
Mortgage backed		661	661
Total debt securities		2,372	2,372
Total	\$ 1,391	\$ 10,897	\$ 12,288

Liabilities:

Interest rate derivative financial instruments	\$	\$ 32,769	\$ 32,769
Total	\$	\$ 32,769	\$ 32,769

Table of Contents

	As of December 31, 2010		
	Level		
	1	Level 2	Total
		(In thousands)	
Assets:			
Marketable securities money market	\$ 1,695	\$	\$ 1,695
Assets held-for-sale		5,575	5,575
Debt securities:			
Demand obligations		680	680
Collateralized mortgage obligations		121	121
Corporate bonds		1,114	1,114
Municipal obligations		1,004	1,004
Mortgage backed		753	753
Total debt securities		3,672	3,672
Total	\$ 1,695	\$ 9,247	\$ 10,942
Liabilities:			
Interest rate derivative financial instruments	\$	\$ 17,524	\$ 17,524
Total	\$	\$ 17,524	\$ 17,524

12. COMMITMENTS AND CONTINGENCIES

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

Legal Proceedings

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

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

Table of Contents

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 \$21.8 million as of September 30, 2011. 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 presently has no reason to believe that it or its subsidiaries will be called on to so perform and such obligations cannot be quantified at this time.

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. The Company does not have any material known environmental commitments or contingencies.

13. COMPREHENSIVE INCOME

The following table provides a reconciliation of net income to comprehensive income for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	\$ 21,494	\$ 18,985	\$ 61,539	\$ 39,735
Other comprehensive income (loss):				
Change in fair value of interest rate swaps	(9,842)	1,522	(9,528)	3,904
Unrealized gain (loss) on investments	(11)	13	(22)	(11)
Unrealized gain (loss) on currency translation	(978)	1,712	319	201
Total comprehensive income	\$ 10,663	\$ 22,232	\$ 52,308	\$ 43,829

Table of Contents

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report includes certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the 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 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 you that these expectations will prove to be correct. When used in this quarterly report, 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. 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:

- the recent economic recession substantially depressed consumer confidence, raised unemployment and limited the availability of consumer credit, causing a marked decline in demand for new and used vehicles; further 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 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;
- our principal automobile manufacturers, especially Toyota, Ford, Daimler, Chrysler, Nissan, Honda, General Motors and BMW, 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;

Table of Contents

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; available capital resources, increases in cost of financing and 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; the inability to complete additional acquisitions or changes in the pace of acquisitions; 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.

These factors, as well as additional factors that could affect our operating results and performance are described in our 2010 Form 10-K, under the headings Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere within this quarterly report. Should one or more of the risks or uncertainties described above or elsewhere in this quarterly report or in the documents incorporated by reference occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We urge you to carefully consider those factors, as well as factors described in our reports filed from time to time with the Securities and Exchange Commission and other announcements we make from time to time.

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.

Table of Contents

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. As of September 30, 2011, we owned and operated 125 franchises, representing 30 brands of automobiles, at 100 dealership locations and 25 collision service centers in the United States of America (the U.S.) and ten franchises, representing two brands, at five dealerships and three collision centers in the United Kingdom (the U.K.). We market and sell an extensive range of automotive products and services, including new and used cars and light trucks, arrange related financing, sell vehicle service and insurance contracts, maintenance and repair services, and replacement parts. 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. and in the towns of Brighton, Farnborough, Hailsham, Hindhead and Worthing in the U.K.

As of September 30, 2011, our U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (i) the East (42 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York and South Carolina) and (ii) the West (58 dealerships in California, Kansas, Oklahoma and Texas). 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 regions, as well as for overseeing the market directors and dealership general managers that report to them. Each region is also managed by a regional chief financial officer who reports directly to our Chief Financial Officer. Our dealerships in the U.K. are also managed locally with direct reporting responsibilities to our corporate management team.

Outlook

From September 2008 through most of 2009, the U.S. and global economies suffered from, among other things, a substantial decline in consumer confidence, a rise in unemployment and a tightening of credit availability. As a result, the retail automotive industry was negatively impacted by decreasing customer demand for new and used vehicles, vehicle margin pressures and higher inventory levels. Through much of 2010 and the first nine months of 2011, economic trends have stabilized and consumer demand for new and used vehicles has shown improvement. According to industry experts, the average 2011 seasonally adjusted annual rate of sales (or SAAR) was 12.5 million units, compared to 11.3 million units a year ago. But given the depth of the downturn and current pace of recovery, a return to historically normalized industry selling levels will probably be extended.

In March of 2011, the earthquake and tsunami in Japan adversely affected certain vehicle manufacturers and a number of parts suppliers on which these manufacturers depend. Manufacturers, including Toyota, Nissan and Honda, which represented 61.6% of our new vehicle unit sales in 2010, have experienced a shortage of parts that are critical to vehicle production, limiting the supply of new vehicles and negatively impacting the volume of new vehicles sold during the second and third quarters of 2011. As a result, those same manufacturers have only represented 50.9% of new vehicle unit sales for the nine months ended September 30, 2011. We expect the inventory supply limitations of these brands to improve in the near term.

Our operations have, and we believe that our operations will continue to generate positive cash flow. As such, we are focused on maximizing the return on the capital that we generate from our operations and positioning our balance sheet to take advantage of investment opportunities as they arise. Though the retail and economic environment continues to be challenging, we believe that the stabilizing economic trends provide opportunities for us in the marketplace to: (i) continue to focus on our higher margin parts and service business by enhancing the cost effectiveness of our marketing efforts, implementing strategic selling methods, and improving operational efficiencies; and (ii) invest capital where necessary to support the anticipated growth, particularly in our parts and service business.

We continue to closely scrutinize all planned capital spending and work closely with our manufacturer partners in this area to make prudent investment decisions that are expected to generate an adequate return and improve the

customer experience. We anticipate that 2011 capital spending will be less than \$50.0 million, which includes about \$10.0 million for specific growth initiatives in our parts and service business segment.

Table of Contents

We remain committed to our growth-by-acquisition strategy, and with the prolonged nature of the anticipated economic recovery, we believe that significant opportunities exist to enhance our portfolio with dealerships that meet our stringent investment criteria. During the nine months ended September 30, 2011, we completed the acquisitions of one Volkswagen dealership, one BMW/MINI dealership, two Ford dealerships, one Buick/GMC dealership, and were awarded one Fiat franchise, which are expected to generate \$345.0 million in aggregate annual revenues. We will continue to pursue dealership investment opportunities that we believe will add value for our company and 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, service 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, service and collision repair services, as well as our ability to reduce our costs in response to lower sales.

We generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, our 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 and manufacturer incentive programs, may exaggerate seasonal or cause counter-seasonal fluctuations in our revenues and operating income. In particular, the disruption in new vehicle production, for many of our import manufacturer partners resulting from the natural disasters in Japan earlier in 2011, altered these seasonal trends for much of 2011.

For the three months ended September 30, 2011, total revenues increased 7.4% from 2010 levels to \$1.6 billion and gross profit improved 8.7% to \$248.8 million. For the nine months ended September 30, 2011, total revenues increased 9.4% from 2010 levels to \$4.5 billion and gross profit improved 8.3% to \$714.7 million. Operating income rose for the three and nine months ended September 30, 2011 by 7.7% and 25.9%, respectively, from 2010 to \$50.1 million and \$143.7 million, respectively. Income before income taxes improved to \$34.5 million for the third quarter of 2011, which was a 12.7% improvement over the same period from the prior year. For the first nine months of 2011, income before income taxes increased 52.3% to \$98.7 million. For the three months ended September 30, 2011 and 2010, we realized net income of \$21.5 million and \$19.0 million, respectively, and diluted income per share of \$0.94 and \$0.83, respectively. For the nine months ended September 30, 2011 and 2010, we realized net income of \$61.5 million and \$39.7 million, respectively, and diluted income per share of \$2.67 and \$1.70, respectively. Our net cash flow provided by operations was \$301.1 million for the nine months ended September 30, 2011, while our net cash flow used in operations was \$52.2 million for the nine months ended September 30, 2010.

Table of Contents**Key Performance Indicators**

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

Consolidated Statistical Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Unit Sales				
Retail Sales				
New Vehicle	25,777	26,396	74,578	72,128
Used Vehicle	18,770	17,601	52,700	50,230
Total Retail Sales	44,547	43,997	127,278	122,358
Wholesale Sales	9,697	9,308	27,246	24,716
Total Vehicle Sales	54,244	53,305	154,524	147,074
Gross Margin				
New Vehicle Retail Sales	6.5%	5.7%	6.2%	5.8%
Total Used Vehicle Sales	7.1%	7.7%	8.0%	8.3%
Parts and Service Sales	52.0%	54.3%	52.5%	54.1%
Total Gross Margin	15.8%	15.7%	16.0%	16.2%
SG&A ⁽¹⁾ as a % of Gross Profit	75.7%	76.0%	76.5%	79.2%
Operating Margin	3.2%	3.2%	3.2%	2.8%
Pretax Margin	2.2%	2.1%	2.2%	1.6%
Finance and Insurance Revenues per Retail Unit Sold	\$ 1,156	\$ 1,006	\$ 1,118	\$ 1,018

⁽¹⁾ Selling, general and administrative expenses.

The following discussion briefly highlights certain 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.

During the nine months of 2011, the industry experienced an increase in the SAAR of new vehicle unit sales. This increase is primarily related to the stabilization of the U.S. economic conditions and a growing need to replace aged or scrapped vehicles. While the average SAAR is still low relative to the years immediately preceding the recession, it has risen from 11.3 million through the first nine months of 2010 to 12.5 million in 2011, a 10.6% improvement. Our unit sales performance has outpaced the specific performances of most of a number of the brands we represent, though our overall sales increases lagged the industry results due primarily to our brand mix and inventory shortages in our import brands. Our new vehicle retail sales revenues increased 4.9% and 9.0% for the three and nine months ended September 30, 2011, respectively. We achieved this increase despite inventory shortages in our predominant import brands, caused by the natural disasters in Japan that occurred in March 2011. The improvements primarily reflect an increase in average selling price. New vehicle retail gross margin improved during the three and nine months ended September 30, 2011, reflecting brand and car/truck mix shifts, as well as the impact of constrained inventory levels.

Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles, 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 stabilizing economic environment that benefited new vehicle sales also supported improved used vehicle demand that positively impacted our used vehicle retail sales in comparison to our 2010 results. Further, the wholesale side of our business experienced increases in unit sales for the three and nine months ended September 30, 2011, primarily as a result of a trend in trade-ins towards higher mileage units. Used vehicle gross margins declined for the three and nine months ended September 30, 2011, due to tightening price relativities between new and used vehicles, as well as a recent decline in auction prices.

Table of Contents

Our parts and service sales increased by 7.0% and 5.8%, respectively, for the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily driven by increases in our collision and wholesale parts businesses, as well as increases in our customer-pay parts and service business. The overall improvement in our parts and service business is particularly noteworthy, given that the comparable period in 2010 was bolstered by two significant Toyota recall campaigns and given the loss of approximately one week of business in August 2011 as many of our stores in the Northeast portion of the U.S. prepared for and then recovered from the effects of Hurricane Irene. The stores impacted by the hurricane represent approximately 25% of our normal total sales revenues. Our parts and service margins declined for the three and nine month periods in 2011 as compared to the same period in 2010 as growth in our collision and wholesale parts segments which are relatively lower margin segments, outpaced the growth in our customer-pay and warranty related parts and service segments. We also experienced declining margins in our warranty parts and service business, reflecting a return to more normalized levels as the Toyota recalls of 2010 consisted predominantly of labor services that generated higher margin than the corresponding parts.

Our consolidated finance and insurance income per retail unit sold (PRU) also increased for the third quarter and first nine months of 2011 as compared to 2010, primarily driven by an increase in finance income per contract coupled with improvements in both our vehicle service contract penetration rates and income per contract.

Our consolidated selling, general and administrative (SG&A) expenses increased in absolute dollars, but decreased as a percentage of gross profit by 30 and 270 basis points, respectively, for the three and nine months ended September 30, 2011 from the comparable periods in 2010, reflecting ongoing cost control and the leverage on our cost structure that the higher revenues and gross profits provide.

For the three and nine months ended September 30, 2011, floorplan interest expense decreased 22.8% and 19.7%, respectively, as compared to the same period in 2010, due to a decline in weighted average floorplan interest rates, as well as a decline in weighted average borrowings for the three months ended September 30, 2011. Other interest expense increased 25.4% and 22.4% for the three and nine months ended September 30, 2011, respectively, primarily attributable to higher mortgage interest rates coupled with an increase in weighted average real estate borrowings outstanding as we continue to strategically add dealership related real estate to our portfolio. As a result, our pretax margin for the three and nine months ended September 30, 2011, increased 10 and 60 basis points, respectively, as compared to 2010.

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

Recent Accounting Pronouncements

Refer to the *Recent Accounting Pronouncements* section within Note 2, Summary of Significant Accounting Policies and Estimates, of Item 1 for a discussion of those most recent pronouncements that impact us.

Critical Accounting Policies and Accounting Estimates

The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the U.S.

Refer to Note 2, Summary of Significant Accounting Policies and Estimates, in Item 1 for a discussion of certain critical accounting policies and estimates. Also, we disclosed certain critical accounting policies and estimates in our 2010 Annual Report on Form 10-K, and no significant changes have occurred since that time.

Results of Operations

The following tables present comparative financial and non-financial data for the three and nine months ended September 30, 2011 and 2010, of (a) our Same Store locations, (b) those locations acquired or disposed of during the periods (Transactions) and (c) the total 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.

The following table summarizes our combined Same Store results for the three and nine months ended September 30, 2011 as compared to 2010:

Table of Contents**Total Same Store Data**

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	% Change	2010	2011	% Change	2010
Revenues						
New vehicle retail	\$ 818,269	(0.0)%	\$ 818,645	\$ 2,369,672	6.5%	\$ 2,225,429
Used vehicle retail	361,511	6.6%	339,094	1,016,231	6.7%	952,124
Used vehicle wholesale	66,018	13.6%	58,140	184,630	19.7%	154,188
Parts and Service	199,744	2.2%	195,416	584,251	3.2%	566,294
Finance, insurance and other	48,913	10.9%	44,107	137,759	11.8%	123,194
Total revenues	\$ 1,494,455	2.7%	\$ 1,455,402	\$ 4,292,543	6.7%	\$ 4,021,229
Cost of Sales						
New vehicle retail	\$ 764,233	(1.0)%	\$ 771,813	\$ 2,220,979	6.0%	\$ 2,095,451
Used vehicle retail	330,939	7.2%	308,673	923,976	7.0%	863,209
Used vehicle wholesale	66,097	14.4%	57,782	180,535	19.6%	150,978
Parts and Service	94,292	5.6%	89,280	273,820	5.5%	259,538
Total cost of sales	\$ 1,255,561	2.3%	\$ 1,227,548	\$ 3,599,310	6.8%	\$ 3,369,176
Gross profit	\$ 238,894	4.8%	\$ 227,854	\$ 693,233	6.3%	\$ 652,053
Selling, general and administrative expenses	\$ 180,417	4.1%	\$ 173,389	\$ 528,971	4.0%	\$ 508,427
Depreciation and amortization expenses	\$ 6,634	0.0%	\$ 6,632	\$ 19,264	0.3%	\$ 19,213
Floorplan interest expense	\$ 6,606	(26.3)%	\$ 8,961	\$ 19,576	(21.3)%	\$ 24,884
Gross Margin						
New Vehicle Retail	6.6%		5.7%	6.3%		5.8%
Used Vehicle	7.1%		7.7%	8.0%		8.3%
Parts and Service	52.8%		54.3%	53.1%		54.2%
Total Gross Margin	16.0%		15.7%	16.1%		16.2%
SG&A as a % of						
Gross Profit	75.5%		76.1%	76.3%		78.0%
Operating Margin	3.2%		3.2%	3.3%		3.0%
	\$ 1,155	14.7%	\$ 1,007	\$ 1,123	10.3%	\$ 1,018

Finance and
Insurance Revenues
per Retail Unit Sold

The discussion that follows provides explanation for the 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 nine months ended September 30, 2011 and 2010.

Table of Contents***New Vehicle Retail Data***

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	% Change	2010	2011	% Change	2010
Retail Unit Sales						
Same Stores	24,427	(7.1)%	26,298	71,807	0.7%	71,300
Transactions	1,350		98	2,771		828
Total	25,777	(2.3)%	26,396	74,578	3.4%	72,128
Retail Sales Revenues						
Same Stores	\$ 818,269	(0.0)%	\$ 818,645	\$ 2,369,672	6.5%	\$ 2,225,429
Transactions	44,391		3,476	87,583		28,664
Total	\$ 862,660	4.9%	\$ 822,121	\$ 2,457,255	9.0%	\$ 2,254,093
Gross Profit						
Same Stores	\$ 54,035	15.4%	\$ 46,832	\$ 148,692	14.4%	\$ 129,977
Transactions	2,127		243	4,506		1,583
Total	\$ 56,162	19.3%	\$ 47,075	\$ 153,198	16.4%	\$ 131,560
Gross Profit per Retail Unit Sold						
Same Stores	\$ 2,212	24.2%	\$ 1,781	\$ 2,071	13.6%	\$ 1,823
Transactions	\$ 1,576		\$ 2,480	\$ 1,626		\$ 1,912
Total	\$ 2,179	22.2%	\$ 1,783	\$ 2,054	12.6%	\$ 1,824
Gross Margin						
Same Stores	6.6%		5.7%	6.3%		5.8%
Transactions	4.8%		7.0%	5.1%		5.5%
Total	6.5%		5.7%	6.2%		5.8%

The stabilization of U.S. economic conditions, coupled with the increase in SAAR, as well as the focus that we have placed on improving our sales processes at our dealerships, helped to offset the negative impact of inventory shortages experienced during the third quarter of 2011 in our predominant import brands resulting from the natural disaster in Japan. From a mix standpoint, we achieved increases in Same Store unit sales of 24.9% and in Same Store revenues of 28.1% in our domestic brands that offset the 8.1% decline in Same Store revenues within our import brands. Although the impact of the natural disasters has temporarily constrained the supply of new vehicle inventory, primarily in our import brands, we anticipate that total industry-wide sales of new vehicles for 2011 will be higher than 2010, as the economy continues to recover. However, the level of retail sales, as well as our own ability to retain or grow market share during future periods, is difficult to predict.

Our total Same Store revenues PRU increased 7.6% to \$33,499 in the third quarter of 2011, due primarily to manufacturer price increases, and a mix shift to trucks from cars. In the third quarter of 2011, our Same Store retail new truck unit sales increased by 5.0% and our retail new car unit sales decreased by 15.3%, as compared with the same period in 2010. Our Same Store new vehicle gross profits improved 15.4% for the three months ended September 30, 2011 and our Same Store gross profit PRU increased by 24.2% to \$2,212. This gross profit PRU improvement consisted of increases in predominantly all of the brands that we represent. As a result, our Same Store

gross margin grew 90 basis points from 5.7% in the third quarter of 2010 to 6.6% in 2011.

For the nine months ended September 30, 2011, as compared to the corresponding period in 2010, Same Store new vehicle unit sales and revenues increased 0.7% and 6.5%, respectively. We achieved increases in Same Store unit sales of 25.1% and 2.8% in our domestic and luxury categories, respectively, partially offset by a decrease in Same Store unit sales of 6.0% in our import category. Our Same Store new vehicle retail revenues PRU improved 5.7% to \$33,001 for the nine months ended September 30, 2011. Gross profit PRU improved 13.6% to \$2,071 in the third quarter of 2011 from \$1,823 during the same period in 2010, and, as a result, our gross margin grew 50 basis points from 5.8% to 6.3% for the nine months ended 2011, as compared to the same period in 2010.

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

Table of Contents

Same Store New Vehicle Unit Sales

**Three Months Ended September
30,
2011**

**Nine Months Ended September
30,**