

GROUP 1 AUTOMOTIVE INC  
Form 10-Q  
October 30, 2015

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, 2015

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 27, 2015, the registrant had 23,694,561 shares of common stock, par value \$0.01, outstanding.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	<u>3</u>
	<u>Cautionary Statement about Forward-Looking Statements</u>	<u>35</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>64</u>
Item 4.	<u>Controls and Procedures</u>	<u>65</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>66</u>
Item 1A.	<u>Risk Factors</u>	<u>66</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>66</u>
Item 6.	<u>Exhibits</u>	<u>66</u>
	<u>SIGNATURE</u>	<u>67</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	September 30, 2015	December 31, 2014	
	(Unaudited)		
	(In thousands, except per share amounts)		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$21,968	\$40,975	
Contracts-in-transit and vehicle receivables, net	205,636	237,448	
Accounts and notes receivable, net	147,110	151,330	
Inventories, net	1,634,421	1,556,705	
Deferred income taxes	13,099	11,062	
Prepaid expenses and other current assets	22,556	37,699	
Total current assets	2,044,790	2,035,219	
PROPERTY AND EQUIPMENT, net	978,892	950,388	
GOODWILL	912,639	830,377	
INTANGIBLE FRANCHISE RIGHTS	339,763	303,947	
OTHER ASSETS	15,966	21,561	
Total assets	\$4,292,050	\$4,141,492	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Floorplan notes payable - credit facility and other	\$1,177,513	\$1,143,246	
Offset account related to floorplan notes payable - credit facility	(28,073)	) (39,616	)
Floorplan notes payable - manufacturer affiliates	347,657	307,656	
Offset account related to floorplan notes payable - manufacturer affiliates	(20,001)	) (22,500	)
Current maturities of long-term debt	55,959	72,630	
Accounts payable	290,509	288,320	
Accrued expenses	158,283	172,463	
Total current liabilities	1,981,847	1,922,199	
LONG-TERM DEBT, net of current maturities	1,084,161	1,008,837	
DEFERRED INCOME TAXES	147,296	141,239	
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	39,724	25,311	
OTHER LIABILITIES	69,694	65,896	
<b>STOCKHOLDERS' EQUITY:</b>			
Preferred stock, \$0.01 par value, 1,000 shares authorized; none issued or outstanding	—	—	
Common stock, \$0.01 par value, 50,000 shares authorized; 25,720 and 25,724 issued, respectively	257	257	
Additional paid-in capital	288,754	286,854	
Retained earnings	964,703	852,057	
Accumulated other comprehensive loss	(145,805)	) (81,984	)
Treasury stock, at cost; 2,018 and 1,385 shares, respectively	(138,581)	) (79,174	)
Total stockholders' equity	969,328	978,010	
Total liabilities and stockholders' equity	\$4,292,050	\$4,141,492	

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



Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Unaudited, in thousands, except per share amounts)			
<b>REVENUES:</b>				
New vehicle retail sales	\$1,601,213	\$1,521,246	\$4,468,200	\$4,256,146
Used vehicle retail sales	687,637	615,924	1,993,124	1,743,071
Used vehicle wholesale sales	100,483	100,347	302,186	284,491
Parts and service sales	303,557	291,816	888,939	844,340
Finance, insurance and other, net	107,679	97,115	307,454	270,901
Total revenues	2,800,569	2,626,448	7,959,903	7,398,949
<b>COST OF SALES:</b>				
New vehicle retail sales	1,521,721	1,441,016	4,242,847	4,028,164
Used vehicle retail sales	641,055	571,613	1,854,361	1,610,293
Used vehicle wholesale sales	102,318	101,643	302,276	281,434
Parts and service sales	137,093	137,467	406,580	397,079
Total cost of sales	2,402,187	2,251,739	6,806,064	6,316,970
<b>GROSS PROFIT</b>	<b>398,382</b>	<b>374,709</b>	<b>1,153,839</b>	<b>1,081,979</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>289,012</b>	<b>264,233</b>	<b>841,050</b>	<b>793,761</b>
<b>DEPRECIATION AND AMORTIZATION EXPENSE</b>	<b>11,811</b>	<b>10,746</b>	<b>35,441</b>	<b>31,424</b>
<b>ASSET IMPAIRMENTS</b>	<b>916</b>	<b>9,373</b>	<b>1,955</b>	<b>11,094</b>
<b>INCOME FROM OPERATIONS</b>	<b>96,643</b>	<b>90,357</b>	<b>275,393</b>	<b>245,700</b>
<b>OTHER EXPENSE:</b>				
Floorplan interest expense	(9,685)	) (10,452)	) (29,046)	) (31,695)
Other interest expense, net	(13,922)	) (13,246)	) (42,061)	) (36,326)
Loss on extinguishment of long-term debt	—	) (22,790)	) —	) (46,403)
<b>INCOME BEFORE INCOME TAXES</b>	<b>73,036</b>	<b>43,869</b>	<b>204,286</b>	<b>131,276</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>(27,775)</b>	<b>) (17,707)</b>	<b>) (76,901)</b>	<b>) (56,949)</b>
<b>NET INCOME</b>	<b>\$45,261</b>	<b>\$26,162</b>	<b>\$127,385</b>	<b>\$74,327</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>\$1.88</b>	<b>\$1.07</b>	<b>\$5.26</b>	<b>\$3.06</b>
Weighted average common shares outstanding	23,132	23,424	23,294	23,354
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$1.88</b>	<b>\$1.03</b>	<b>\$5.26</b>	<b>\$2.82</b>
Weighted average common shares outstanding	23,137	24,432	23,298	25,363
<b>CASH DIVIDENDS PER COMMON SHARE</b>	<b>\$0.21</b>	<b>\$0.17</b>	<b>\$0.61</b>	<b>\$0.51</b>

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

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Unaudited, in thousands)			
NET INCOME	\$45,261	\$26,162	\$127,385	\$74,327
Other comprehensive loss, net of taxes:				
Foreign currency translation adjustment	(36,307	) (21,938	) (56,902	) (7,329
Net unrealized (loss) gain on interest rate swaps:				
Unrealized (loss) gain arising during the period, net of tax benefit (provision) of \$4,919, (\$346), \$7,744, and \$3,472, respectively	(8,199	) 577	(12,907	) (5,787
Reclassification adjustment for loss included in interest expense, net of tax provision of \$1,224, \$1,074, \$3,593, and \$3,176, respectively	2,041	1,789	5,988	5,293
Net unrealized (loss) gain on interest rate swaps, net of tax	(6,158	) 2,366	(6,919	) (494
OTHER COMPREHENSIVE LOSS, NET OF TAXES	(42,465	) (19,572	) (63,821	) (7,823
COMPREHENSIVE INCOME	\$2,796	\$6,590	\$63,564	\$66,504

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

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	Shares	Amount					
	(Unaudited, in thousands)						
BALANCE, December 31, 2014	25,724	\$257	\$286,854	\$852,057	\$(81,984)	\$(79,174)	\$978,010
Net income	—	—	—	127,385	—	—	127,385
Other comprehensive loss, net	—	—	—	—	(63,821)	—	(63,821)
Purchases of treasury stock	—	—	—	—	—	(72,664)	(72,664)
Net issuance of treasury shares to employee stock compensation plans	(3)	—	(14,052)	—	—	13,257	(795)
Stock-based compensation, including tax effect of \$1,827	—	—	15,952	—	—	—	15,952
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(14,739)	—	—	(14,739)
BALANCE, September 30, 2015	25,721	\$257	\$288,754	\$964,703	\$(145,805)	\$(138,581)	\$969,328

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

Table of ContentsGROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2015	2014
	(Unaudited, in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 127,385	\$ 74,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,441	31,424
Deferred income taxes	13,135	6,494
Asset impairments	1,955	11,094
Stock-based compensation	14,167	11,871
Amortization of debt discount and issue costs	2,727	9,661
Loss on 3.00% Convertible Notes repurchase	—	29,478
Loss on 2.25% Convertible Notes conversion and redemption	—	16,925
Gain on disposition of assets	(1,469)	) (17,363)
Tax effect from stock-based compensation	(1,827)	) (1,145)
Other	3,435	2,047
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	30,858	54,911
Accounts and notes receivable	(6,821)	) (6,562)
Inventories	(68,454)	) 79,265
Contracts-in-transit and vehicle receivables	29,470	33,839
Prepaid expenses and other assets	1,501	12,923
Floorplan notes payable - manufacturer affiliates	49,986	(77,155)
Deferred revenues	(621)	) (198)
Net cash provided by operating activities	230,868	271,836
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid in acquisitions, net of cash received	(212,252)	) (309,257)
Proceeds from disposition of franchises, property and equipment	9,684	138,800
Purchases of property and equipment, including real estate	(78,339)	) (91,345)
Other	6,047	(5,832)
Net cash used in investing activities	(274,860)	) (267,634)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on credit facility - floorplan line and other	5,529,338	6,047,392
Repayments on credit facility - floorplan line and other	(5,479,152)	) (6,086,414)
Borrowings on credit facility - acquisition line	584,643	314,963
Repayment on credit facility - acquisition line	(515,944)	) (374,989)
Borrowings on real estate credit facility	—	200
Principal payments on real estate credit facility	(2,505)	) (9,081)
Net borrowings on 5.00% Senior Unsecured Notes	—	539,600
Debt issue costs	—	(1,881)
Repurchase of 3.00% Convertible Notes	—	(260,074)
Proceeds from Call/Warrant Unwind related to 3.00% Convertible Notes	—	32,697
Conversion and redemption of 2.25% Convertible Notes	—	(182,756)
Borrowings on other debt	33,375	78,710
Principal payments on other debt	(42,929)	) (70,267)



Edgar Filing: GROUP 1 AUTOMOTIVE INC - Form 10-Q

Borrowings on debt related to real estate	22,430	65,628	
Principal payments on debt related to real estate	(18,536)	(39,024)	)
Employee stock purchase plan purchases, net of employee tax withholdings	(789)	187	)
Repurchases of common stock, amounts based on settlement date	(66,746)	(16,947)	)
Tax effect from stock-based compensation	1,827	1,145	
Dividends paid	(14,781)	(12,291)	)
Net cash provided by financing activities	30,231	26,798	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,246)	(563)	)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(19,007)	30,437	)
CASH AND CASH EQUIVALENTS, beginning of period	40,975	20,215	
CASH AND CASH EQUIVALENTS, end of period	\$21,968	\$50,652	
SUPPLEMENTAL CASH FLOW INFORMATION:			
Purchases of property and equipment, including real estate, accrued in accounts payable	\$3,225	\$3,440	
Purchases of common stock accrued in accounts payable	\$4,375	\$16,824	

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

7

---

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, is a leading operator in the automotive retailing industry with business activities in 14 states in the United States of America ("U.S."), 15 towns in the United Kingdom ("U.K.") and three states in Brazil. Group 1 Automotive, Inc. and its subsidiaries are collectively referred to as the "Company" in these Notes to Consolidated Financial Statements.

The Company, through its regions, sells new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. As of September 30, 2015, the Company's U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (a) the East (40 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, and South Carolina), and (b) the West (77 dealerships in California, Kansas, Louisiana, Oklahoma, and Texas). The U.S. regional vice presidents report directly to the Company's Chief Executive Officer and are responsible for the overall performance of their regions, as well as for overseeing the market directors and dealership general managers that report to them. In addition, as of September 30, 2015, the Company had two international regions: (a) the U.K. region, which consisted of 17 dealerships in the U.K. and (b) the Brazil region, which consisted of 19 dealerships in Brazil. The operations of the Company's international regions are structured similarly to the U.S. regions, each with a regional vice president reporting directly to the Company's Chief Executive Officer.

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

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in the accompanying unaudited condensed Consolidated Financial Statements. Due to seasonality and other factors, the results of operations for the interim period are not necessarily indicative of the results that will be realized for any other interim period or for the entire fiscal year. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K").

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



Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### Business Segment Information

The Company, through its regions, conducts business in the automotive retailing industry including selling new and used cars and light trucks, arranging related vehicle financing, selling service and insurance contracts, providing automotive maintenance and repair services and selling vehicle parts. The Company's operations are aligned into four geographic regions: the East and West Regions in the U.S., the U.K. Region, and the Brazil Region. The East and West Regions of the U.S. are economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. As a result, the Company aggregates the East and West Regions of the U.S. into one reportable segment. As such, the Company has three reportable segments: the U.S., which includes the activities of the Company's corporate office, the U.K. and Brazil. See Note 14, "Segment Information," for additional details regarding the Company's reportable segments.

### Variable Interest Entity

In 2013, the Company entered into arrangements to provide a related-party entity, which owns and operates retail automotive dealerships, a fixed-interest-rate working capital loan and various administrative services for a variable fee, both of which constitute variable interests in the entity. The Company's exposure to loss as a result of its involvement in the entity includes the balance outstanding under the loan arrangement. The Company holds an 8% equity ownership interest in the entity. The Company has determined that the entity meets the criteria of a variable interest entity ("VIE"). The terms of the loan and services agreements provide the Company with the right to control the activities of the VIE that most significantly impact the VIE's economic performance, the obligation to absorb potentially significant losses of the VIE and the right to receive potentially significant benefits from the VIE. Accordingly, the Company qualified as the VIE's primary beneficiary and consolidated the assets and liabilities of the VIE as of September 30, 2015 and December 31, 2014, as well as the results of operations of the VIE beginning on the effective date of the variable interests arrangements to September 30, 2015. The floorplan notes payable liability of the VIE is securitized by the new and used vehicle inventory of the VIE. The carrying amounts and classification of assets (which can only be used to settle the liabilities of the VIE) and liabilities (for which creditors do not have recourse to the general credit of the Company) that are included in the Company's consolidated statements of financial position for the consolidated VIE as of September 30, 2015 and December 31, 2014, are as follows (in thousands):

	September 30, 2015	December 31, 2014
Current assets	\$12,280	\$19,049
Non-current assets	20,764	31,783
Total assets	\$33,044	\$50,832
Current liabilities	\$9,259	\$16,374
Non-current liabilities	15,215	15,955
Total liabilities	\$24,474	\$32,329

### Recent Accounting Pronouncements

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

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis, that amends existing requirements applicable to reporting entities that are required to evaluate whether certain legal entities should be consolidated. The ASU is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may choose to adopt the standard using either a full retrospective approach or a modified retrospective approach. At this time, the Company does not expect the adoption of this ASU to impact its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The amendments in the accounting standard require debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. The amendments in this ASU are to be applied retrospectively and are effective for interim and annual periods beginning after December 15, 2015. The Company does not expect the adoption to materially impact its financial statements.

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

## 2. ACQUISITIONS AND DISPOSITIONS

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

During 2014, the Company acquired seven dealerships and was granted two franchises in the U.S. and also acquired one dealership and opened one dealership for an awarded franchise in Brazil. In addition, the Company acquired three dealerships in the U.K. (collectively, the "2014 Acquisitions"). Aggregate consideration paid for these acquisitions totaled \$336.6 million, including associated real estate and new vehicle inventory. The U.S. vehicle inventory associated with the acquisitions was subsequently financed through borrowings under the Company's FMCC Facility and the Floorplan Line (each as defined in Note 8, "Credit Facilities"), and the Brazil vehicle inventory associated with the acquisitions was subsequently financed through individual manufacturer captive finance companies. The purchase prices for the 2014 Acquisitions have been allocated as set forth below based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The allocation of the purchase prices is preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the respective acquisition date). Goodwill associated with the acquisitions was assigned to the U.S., U.K. and Brazil reportable segments in the amounts of \$103.8 million, \$18.5 million and zero, respectively.

	As of Acquisition Date (In thousands)
Inventory	\$132,180
Other current assets	6,601
Property and equipment	78,564
Goodwill and intangible franchise rights	185,103
Deferred tax asset	7,265
Total assets	\$409,713
Current liabilities	\$59,912
Long-term debt	13,250
Total liabilities	\$73,162

The intangible franchise rights are expected to continue for an indefinite period, therefore these rights are not amortized. These intangible assets will be evaluated on an annual basis in accordance with Accounting Standards Codification ("ASC") 350. Goodwill represents the excess of consideration paid compared to the fair value of net assets received in the acquisitions. The goodwill associated with the 2014 Acquisitions relative to the U.S. reportable segment is deductible for tax purposes; however, the goodwill associated with the 2014 Acquisitions relative to the

U.K. reportable segment is not currently deductible for tax purposes.

10

---

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### 3. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

The periodic interest rates of the Revolving Credit Facility (as defined in Note 8, “Credit Facilities”), the Real Estate Credit Facility (as defined in Note 9, “Long-term Debt”) and certain variable-rate real estate related borrowings are indexed to the one-month London Inter Bank Offered Rate (“LIBOR”), plus an associated company credit risk rate. In order to minimize the earnings variability related to fluctuations in these rates, the Company employs an interest rate hedging strategy, whereby it enters into arrangements with various financial institutional counterparties with investment grade credit ratings, swapping its variable interest rate exposure for a fixed interest rate over terms not to exceed the related variable-rate debt.

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

The related gains or losses on these interest rate derivatives are deferred in stockholders’ equity as a component of accumulated other comprehensive loss. These deferred gains and losses are recognized in income in the period in which the related items being hedged are recognized in expense. However, to the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in other income or expense. Monthly contractual settlements of these swap positions are recognized as floorplan or other interest expense in the Company’s accompanying Consolidated Statements of Operations. All of the Company’s interest rate hedges are designated as cash flow hedges. At September 30, 2015, all of the Company’s derivative contracts that were in effect were determined to be effective. The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Consolidated Statements of Operations for either the three or nine months ended September 30, 2015 or 2014, respectively.

The Company held interest rate swaps in effect as of September 30, 2015 of \$562.3 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.8%. The Company records the majority of the impact of the periodic settlements of these swaps as a component of floorplan interest expense. For the three and nine months ended September 30, 2015, the impact of the Company’s interest rate hedges in effect increased floorplan interest expense by \$2.8 million and \$8.3 million, respectively. For the three and nine months ended September 30, 2014, the impact of the Company’s interest rate hedges in effect increased floorplan interest expense by \$2.4 million and \$7.3 million, respectively. Total floorplan interest expense was \$9.7 million and \$10.5 million for the three months ended September 30, 2015 and 2014, respectively, and \$29.0 million and \$31.7 million for the nine months ended September 30, 2015 and 2014, respectively. For the three months ended September 30, 2015, four interest rate swaps with an aggregate notional value of \$225.0 million became effective and eight interest rate swaps with an aggregate notional value of \$225.0 million expired.



In addition to the \$562.3 million of swaps in effect as of September 30, 2015, the Company held 13 additional interest rate swaps with forward start dates between December 2016 and January 2019 and expiration dates between December 2019 and December 2021. The aggregate notional value of these 13 forward-starting swaps was \$650.0 million, and the weighted average interest rate was 2.6%. The combination of the interest rate swaps currently in effect and these forward-starting swaps is structured such that the notional value in effect at any given time through December 2021 does not exceed \$761.0 million, which is less than the Company's expectation for variable rate debt outstanding during such period.

As of September 30, 2015 and December 31, 2014, the Company reflected liabilities from interest rate risk management activities of \$39.7 million and \$28.7 million, respectively, in its Consolidated Balance Sheets. Included in Accumulated Other Comprehensive Loss at September 30, 2015 and 2014 were accumulated unrealized losses, net of income taxes, totaling \$24.8 million and \$14.3 million, respectively, related to these interest rate swaps.

Table of Contents GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Amount of Unrealized Loss, Net of Tax, Recognized in Other Comprehensive Income (Loss)	
	Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationship	2015	2014
	(In thousands)	
Interest rate swap contracts	\$(12,907	) \$(5,787
		)
	Amount of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	
	Location of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	
	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Floorplan interest expense	\$(8,306	) \$(7,331
Other interest expense	(1,275	) (1,138
		)

The amount expected to be reclassified out of other comprehensive income (loss) into earnings as additional floorplan interest expense or other interest expense in the next twelve months is \$13.3 million.

#### 4. STOCK-BASED COMPENSATION PLANS

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

##### Long Term Incentive Plan

The Incentive Plan provides for the grant of options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 and options that are non-qualified), restricted stock, performance awards, bonus stock, and phantom stock to the Company's employees, consultants, non-employee directors and officers. The Incentive Plan expires on May 21, 2024. The terms of the awards (including vesting schedules) are established by the Compensation Committee of the Company's Board of Directors. As of September 30, 2015, there were 1,475,545 shares available for issuance under the Incentive Plan.

##### Restricted Stock Awards

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

A summary of the restricted stock awards as of September 30, 2015, along with the changes during the nine months then ended, is as follows:

12

---

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	911,350	\$58.86
Granted	267,123	84.12
Vested	(237,633	) 50.82
Forfeited	(32,870	) 67.14
Nonvested at September 30, 2015	907,970	\$68.12
Employee Stock Purchase Plan		

During the nine months ended September 30, 2015, our shareholders and the Board of Directors approved an additional 1.0 million shares of common stock for issuance under the Purchase Plan. As a result, the Purchase Plan authorizes the issuance of up to 4.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after May 19, 2025. The Purchase Plan is available to all employees of the Company and its participating subsidiaries and is a qualified plan as defined by Section 423 of the Internal Revenue Code. At the end of each fiscal quarter (the “Option Period”) during the term of the Purchase Plan, employees can acquire shares of common stock from the Company at 85% of the fair market value of the common stock on the first or the last day of the Option Period, whichever is lower. As of September 30, 2015, there were 1,440,016 shares available for issuance under the Purchase Plan. During the nine months ended September 30, 2015 and 2014, the Company issued 76,694 and 80,938 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 \$18.66 and \$15.07 during the nine months ended September 30, 2015 and 2014, respectively. The fair value of stock purchase rights is calculated using the grant date stock price, the value of the embedded call option and the value of the embedded put option.

#### Stock-Based Compensation

Total stock-based compensation cost was \$4.7 million and \$4.0 million for the three months ended September 30, 2015 and 2014, respectively, and \$14.2 million and \$11.9 million for the nine months ended September 30, 2015 and 2014, respectively.

Cash received from Purchase Plan purchases was \$5.6 million and \$4.7 million for the nine months ended September 30, 2015 and 2014, respectively. The tax benefit realized for tax deductions associated with the vesting of restricted shares totaled \$1.8 million and \$1.1 million and increased additional paid-in capital for the nine months ended September 30, 2015 and 2014, respectively.

The Company issues new shares or treasury shares, if available, when restricted stock vests. With respect to shares issued under the Purchase Plan, the Company’s Board of Directors has authorized specific share repurchases to fund the shares issuable under the Purchase Plan.

#### 5. EARNINGS PER SHARE

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

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table sets forth the calculation of EPS for the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Weighted average basic common shares outstanding	23,132	23,424	23,294	23,354
Dilutive effect of contingently convertible notes and warrants	—	1,003	—	2,004
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	5	5	4	5
Weighted average dilutive common shares outstanding	23,137	24,432	23,298	25,363
Basic:				
Net Income	\$45,261	\$26,162	\$127,385	\$74,327
Less: Earnings allocated to participating securities	1,729	1,035	4,906	2,958
Earnings available to basic common shares	\$43,532	\$25,127	\$122,479	\$71,369
Basic earnings per common share	\$1.88	\$1.07	\$5.26	\$3.06
Diluted:				
Net Income	\$45,261	\$26,162	\$127,385	\$74,327
Less: Earnings allocated to participating securities	1,729	1,000	4,905	2,769
Earnings available to diluted common shares	\$43,532	\$25,162	\$122,480	\$71,558
Diluted earnings per common share	\$1.88	\$1.03	\$5.26	\$2.82

For the periods during which the Company's 2.25% Convertible Senior Notes due 2036 ("2.25% Notes") were outstanding, the Company was required to include the dilutive effect, if applicable, of the net shares issuable under the 2.25% Notes and the warrants sold in connection with the 2.25% Notes ("2.25% Warrants") in its diluted common shares outstanding for the diluted earnings per common share calculation. The average adjusted closing price of the Company's common stock for the periods prior to the conversion and redemption of the 2.25% Notes during the three and nine months ended September 30, 2014 was more than the conversion price then in effect at the end of the periods. Therefore, the dilutive effect of the 2.25% Notes was included in the computation of diluted EPS for the three and nine month periods ended September 30, 2014. The 2.25% Notes and 2.25% Warrants were converted or redeemed and settled, respectively, during the three months ended September 30, 2014.

In addition, for the periods during which the Company's 3.00% Convertible Senior Notes due 2020 ("3.00% Notes") were outstanding, the Company was required to include the dilutive effect, if applicable, of the net shares issuable under the 3.00% Notes and the warrants sold in connection with the 3.00% Notes ("3.00% Warrants") in its diluted common shares outstanding for the diluted earnings calculation. The average adjusted closing price of the Company's common stock for the periods prior to the conversion and redemption of the 3.00% Notes during the three and nine months ended September 30, 2014 was more than the conversion price then in effect at the end of the periods. Therefore, the respective dilutive effect of the 3.00% Notes and 3.00% Warrants was included in the computation of diluted EPS for the three and nine months ended September 30, 2014. On June 25, 2014, the Company repurchased \$92.5 million of the then outstanding \$115.0 million principal. The remaining 3.00% Notes and 3.00% Warrants were repurchased and settled, respectively, during the three months ended September 30, 2014.

## 6. INCOME TAXES

The Company is subject to U.S. federal income taxes and income taxes in numerous U.S. states. In addition, the Company is subject to income tax in the U.K. and Brazil relative to its foreign subsidiaries. The Company's effective income tax rates of 38.0% and 37.6% of pretax income for the three and nine months ended September 30, 2015, respectively, differed from the U.S. federal statutory rate of 35.0% due primarily to taxes provided for in U.S. state and foreign jurisdictions in which the Company operates, as well as valuation allowances provided for net operating losses in certain U.S. states and in Brazil.

Edgar Filing: GROUP 1 AUTOMOTIVE INC - Form 10-Q

For the three and nine months ended September 30, 2015, the Company's effective tax rate decreased compared to the same periods in 2014 to 38.0% and 37.6% from 40.4% and 43.4%, respectively. These decreases were primarily due to the tax deductible loss recognized in 2014 on the purchase of the majority of the 2.25% Notes and the 3.00% Notes that was less than the loss recognized for U.S. GAAP.

As of September 30, 2015 and December 31, 2014, the Company had no unrecognized tax benefits with respect to uncertain tax positions and did not incur any interest and penalties nor did it accrue any interest for the nine months ended

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

September 30, 2015. When applicable, consistent with prior practice, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Taxable years 2010 and subsequent remain open for examination by the Company's major taxing jurisdictions.

7. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Accounts and notes receivable consisted of the following:

	September 30, 2015 (unaudited)	December 31, 2014
	(In thousands)	
Amounts due from manufacturers	\$88,153	\$86,062
Parts and service receivables	31,305	35,034
Finance and insurance receivables	20,555	20,898
Other	11,040	12,977
Total accounts and notes receivable	151,053	154,971
Less allowance for doubtful accounts	3,943	3,641
Accounts and notes receivable, net	\$147,110	\$151,330

Inventories consisted of the following:

	September 30, 2015 (unaudited)	December 31, 2014
	(In thousands)	
New vehicles	\$1,142,441	\$1,137,478
Used vehicles	295,281	254,939
Rental vehicles	133,344	103,184
Parts, accessories and other	70,203	67,466
Total inventories	1,641,269	1,563,067
Less lower of cost or market reserves	6,848	6,362
Inventories, net	\$1,634,421	\$1,556,705

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

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Property and equipment consisted of the following:

	Estimated Useful Lives in Years (unaudited)	September 30, 2015	December 31, 2014
		(dollars in thousands)	
Land	—	\$352,932	\$328,474
Buildings	30 to 40	489,187	482,496
Leasehold improvements	varies	141,288	134,658
Machinery and equipment	7 to 20	90,521	87,728
Furniture and fixtures	3 to 10	81,092	77,581
Company vehicles	3 to 5	11,596	10,706
Construction in progress	—	40,749	32,115
Total		1,207,365	1,153,758
Less accumulated depreciation		228,473	203,370
Property and equipment, net		\$978,892	\$950,388

During the nine months ended September 30, 2015, the Company incurred \$44.1 million of capital expenditures for the construction of new or expanded facilities and the purchase of equipment and other fixed assets in the maintenance of the Company's dealerships and facilities, excluding capital expenditures accrued as of December 31, 2014. In addition, the Company purchased real estate (including land and buildings) during the nine months ended September 30, 2015 associated with existing dealership operations totaling \$16.3 million. And, in conjunction with the acquisition of dealerships and franchises in the nine months ended September 30, 2015, the Company acquired \$9.8 million of real estate and other property and equipment.

As of December 31, 2014, the Company determined that certain real estate investments qualified for held-for-sale treatment. As a result, the Company classified the carrying value of the real estate, totaling \$4.0 million, in prepaid and other current assets in its Consolidated Balance Sheet.

#### 8. CREDIT FACILITIES

In the U.S., the Company has a \$1.7 billion revolving syndicated credit arrangement with 24 financial institutions including six manufacturer-affiliated finance companies ("Revolving Credit Facility"). The Company also has a \$300.0 million floorplan financing arrangement ("FMCC Facility") with Ford Motor Credit Company ("FMCC") for financing of new Ford vehicles in the U.S. and other floorplan financing arrangements with several other automobile manufacturers for financing of a portion of its U.S. rental vehicle inventory. In the U.K., the Company has financing arrangements with BMW Financial Services, Volkswagen Finance and FMCC for financing of its new and used vehicles. In Brazil, the Company has financing arrangements for new, used, and rental vehicles with several financial institutions, most of which are manufacturer affiliated. Within the Company's Consolidated Balance Sheets, Floorplan notes payable - credit facility and other primarily reflects amounts payable for the purchase of specific new, used and rental vehicle inventory (with the exception of new and rental vehicle purchases financed through lenders affiliated with the respective manufacturer) whereby financing is provided by the Revolving Credit Facility. Floorplan notes payable - manufacturer affiliates reflects amounts related to the purchase of vehicles whereby financing is provided by the FMCC Facility, the financing of rental vehicles in the U.S., as well as the financing of new, used, and rental vehicles in both the U.K. and Brazil. Payments on the floorplan notes payable are generally due as the vehicles are sold. As a result, these obligations are reflected in the accompanying Consolidated Balance Sheets as current liabilities.



Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### Revolving Credit Facility

The Company's Revolving Credit Facility provides a total borrowing capacity of \$1.7 billion and expires on June 20, 2018. The Revolving Credit Facility consists of two tranches, providing a maximum of \$1.6 billion for U.S. vehicle inventory floorplan financing ("Floorplan Line"), as well as a maximum of \$320.0 million and a minimum of \$100.0 million for working capital and general corporate purposes, including acquisitions ("Acquisition Line"). The capacity under these two tranches can be re-designated within the overall \$1.7 billion commitment, subject to the aforementioned limits. Up to \$125.0 million of the Acquisition Line can be borrowed in either euros or British pound sterling. The Revolving Credit Facility can be expanded to a maximum commitment of \$1.95 billion, subject to participating lender approval. The Floorplan Line bears interest at rates equal to the LIBOR plus 125 basis points for new vehicle inventory and the LIBOR plus 150 basis points for used vehicle inventory. The Acquisition Line bears interest at the LIBOR plus 150 basis points plus a margin that ranges from zero to 100 basis points for borrowings in U.S. dollars and LIBOR equivalent plus 150 to 250 basis points on borrowings in euros or British pound sterling, depending on the Company's total adjusted leverage ratio. The Floorplan Line requires a commitment fee of 0.20% per annum on the unused portion. Amounts borrowed by the Company under the Floorplan Line for specific vehicle inventory are to be repaid upon the sale of the vehicle financed, and in no case is a borrowing for a vehicle to remain outstanding for greater than one year. The Acquisition Line also requires a commitment fee ranging from 0.25% to 0.45% per annum, depending on the Company's total adjusted leverage ratio, based on a minimum commitment of \$100.0 million less outstanding borrowings. In conjunction with the Revolving Credit Facility, the Company has \$4.1 million of related unamortized costs as of September 30, 2015, which are included in Prepaid expenses and other current assets and Other Assets on the accompanying Consolidated Balance Sheet and amortized over the term of the facility.

After considering the outstanding balance of \$1,148.3 million at September 30, 2015, the Company had \$231.7 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$231.7 million available borrowings under the Floorplan Line was \$28.1 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.4% as of September 30, 2015 and December 31, 2014, excluding the impact of the Company's interest rate swaps. With regards to the Acquisition Line, borrowings outstanding as of September 30, 2015 and December 31, 2014 were \$138.2 million and \$69.7 million, respectively. After considering \$45.7 million of outstanding letters of credit and other factors included in the Company's available borrowing base calculation, there was \$122.0 million of available borrowing capacity under the Acquisition Line as of September 30, 2015. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

All of the U.S. dealership-owning subsidiaries are co-borrowers under the Revolving Credit Facility. The Company's obligations under the Revolving Credit Facility are secured by essentially all of the Company's U.S. personal property (other than equity interests in dealership-owning subsidiaries), including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries, excluding inventory financed directly with manufacturer-affiliates and other third-party financing institutions. The Revolving Credit Facility contains a number of significant covenants that, among other things, restrict the Company's ability to make disbursements outside of the ordinary course of business, dispose of assets, incur additional indebtedness, create liens on assets, make investments and engage in mergers or consolidations. The Company is also required to comply with specified financial tests and ratios defined in the Revolving Credit Facility, such as the fixed charge coverage, total adjusted leverage, and senior secured adjusted leverage ratios. Further, the Revolving Credit Facility restricts the Company's ability to make certain payments, such as dividends or other distributions of assets, properties, cash, rights, obligations or securities ("Restricted Payments"). The Restricted Payments cannot exceed the sum of \$125.0 million plus (or minus if negative) (a) one-half of the aggregate consolidated net income for the period beginning on January 1, 2013 and ending on the date of determination and (b) the amount of net cash proceeds received from the sale of capital stock on or after January 1, 2013 and ending on the date of determination less (c) cash dividends and share repurchases ("Restricted Payment Basket"). For purposes of the calculation of the Restricted Payment Basket, net income represents such amounts per the consolidated financial statements adjusted to exclude the Company's foreign operations, non-cash

interest expense, non-cash asset impairment charges, and non-cash stock-based compensation. As of September 30, 2015, the Restricted Payment Basket totaled \$162.1 million. As of September 30, 2015, the Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility.

**Ford Motor Credit Company Facility**

The FMCC Facility provides for the financing of, and is collateralized by, the Company's Ford new vehicle inventory in the U.S., including affiliated brands. This arrangement provides for \$300.0 million of floorplan financing and is an evergreen arrangement that may be canceled with 30 days' notice by either party. As of September 30, 2015, the Company had an outstanding balance of \$126.8 million under the FMCC Facility with an available floorplan borrowing capacity of \$173.2 million. Included in the \$173.2 million available borrowings under the FMCC Facility was \$20.0 million of immediately

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

available funds. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives. The interest rate on the FMCC Facility was 4.75% before considering the applicable incentives as of September 30, 2015.

**Other Credit Facilities**

The Company has credit facilities with BMW Financial Services, Volkswagen Finance and FMCC for the financing of new, used and rental vehicle inventories related to its U.K. operations. These facilities are denominated in British pound sterling and are evergreen arrangements that may be canceled with notice by either party and bear interest at a base rate, plus a surcharge that varies based upon the type of vehicle being financed. The annual interest rates charged on borrowings outstanding under these facilities ranged from 1.15% to 3.95% as of September 30, 2015.

The Company has credit facilities with financial institutions in Brazil, most of which are affiliated with the manufacturers, for the financing of new, used and rental vehicle inventories related to its Brazil operations. These facilities are denominated in Brazilian real and have renewal terms ranging from one month to twelve months. They may be canceled with notice by either party and bear interest at a benchmark rate, plus a surcharge that varies based upon the type of vehicle being financed. As of September 30, 2015, the annual interest rates charged on borrowings outstanding under these facilities ranged from 16.77% to 23.73%.

Excluding rental vehicles financed through the Revolving Credit Facility, financing for U.S. rental vehicles is typically obtained directly from the automobile manufacturers. These financing arrangements generally require small monthly payments and mature in varying amounts over a period of two years. As of September 30, 2015, the interest rate charged on borrowings related to the Company's rental vehicle fleet varied up to 4.75%. Rental vehicles are typically transferred to used vehicle inventory when they are removed from service and repayment of the borrowing is required at that time.

**9. LONG-TERM DEBT**

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

	September 30, 2015	December 31, 2014
	(dollars in thousands)	
5.00% Senior Notes (aggregate principal of \$550,000 at September 30, 2015 and December 31, 2014)	\$540,957	\$540,100
Acquisition Line	138,201	69,713
Real Estate Credit Facility	55,498	58,003
Other Real Estate Related and Long-Term Debt	352,576	358,271
Capital lease obligations related to real estate, maturing in varying amounts through June 2034 with a weighted average interest rate of 9.7%	52,888	55,380
	1,140,120	1,081,467
Less current maturities of real estate credit facility and other long-term debt	55,959	72,630
	\$1,084,161	\$1,008,837

**5.00% Senior Notes**

On June 2, 2014, the Company issued \$350.0 million aggregate principal amount of its 5.00% Senior Notes due 2022 ("5.00% Notes"). Subsequently, on September 9, 2014, the Company issued an additional \$200.0 million of 5.00% Notes at a discount of 1.5% from face value. The 5.00% Notes will mature on June 1, 2022 and pay interest semiannually, in arrears, in cash on each June 1 and December 1, beginning December 1, 2014. Using proceeds of certain equity offerings, the Company may redeem up to 35.0% of the 5.00% Notes prior to June 1, 2017, subject to certain conditions, at a redemption price equal to 105% of principal amount of the 5.00% Notes plus accrued and unpaid interest. Otherwise, the Company may redeem some or all of the 5.00% Notes prior to June 1, 2017 at a redemption price equal to 100% of the principal amount of the 5.00% Notes redeemed, plus an applicable premium, and plus accrued and unpaid interest. On or after June 1, 2017, the Company may redeem some or all of the 5.00% Notes at specified prices, plus accrued and unpaid interest. The Company may be required to purchase the 5.00% Notes if it sells certain assets or triggers the change in control provisions defined in the 5.00% Notes indenture. The

5.00% Notes are senior unsecured obligations and rank equal in right of payment to all of the Company's existing and future senior unsecured debt and senior in right of payment to all of its future subordinated debt. The 5.00% Notes are guaranteed by substantially all of the Company's U.S. subsidiaries. The U.S. subsidiary guarantees rank equally in the right of payment to all of the Company's U.S. subsidiary guarantor's existing and future subordinated debt. In addition, the 5.00% Notes are structurally subordinated to the liabilities of its non-guarantor subsidiaries.

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In connection with the issuance of the 5.00% Notes, the Company entered into registration rights agreements (the “Registration Rights Agreements”) with the initial purchasers. Pursuant to the Registration Rights Agreements, the Company agreed to file a registration statement with the Securities and Exchange Commission, so that holders of the 5.00% Notes could exchange the 5.00% Notes for registered 5.00% Notes that have substantially identical terms as the 5.00% Notes. The Company also agreed to use commercially reasonable efforts to cause the exchange to be completed by June 2, 2015, or be required to pay additional interest. In June 2015, the Company completed the exchange. Underwriters' fees and the discount relative to the \$550.0 million totaled \$10.4 million, which were recorded as a reduction of the 5.00% Notes principal balance and are being amortized over a period of eight years. The 5.00% Notes are presented net of unamortized underwriter fees and discount of \$9.0 million as of September 30, 2015. In connection with the issuance of the 5.00% Notes, the Company capitalized \$2.6 million of debt issuance costs, which are included in Other Assets on the accompanying Consolidated Balance Sheet and amortized over a period of eight years. Unamortized debt issuance costs as of September 30, 2015 totaled \$2.1 million.

#### Real Estate Credit Facility

Group 1 Realty, Inc., a wholly-owned subsidiary of the Company, is party to a real estate credit facility with Bank of America, N.A. and Comerica Bank (the “Real Estate Credit Facility”) providing the right for term loans to finance real estate purchases. As of September 30, 2015, \$25.0 million of term loan borrowings remained available. The term loans can be expanded provided that (a) no default or event of default exists under the Real Estate Credit Facility; (b) the Company obtains commitments from the lenders who would qualify as assignees for such increased amounts; and (c) certain other agreed upon terms and conditions have been satisfied. The Real Estate Credit Facility is guaranteed by the Company and substantially all of the existing and future domestic subsidiaries of the Company and is secured by the real property owned by the Company that is mortgaged under the Real Estate Credit Facility. The Company capitalized \$1.1 million of debt issuance costs related to the Real Estate Credit Facility which are included in Prepaid expenses and other current assets and Other Assets on the accompanying Consolidated Balance Sheet that are being amortized over the term of the facility, \$0.2 million of which were still unamortized as of September 30, 2015.

The interest rate on the Real Estate Credit Facility is equal to (a) the per annum rate equal to one-month LIBOR plus 2.00% per annum, determined on the first day of each month; or (b) 0.95% per annum in excess of the higher of (i) the Bank of America prime rate (adjusted daily on the day specified in the public announcement of such price rate), (ii) the Federal Funds Rate adjusted daily, plus 0.50% or (iii) the per annum rate equal to the one-month LIBOR plus 1.05% per annum. The Federal Funds Rate is the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the business day succeeding such day.

The Company is required to make quarterly principal payments equal to 1.25% of the principal amount outstanding and is required to repay the aggregate amount outstanding on the maturity dates of the individual property borrowings, ranging, from December 29, 2015 through February 27, 2017. During the nine months ended September 30, 2015, the Company made no additional borrowings and made principal payments of \$2.5 million on outstanding borrowings from the Real Estate Credit Facility. As of September 30, 2015, borrowings outstanding under the Real Estate Credit Facility totaled \$55.5 million, with \$30.9 million recorded as a current maturity of long-term debt in the accompanying Consolidated Balance Sheet.

The Real Estate Credit Facility also contains usual and customary provisions limiting the Company's ability to engage in certain transactions, including limitations on the Company's ability to incur additional debt, additional liens, make investments, and pay distributions to its stockholders. In addition, the Real Estate Credit Facility requires certain financial covenants that are identical to those contained in the Company's Revolving Credit Facility. As of September 30, 2015, the Company was in compliance with all applicable covenants and ratios under the Real Estate Credit Facility.

#### Acquisition Line

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

Other Real Estate Related and Long-Term Debt

The Company, as well as certain of its wholly-owned subsidiaries, has entered into separate term mortgage loans in the U.S. with four of its manufacturer-affiliated finance partners, Toyota Motor Credit Corporation (“TMCC”), Mercedes-Benz Financial Services USA, LLC (“MBFS”), BMW Financial Services NA, LLC (“BMWFS”) and FMCC, as well as several third-party financial institutions (collectively, “Real Estate Notes”). The Real Estate Notes are on specific buildings and/or properties and are guaranteed by the Company. Each loan was made in connection with, and is secured by mortgage liens on, the real property owned by the Company that is mortgaged under the Real Estate Notes. The Real Estate Notes bear interest at fixed rates between 3.00% and 5.47%, and at variable indexed rates plus a spread between 1.50% and 2.55% per annum. The Company capitalized \$1.3 million of related debt issuance costs related to the Real Estate Notes which are included in Prepaid

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

expenses and other current assets and Other Assets on the accompanying Consolidated Balance Sheet that are being amortized over the terms of the notes, \$0.3 million of which were still unamortized as of September 30, 2015. The loan agreements with TMCC consist of eight term loans. As of September 30, 2015, \$48.5 million was outstanding under the TMCC term loans, with \$2.2 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2015, the Company made no additional borrowings and made principal payments of \$1.5 million. These loans will mature by August 2022 and provide for monthly payments based on a 20-year amortization schedule. These eight loans are cross-collateralized and cross-defaulted with each other and are cross-defaulted with the Revolving Credit Facility.

The loan agreements with MBFS consist of two term loans. As of September 30, 2015, \$26.5 million was outstanding under the MBFS term loans, with \$1.2 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2015, the Company made no additional borrowings and made principal payments of \$0.8 million. The agreements provide for monthly payments based on a 20-year amortization schedule and will mature by January 2031. These two loans are cross-collateralized and cross-defaulted with each other and are also cross-defaulted with the Revolving Credit Facility.

The loan agreements with BMWFS consist of 14 term loans. As of September 30, 2015, \$62.6 million was outstanding under the BMWFS term loans, with \$4.6 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2015, the Company made no additional borrowings and made principal payments of \$3.3 million. The agreements provide for monthly payments based on a 15-year amortization schedule and will mature by October 2021. In the case of three properties owned by subsidiaries, the applicable loan is also guaranteed by the subsidiary real property owner. These 14 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 FMCC consist of four term loans. As of September 30, 2015, \$34.0 million was outstanding under the FMCC term loans, with \$1.5 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2015, the Company made no additional borrowings and made principal payments of \$1.1 million. The agreements provide for monthly payments based on a 20-year amortization schedule that will mature by December 2024. These four loans are cross-defaulted with the Revolving Credit Facility.

In addition, agreements with third-party financial institutions consist of 18 term loans for an aggregate principal amount of \$121.2 million, to finance real estate associated with the Company's dealerships. The loans are being repaid in monthly installments that will mature by November 2022. As of September 30, 2015, borrowings under these notes totaled \$108.7 million, with \$6.1 million classified as a current maturity of long-term debt. For the nine months ended September 30, 2015, the Company made no additional borrowings and made principal payments of \$6.5 million. These 18 loans are cross-defaulted with the Revolving Credit Facility.

The Company has entered into separate term mortgage loans in the U.K. with other third-party financial institutions which are secured by the Company's U.K. properties. These mortgage loans (collectively, "U.K. Notes") are being repaid in monthly installments that will mature by September 2034. As of September 30, 2015, borrowings under the U.K. Notes totaled \$59.7 million, with \$4.6 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the nine months ended September 30, 2015, the Company made additional borrowings and principal payments of \$17.4 million and \$2.6 million, respectively.

The Company has also entered into a separate term mortgage loan in Brazil with a third-party financial institution to finance the purchase and construction of dealership properties (the "Brazil Note"). The Brazil Note is secured by the Company's Brazilian properties as purchased and/or constructed, as well as a guarantee from the Company. The Brazil Note is being repaid in monthly installments that will mature by April 2025. As of September 30, 2015, borrowings under the Brazil Note totaled \$3.7 million, with \$0.4 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

The Company has working capital loan agreements with third-party financial institutions in Brazil that will mature by February 2017. As of September 30, 2015, borrowings under the Brazilian third-party loans totaled \$5.5 million classified as long-term debt in the accompanying Consolidated Balance Sheets. For the nine months ended September

30, 2015, the Company made no additional borrowings and principal payments of \$9.3 million.

**Fair Value of Long-Term Debt**

The Company's outstanding 5.00% Notes had a fair value of \$539.0 million and \$534.9 million as of September 30, 2015 and December 31, 2014, respectively. The Company's fixed interest rate borrowings included in other real estate related and long-term debt totaled \$147.3 million and \$158.1 million as of September 30, 2015 and December 31, 2014, respectively. The fair value of such fixed interest rate borrowings was \$170.8 million and \$186.4 million as of September 30, 2015 and December 31, 2014, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of September 30, 2015 and December 31, 2014. The Company determined the estimated fair value of its long-term debt using



Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

available market information and commonly accepted valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on estimated fair values. The carrying value of the Company's variable rate debt approximates fair value due to the short-term nature of the interest rates.

#### 10. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets and liabilities recorded at fair value in the accompanying balance sheets as of September 30, 2015 and December 31, 2014, respectively, were as follows:

	As of September 30, 2015		Total
	Level 1	Level 2	
	(In thousands)		
Assets:			
Investments	\$—	\$5,253	\$5,253
Demand obligations	\$—	\$88	\$88
Total	\$—	\$5,341	\$5,341
Liabilities:			
Interest rate derivative financial instruments	\$—	\$39,724	\$39,724
Total	\$—	\$39,724	\$39,724
	As of December 31, 2014		Total
	Level 1	Level 2	
	(In thousands)		
Assets:			
Investments	\$—	\$12,283	\$12,283
Demand obligations	\$—	\$20,304	\$20,304
Total	\$—	\$32,587	\$32,587
Liabilities:			
Interest rate derivative financial instruments	\$—	\$28,653	\$28,653
Total	\$—	\$28,653	\$28,653

#### 11. COMMITMENTS AND CONTINGENCIES

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

##### Legal Proceedings

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

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other Matters

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

From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships and continue to be primarily obligated on the lease. In these situations, the Company's subsidiaries retain primary responsibility for the performance of certain obligations under such leases. To the extent that the Company remains primarily responsible under such leases, a quantification of such lease obligations is included in the Company's disclosure of future minimum lease payments for non-cancelable operating leases in Note 18, Operating Leases of the Company's Annual Report for the year ended December 31, 2014 filed on Form 10-K.

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

Although not estimated to be material, the Company's exposure under these leases is difficult to estimate and there can be no assurance that any performance of the Company or its subsidiaries required under these leases would not have a material adverse effect on the Company's business, financial condition, or cash flows.

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 12. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

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

	Intangible Franchise Rights			Total	
	U.S.	U.K.	Brazil		
	(In thousands)				
BALANCE, December 31, 2014	\$257,502	\$8,157	\$38,288	\$303,947	
Additions through acquisitions	49,432	—	—	49,432	
Disposals	(188	) —	—	(188	)
Currency translation	—	(193	) (13,235	) (13,428	)
BALANCE, September 30, 2015	\$306,746	\$7,964	\$25,053	\$339,763	
	Goodwill			Total	
	U.S.	U.K.	Brazil		
	(In thousands)				
BALANCE, December 31, 2014	\$700,642	\$35,138	\$94,597	\$830,377	(1)
Additions through acquisitions	115,317	—	—	115,317	
Purchase price allocation adjustments	(74	) 1,729	—	1,655	
Disposals	(1,109	) —	—	(1,109	)
Currency translation	—	(885	) (32,698	) (33,583	)
Tax adjustments	(18	) —	—	(18	)
BALANCE, September 30, 2015	\$814,758	\$35,982	\$61,899	\$912,639	(1)

(1) Net of accumulated impairment of \$42.4 million.

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the balances of each component of accumulated other comprehensive loss for the nine months ended September 30, 2015 and 2014 were as follows:

	Nine Months Ended September 30, 2015		
	Accumulated foreign currency translation loss (In thousands)	Accumulated loss on interest rate swaps	Total
Balance, December 31, 2014	\$(64,075	) \$(17,909	) \$(81,984
Other comprehensive loss before reclassifications:			
Pre-tax	(56,902	) (20,651	) (77,553
Tax effect	—	7,744	7,744
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	8,306	8,306
Other interest expense	—	1,275	1,275
Tax effect	—	(3,593	) (3,593
Net current period other comprehensive loss	(56,902	) (6,919	) (63,821
Balance, September 30, 2015	\$(120,977	) \$(24,828	) \$(145,805
	Nine Months Ended September 30, 2014		
	Accumulated foreign currency translation loss (In thousands)	Accumulated loss on interest rate swaps	Total
Balance, December 31, 2013	\$(37,827	) \$(13,850	) \$(51,677
Other comprehensive loss before reclassifications:			
Pre-tax	(7,329	) (9,259	) (16,588
Tax effect	—	3,472	3,472
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	7,331	7,331
Other interest expense	—	1,138	1,138
Tax effect	—	(3,176	) (3,176
Net current period other comprehensive loss	(7,329	) (494	) (7,823
Balance, September 30, 2014	\$(45,156	) \$(14,344	) \$(59,500

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 14. SEGMENT INFORMATION

As of September 30, 2015, the Company had three reportable segments: (1) the U.S., (2) the U.K., and (3) Brazil. Each of the reportable segments is comprised of retail automotive franchises, which sell new vehicles, used vehicles, parts and automotive services, finance and insurance products, and collision centers. The vast majority of the Company's corporate activities are associated with the operations of the U.S. operating segments and therefore the corporate financial results are included within the U.S. reportable segment.

The reportable segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by its chief operating decision maker to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer.

Reportable segment revenue, income (loss) before income taxes, provision for income taxes and net income (loss) were as follows for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015				Nine Months Ended September 30, 2015			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	\$2,343,566	\$327,431	\$129,572	\$2,800,569	\$6,629,513	\$935,139	\$395,251	\$7,959,903
Income (loss) before income taxes	67,182	5,328	526	73,036	189,773	15,278	(765)	204,286
Provision for income taxes	(26,432)	(1,207)	(136)	(27,775)	(73,085)	(3,215)	(601)	(76,901)
Net income (loss)	40,750	4,121	390	45,261	116,688	12,063	(1,366)	127,385
	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2014			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Total revenues	\$2,175,605	\$252,201	\$198,642	\$2,626,448	\$6,070,827	\$751,226	\$576,896	\$7,398,949
Income (loss) before income taxes	43,146	5,840	(5,117)	43,869	123,474	15,974	(8,172)	131,276
Provision for income taxes	(20,375)	(1,159)	3,827	(17,707)	(57,439)	(2,814)	3,304	(56,949)
Net income (loss) <sup>(1)</sup>	22,771	4,681	(1,290)	26,162	66,035	13,160	(4,868)	74,327

<sup>(1)</sup> Includes the following, after tax: loss due to extinguishment of long-term debt of \$17.9 million and \$38.7 million for the three and nine months ended September 30, 2014, respectively, in the U.S.; asset impairment charges of \$2.6 million and \$3.6 million for the three and nine months ended September 30, 2014, respectively, in the U.S., and \$4.0 million for the three and nine months ended September 30, 2014, in Brazil; gain on real estate and dealership transactions of \$8.6 million and \$8.9 million for the three and nine months ended September 30, 2014, respectively, in the U.S.; and the tax benefit of deductible goodwill of \$3.4 million for the three and nine months ended September 30, 2014, in Brazil.

Reportable segment total assets as of September 30, 2015 and December 31, 2014 were as follows:

	As of September 30, 2015			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total assets	\$3,736,130	\$378,978	\$176,942	\$4,292,050
	As of December 31, 2014			

Edgar Filing: GROUP 1 AUTOMOTIVE INC - Form 10-Q

	U.S. (In thousands)	U.K.	Brazil	Total
Total assets	\$3,529,643	\$327,644	\$284,205	\$4,141,492

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following tables include condensed consolidating financial information as of September 30, 2015 and December 31, 2014, and for the three and nine months ended September 30, 2015 and 2014, for Group 1 Automotive, Inc.'s (as issuer of the 5.00% Notes), guarantor subsidiaries and non-guarantor subsidiaries (representing foreign entities). The condensed consolidating financial information includes certain allocations of balance sheet, statement of operations and cash flows items that are not necessarily indicative of the financial position, results of operations or cash flows of these entities had they operated on a stand-alone basis.

## CONDENSED CONSOLIDATED BALANCE SHEET

September 30, 2015

	Group 1 Automotive, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$—	\$4,397	\$ 17,571	\$—	\$21,968
Contracts-in-transit and vehicle receivables, net	—	173,859	31,777	—	205,636
Accounts and notes receivable, net	—	118,137	28,973	—	147,110
Intercompany accounts receivable	—	263,906	—	(263,906 )	—
Inventories, net	—	1,438,310	196,111	—	1,634,421
Deferred income taxes	288	12,811	—	—	13,099
Prepaid expenses and other current assets	785	8,000	13,771	—	22,556
Total current assets	1,073	2,019,420	288,203	(263,906 )	2,044,790
PROPERTY AND EQUIPMENT, net	—	863,526	115,366	—	978,892
GOODWILL	—	814,759	97,880	—	912,639
INTANGIBLE FRANCHISE RIGHTS	—	306,745	33,018	—	339,763
INVESTMENT IN SUBSIDIARIES	2,162,133	—	—	(2,162,133 )	—
OTHER ASSETS	—	8,683	7,283	—	15,966
Total assets	\$2,163,206	\$4,013,133	\$ 541,750	\$(2,426,039)	\$4,292,050
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$—	\$1,176,385	\$ 1,128	\$—	\$1,177,513
Offset account related to floorplan notes payable - credit facility	—	(28,073 )	—	—	(28,073 )
Floorplan notes payable — manufacturer affiliates	—	253,361	94,296	—	347,657
Offset account related to floorplan notes payable - manufacturer affiliates	—	(20,001 )	—	—	(20,001 )
Current maturities of long-term debt	—	50,756	5,203	—	55,959
Accounts payable	—	177,270	113,239	—	290,509
Intercompany accounts payable	368,915	—	263,906	(632,821 )	—
Accrued expenses	—	137,675	20,608	—	158,283
Total current liabilities	368,915	1,747,373	498,380	(632,821 )	1,981,847
LONG-TERM DEBT, net of current maturities	679,158	337,858	67,145	—	1,084,161



Edgar Filing: GROUP 1 AUTOMOTIVE INC - Form 10-Q

LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	39,724	—	—	39,724
DEFERRED INCOME TAXES AND OTHER LIABILITIES	—	206,938	10,052	—	216,990
STOCKHOLDERS' EQUITY:					
Group 1 stockholders' equity	1,115,133	2,050,155	(33,827 )	(2,162,133 )	969,328
Intercompany note receivable	—	(368,915 )	—	368,915	—
Total stockholders' equity	1,115,133	1,681,240	(33,827 )	(1,793,218 )	969,328
Total liabilities and stockholders' equity	\$2,163,206	\$4,013,133	\$ 541,750	\$(2,426,039)	\$4,292,050

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2014

	Group 1 Automotive, Inc. (In thousands)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$—	\$25,379	\$ 15,596	\$—	\$40,975
Contracts-in-transit and vehicle receivables, net	—	218,361	19,087	—	237,448
Accounts and notes receivable, net	—	117,427	33,903	—	151,330
Intercompany accounts receivable	—	276,217	—	(276,217 )	—
Inventories, net	—	1,342,022	214,683	—	1,556,705
Deferred income taxes	196	10,866	—	—	11,062
Prepaid expenses and other current assets	590	22,039	15,070	—	37,699
Total current assets	786	2,012,311	298,339	(276,217 )	2,035,219
PROPERTY AND EQUIPMENT, net	—	839,063	111,325	—	950,388
GOODWILL	—	700,642	129,735	—	830,377
INTANGIBLE FRANCHISE RIGHTS	—	257,502	46,445	—	303,947
INVESTMENT IN SUBSIDIARIES	1,964,442	—	—	(1,964,442 )	—
OTHER ASSETS	—	10,120	11,441	—	21,561
Total assets	\$ 1,965,228	\$ 3,819,638	\$ 597,285	\$(2,240,659)	\$ 4,141,492
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Floorplan notes payable — credit facility and other	\$—	\$1,137,743	\$ 5,503	\$—	\$1,143,246
Offset account related to floorplan notes payable - credit facility	—	(39,616 )	—	—	(39,616 )
Floorplan notes payable — manufacturer affiliates	—	207,329	100,327	—	307,656
Offset account related to floorplan notes payable - manufacturer affiliates	—	(22,500 )	—	—	(22,500 )
Current maturities of long-term debt	—	61,185	11,445	—	72,630
Accounts payable	—	176,143	112,177	—	288,320
Intercompany accounts payable	295,421	—	276,217	(571,638 )	—
Accrued expenses	—	149,700	22,763	—	172,463
Total current liabilities	295,421	1,669,984	528,432	(571,638 )	1,922,199
LONG-TERM DEBT, net of current maturities	609,812	347,202	51,823	—	1,008,837
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	25,311	—	—	25,311
DEFERRED INCOME TAXES AND OTHER LIABILITIES	—	193,077	14,058	—	207,135
<b>STOCKHOLDERS' EQUITY:</b>					
Group 1 stockholders' equity	1,059,995	1,879,485	2,972	(1,964,442 )	978,010
Intercompany note receivable	—	(295,421 )	—	295,421	—

Edgar Filing: GROUP 1 AUTOMOTIVE INC - Form 10-Q

Total stockholders' equity	1,059,995	1,584,064	2,972	(1,669,021 )	978,010
Total liabilities and stockholders' equity	\$1,965,228	\$3,819,638	\$ 597,285	\$(2,240,659)	\$4,141,492

28

---

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company	
	(In thousands)					
REVENUES:	\$—	\$2,343,567	\$ 457,002	\$—	\$2,800,569	
COST OF SALES:	—	1,995,252	406,935	—	2,402,187	
GROSS PROFIT	—	348,315	50,067	—	398,382	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	555	247,054	41,403	—	289,012	
DEPRECIATION AND AMORTIZATION EXPENSE	—	10,372	1,439	—	11,811	
ASSET IMPAIRMENTS	—	204	712	—	916	
INCOME FROM OPERATIONS	(555	) 90,685	6,513	—	96,643	
OTHER EXPENSE:						
Floorplan interest expense	—	(8,963	) (722	) —	(9,685	)
Other interest expense, net	648	(12,738	) (1,832	) —	(13,922	)
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	93	68,984	3,959	—	73,036	
PROVISION FOR INCOME TAXES	(35	) (26,398	) (1,342	) —	(27,775	)
EQUITY IN EARNINGS OF SUBSIDIARIES	45,203	—	—	(45,203	) —	
NET INCOME (LOSS)	\$45,261	\$42,586	\$ 2,617	\$(45,203	) \$45,261	
COMPREHENSIVE LOSS	—	(6,158	) (36,307	) —	(42,465	)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$45,261	\$36,428	\$ (33,690	) \$(45,203	) \$2,796	

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Nine Months Ended September 30, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company	
	(In thousands)					
REVENUES:	\$—	\$6,629,514	\$ 1,330,389	\$—	\$7,959,903	
COST OF SALES:	—	5,624,527	1,181,537	—	6,806,064	
GROSS PROFIT	—	1,004,987	148,852	—	1,153,839	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,612	712,265	126,173	—	841,050	
DEPRECIATION AND AMORTIZATION EXPENSE	—	30,847	4,594	—	35,441	
ASSET IMPAIRMENTS	—	702	1,253	—	1,955	
INCOME FROM OPERATIONS	(2,612	) 261,173	16,832	—	275,393	
OTHER EXPENSE:						
Floorplan interest expense	—	(26,439	) (2,607	) —	(29,046	)
Other interest expense, net	1,845	(38,534	) (5,372	) —	(42,061	)
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(767	) 196,200	8,853	—	204,286	
BENEFIT (PROVISION) FOR INCOME TAXES	288	(73,375	) (3,814	) —	(76,901	)
EQUITY IN EARNINGS OF SUBSIDIARIES	127,864	—	—	(127,864	) —	
NET INCOME (LOSS)	\$127,385	\$122,825	\$ 5,039	\$(127,864	) \$127,385	
COMPREHENSIVE LOSS	—	(6,919	) (56,902	) —	(63,821	)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$127,385	\$115,906	\$ (51,863	) \$(127,864	) \$63,564	

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2014

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company	
	(In thousands)					
REVENUES:	\$—	\$2,175,604	\$ 450,844	\$—	\$2,626,448	
COST OF SALES:	—	1,853,668	398,071	—	2,251,739	
GROSS PROFIT	—	321,936	52,773	—	374,709	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	559	220,142	43,532	—	264,233	
DEPRECIATION AND AMORTIZATION EXPENSE	—	9,296	1,450	—	10,746	
ASSET IMPAIRMENTS	—	4,252	5,121	—	9,373	
INCOME FROM OPERATIONS	(559	) 88,246	2,670	—	90,357	
OTHER EXPENSE:						
Floorplan interest expense	—	(8,544	) (1,908	) —	(10,452	)
Other interest expense, net	567	(12,264	) (1,549	) —	(13,246	)
Loss on extinguishment of long-term debt	—	(22,790	) —	—	(22,790	)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	8	44,648	(787	) —	43,869	
(PROVISION) BENEFIT FOR INCOME TAXES	(3	) (20,372	) 2,668	—	(17,707	)
EQUITY IN EARNINGS OF SUBSIDIARIES	26,157	—	—	(26,157	) —	
NET INCOME (LOSS)	\$26,162	\$24,276	\$ 1,881	\$(26,157	) \$26,162	
COMPREHENSIVE INCOME (LOSS)	—	2,366	(21,938	) —	(19,572	)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$26,162	\$26,642	\$ (20,057	) \$(26,157	) \$6,590	

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Nine Months Ended September 30, 2014

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	\$—	\$6,070,827	\$ 1,328,122	\$—	\$7,398,949
COST OF SALES:	—	5,142,382	1,174,588	—	6,316,970
GROSS PROFIT	—	928,445	153,534	—	1,081,979
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,315	660,321	131,125	—	793,761
DEPRECIATION AND AMORTIZATION EXPENSE	—	27,232	4,192	—	31,424
ASSET IMPAIRMENTS	—	5,973	5,121	—	11,094
INCOME FROM OPERATIONS	(2,315 )	234,919	13,096	—	245,700
OTHER EXPENSE:					
Floorplan interest expense	—	(25,489 )	(6,206 )	—	(31,695 )
Other interest expense, net	1,696	(34,326 )	(3,696 )	—	(36,326 )
Loss on extinguishment of long-term debt	—	(46,403 )	—	—	(46,403 )
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(619 )	128,701	3,194	—	131,276
BENEFIT (PROVISION) FOR INCOME TAXES	232	(57,672 )	491	—	(56,949 )
EQUITY IN EARNINGS OF SUBSIDIARIES	74,714	—	—	(74,714 )	—
NET INCOME (LOSS)	\$74,327	\$71,029	\$ 3,685	\$(74,714 )	\$74,327
COMPREHENSIVE LOSS	—	(494 )	(7,329 )	—	(7,823 )
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	\$74,327	\$70,535	\$ (3,644 )	\$(74,714 )	\$66,504

Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
	(In thousands)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by operating activities	\$ 127,385	\$ 93,518	\$ 9,965	\$ 230,868
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	(212,252 )	—	(212,252 )
Proceeds from disposition of franchises, property and equipment	—	8,986	698	9,684
Purchases of property and equipment, including real estate	—	(61,052 )	(17,287 )	(78,339 )
Other	—	6,047	—	6,047
Net cash used in investing activities	—	(258,271 )	(16,589 )	(274,860 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	5,529,338	—	5,529,338
Repayments on credit facility - floorplan line and other	—	(5,479,152 )	—	(5,479,152 )
Borrowings on credit facility - acquisition line	584,643	—	—	584,643
Repayment on credit facility - acquisition line	(515,944 )	—	—	(515,944 )
Principal payments on real estate credit facility	—	(2,505 )	—	(2,505 )
Borrowings on other debt	—	460	32,915	33,375
Principal payments on other debt	—	(1,157 )	(41,772 )	(42,929 )
Borrowings on debt related to real estate	—	—	22,430	22,430
Principal payments on debt related to real estate	—	(15,843 )	(2,693 )	(18,536 )
Employee stock purchase plan purchases, net of employee tax withholdings	(789 )	—	—	(789 )
Repurchases of common stock, amounts based on settlement date	(66,746 )	—	—	(66,746 )
Tax effect from stock-based compensation	—	1,827	—	1,827
Dividends paid	(14,781 )	—	—	(14,781 )
Borrowings (repayments) with subsidiaries	85,465	(73,365 )	(12,100 )	—
Investment in subsidiaries	(199,233 )	184,168	15,065	—
Net cash (used in) provided by financing activities	(127,385 )	143,771	13,845	30,231
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	(5,246 )	(5,246 )
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	—	(20,982 )	1,975	(19,007 )
CASH AND CASH EQUIVALENTS, beginning of period	—	25,379	15,596	40,975
CASH AND CASH EQUIVALENTS, end of period	\$—	\$ 4,397	\$ 17,571	\$ 21,968



Table of Contents      GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2014

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Company
	(In thousands)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net cash provided by (used in) operating activities	\$74,327	\$204,887	\$ (7,378 )	\$271,836
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash paid in acquisitions, net of cash received	—	(306,467 )	(2,790 )	(309,257 )
Proceeds from disposition of franchises, property and equipment	—	138,546	254	138,800
Purchases of property and equipment, including real estate	—	(85,239 )	(6,106 )	(91,345 )
Other	—	(5,832 )	—	(5,832 )
Net cash used in investing activities	—	(258,992 )	(8,642 )	(267,634 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on credit facility - floorplan line and other	—	6,047,392	—	6,047,392
Repayments on credit facility - floorplan line and other	—	(6,086,414 )	—	(6,086,414 )
Borrowings on credit facility - acquisition line	314,963	—	—	314,963
Repayment on credit facility - acquisition line	(374,989 )	—	—	(374,989 )
Borrowings on real estate credit facility	—	200	—	200
Principal payments on real estate credit facility	—	(9,081 )	—	(9,081 )
Net borrowings on 5.00% Senior Unsecured Notes	539,600	—	—	539,600
Debt issue costs	(1,881 )	—	—	(1,881 )
Repurchase of 3.00% Convertible Notes	(260,074 )	—	—	(260,074 )
Proceeds from Call/Warrant Unwind related to 3.00% Convertible Notes	32,697	—	—	32,697
Conversion and redemption of 2.25% Convertible Notes	(182,756 )	—	—	(182,756 )
Borrowings on other debt	—	—	78,710	78,710
Principal payments on other debt	—	—	(70,267 )	(70,267 )
Borrowings on debt related to real estate	—	52,279	13,349	65,628
Principal payments on debt related to real estate	—	(29,458 )	(9,566 )	(39,024 )
Employee stock purchase plan purchases, net of employee tax withholdings	187	—	—	187
Repurchases of common stock, amounts based on settlement date	(16,947 )	—	—	(16,947 )
Tax effect from stock-based compensation	—	1,145	—	1,145
Dividends paid	(12,291 )	—	—	(12,291 )
Borrowings (repayments) with subsidiaries	87,136	(94,311 )	7,175	—
Investment in subsidiaries	(199,972 )	200,094	(122 )	—
Distributions to parent	—	2,118	(2,118 )	—
Net cash (used in) provided by financing activities	(74,327 )	83,964	17,161	26,798
EFFECT OF EXCHANGE RATE CHANGES ON CASH	26	—	(589 )	(563 )
NET INCREASE IN CASH AND CASH EQUIVALENTS	26	29,859	552	30,437
CASH AND CASH EQUIVALENTS, beginning of period	—	4,306	15,909	20,215
CASH AND CASH EQUIVALENTS, end of period	\$26	\$34,165	\$ 16,461	\$50,652



#### CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

- our future operating performance;
- our ability to maintain or improve our margins;
- operating cash flows and availability of capital;
- the completion of future acquisitions;
- the future revenues of acquired dealerships;
- future stock repurchases and dividends;
- future capital expenditures;
- changes in sales volumes and availability of credit for customer financing in new and used vehicles and sales volumes in the parts and service markets;
- business trends in the retail automotive industry, including the level of manufacturer incentives, new and used vehicle retail sales volume, customer demand, interest rates and changes in industry-wide inventory levels; and
- the 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 Form 10-Q, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control). Actual results may differ materially from anticipated results in the forward-looking statements for a number of reasons, including:

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



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

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K").

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

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. Through our dealerships, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Our operations are aligned into four geographic regions: the East and West Regions in the United States ("U.S."), the United Kingdom ("U.K.") Region, and the Brazil Region. Our U.S. regional vice presidents report directly to our Chief Executive Officer and are responsible for the overall performance of their regions, as well as for overseeing the dealership operations management that report to them. Further, the East and West Regions of the U.S. are economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. As a result, we aggregate the East and West Regions of the U.S. into one reportable segment. The operations of our international regions are structured similarly to the U.S. regions, each with a regional vice president reporting directly to our Chief Executive Officer. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K. and Brazil. As of September 30, 2015, we owned and operated 200 franchises, representing 32 brands of automobiles, at 153 dealership locations and 35 collision centers worldwide. We own 152 franchises at 117 dealerships and 28 collision centers in the U.S., 25 franchises at 17 dealerships and six collision centers in the U.K., as well as 23 franchises at 19 dealerships and one collision center in Brazil. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, Oklahoma, South Carolina and Texas in the U.S., in 15 towns of the U.K. and in key metropolitan markets in the states of Sao Paulo, Parana and Mato Grosso do Sul in Brazil.

Outlook

During the nine months ended September 30, 2015, consumer demand for new and used vehicles in the U.S. improved over the same period in 2014. According to industry experts, the average seasonally adjusted annual rate of sales ("SAAR") in the U.S. for the nine months ended September 30, 2015 was 17.2 million units, compared to 16.3 million units for the nine months ended September 30, 2014. Industry experts are forecasting a 17.2 million SAAR for the full year 2015. We believe that improving overall economic conditions provide opportunities for us to enhance our operating results as we: (a) expand our new and used vehicle unit sales, improve our sales efficiency and capture market share; (b) continue to focus on our higher margin parts and service business, implementing strategic selling methods, and improving operational efficiencies; (c) invest capital where necessary to support our anticipated growth, particularly in our parts and service business; and (d) further leverage our revenue and gross profit growth through the continued implementation of cost efficiencies. Through the first nine months of 2015, we realized improved vehicle sales growth in most of our oil-dependent markets, despite widespread concern about the impact of lower oil prices. We continue to monitor local market conditions and remain prepared to appropriately respond, if we experience weakening in sales activity.

The U.K. economy represents the fifth largest economy in the world. The U.K. automotive sales market continues to outperform the rest of Europe. Vehicle registrations in the U.K. increased 7.1% in the nine months ended September 30, 2015, as compared to the same period a year ago. Sustainable growth is expected for the remainder of 2015 with new vehicle sales continuing to improve.

The Brazilian economy represents the seventh largest economy in the world. At present, the Brazilian economy is facing many challenges. New vehicle registrations in Brazil declined 21.7% during the nine months ended September 30, 2015 as compared to the same period a year ago. Comparatively, we experienced an overall decline of only 8.1%. We expect macro economic conditions in Brazil to remain challenged in the near term and automobile industry sales to continue to be under pressure for the remainder of 2015 and into 2016. Longer term, we remain optimistic for growth and are utilizing a strategy of aligning with growing brands.

In September 2015, Volkswagen admitted that certain of its diesel models were intentionally programmed to meet various regulatory emissions standards only during laboratory emissions testing. On September 29, 2015, Volkswagen announced plans to refit the vehicles affected by the emissions violations. As disclosed in “Item 1A. Risk Factors” of our 2014 Form 10-K, adverse publicity, product defects, vehicle recall campaigns, litigation and unappealing vehicle design related to events such as the Volkswagen/Audi emissions issue may have an adverse impact on the vehicle manufacturer and on our business, dealerships related to those manufacturers, results of operations and financial condition. For the nine months ended

37

---

Table of Contents

September 30, 2015, the combination of Volkswagen, Audi and Porsche models represented 7.0% of our total new vehicle unit sales.

Our operations have consistently generated positive cash flow in the past, and we believe that our operations will continue to consistently generate positive cash flow in the future. As such, we are focused on maximizing the return that we generate from our invested capital and positioning our balance sheet to take advantage of investment opportunities as they arise. We remain committed to our growth-by-acquisition strategy. We believe that significant opportunities exist to enhance our portfolio with dealership acquisitions in the U.S., U.K. and Brazil that provide appropriate returns on our investment. During the first nine months of 2015, we completed the acquisition of three U.S. dealerships. We will continue to pursue dealership investment opportunities that we believe will add value for our stockholders.

We continue to closely scrutinize all planned future capital spending and work closely with our manufacturer partners to make prudent capital investment decisions that are expected to generate an adequate return and/or improve the customer experience. We anticipate that our capital spending for the year of 2015 will be less than \$125 million.

**Financial and Operational Highlights**

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

In the U.S., 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 U.S. revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. For the U.K., the first and third calendar quarters tend to be stronger, driven by the vehicle license plate change months of March and September. For Brazil, we expect higher volumes in the third and fourth calendar quarters. The first quarter is generally the weakest, driven by heavy consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic condition, manufacturer incentive programs and changes in currency exchange rates, may exaggerate seasonal or cause counter-seasonal fluctuations in our reported revenues and operating income.

For the three months ended September 30, 2015, our total revenues increased 6.6% from 2014 levels to \$2.8 billion, primarily reflecting increases in each of our business activities in the U.S. and the U.K., as well as improvements in Brazil on a local currency basis. Tempering these revenue improvements were weaker exchange rates for both the British pound sterling and the Brazilian real. Both the British pound sterling and the Brazilian real weakened versus the U.S. Dollar for the three and nine-month periods ended September 30, 2015, as compared to the same periods a year ago. Total gross profit improved 6.3% to \$398.4 million for the third quarter of 2015 over the prior year period, primarily as a result of an 8.2% increase in our U.S. operations, driven by parts and service as well as finance and insurance. We also experienced a 21.5% increase in our U.K. results, attributable to parts and service and new vehicle retail sales. For the nine months ended September 30, 2015, total revenues increased 7.6% from 2014 levels to \$8.0 billion and gross profit increased 6.6% over the prior year period to \$1.2 billion. Selling, General and Administrative expenses ("SG&A") rose 9.4% in the third quarter of 2015, as compared to the prior year period, primarily as a result of increased variable costs correlated with higher vehicle sales volumes. Operating income increased from 2014 levels by 7.0% to \$96.6 million for the three months ended September 30, 2015 and increased by 12.1% to \$275.4 million



for the nine months ended September 30, 2015. Income before income taxes increased 66.5% to \$73.0 million for the third quarter of 2015, and increased 55.6% to \$204.3 million for the nine months ended September 30, 2015. For the three months ended September 30, 2015, we experienced a 73.0% increase in net income to \$45.3 million and a 82.5% increase in diluted income per share to \$1.88 as compared to the three months ended September 30, 2014. For the nine months ended September 30, 2015, we experienced a 71.4% increase in net income to \$127.4 million and a 86.5% increase in diluted income per share to \$5.26 as compared to the nine months ended September 30, 2014. Our results for the three and nine months ended September 30, 2014 were negatively impacted by pre-tax losses of \$22.8 million and \$46.4 million, respectively, incurred in conjunction with the extinguishment of our 3.00% and 2.25% Notes. For the three and nine months ended September 30, 2015, our weighted average dilutive common shares outstanding decreased 5.3% and 8.1% over the prior year periods to 23.1 million and 23.3 million, respectively. The decreases in weighted average dilutive common shares outstanding

Table of Contents

was primarily the result of the extinguishment of our 3.00% and 2.25% Notes (as defined below), as well as the repurchase of 886,844 shares of our common stock over the last twelve months. For the nine months ended September 30, 2015 and 2014, our adjusted net cash provided by operations was \$229.8 million and \$215.1 million, respectively.

## Performance Indicators

## Consolidated Statistical Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Unit Sales					
Retail Sales					
New Vehicle	47,126	44,494	131,130	124,699	
Used Vehicle	32,491	28,776	93,913	82,374	
Total Retail Sales	79,617	73,270	225,043	207,073	
Wholesale Sales	14,926	14,750	43,493	40,764	
Total Vehicle Sales	94,543	88,020	268,536	247,837	
Gross Margin					
New Vehicle Retail Sales	5.0	% 5.3	% 5.0	% 5.4	%
Total Used Vehicle Sales	5.7	% 6.0	% 6.0	% 6.7	%
Parts and Service Sales	54.8	% 52.9	% 54.3	% 53.0	%
Total Gross Margin	14.2	% 14.3	% 14.5	% 14.6	%
SG&A <sup>(1)</sup> as a % of Gross Profit	72.5	% 70.5	% 72.9	% 73.4	%
Operating Margin	3.5	% 3.4	% 3.5	% 3.3	%
Pretax Margin	2.6	% 1.7	% 2.6	% 1.8	%
Finance and Insurance Revenues per Retail Unit Sold	\$1,352	\$1,325	\$1,366	\$1,308	

<sup>(1)</sup> Selling, general and administrative expenses.

The following discussion briefly highlights certain of the results and trends occurring within our business. Throughout the following discussion, references may be made to Same Store results and variances which are discussed in more detail in the "Results of Operations" section that follows. Our results are impacted by changes in exchange rates relating to our U.K. and Brazil segments. As exchange rates fluctuate, our results of operations as reported in U.S. dollars fluctuate. For example, if the British pound sterling were to weaken against the U.S. dollar, our U.K. results of operations would translate into less U.S. dollar reported results. The British pound sterling weakened against the U.S. dollar as the average exchange rate during the three and nine months ended September 30, 2015 decreased 7.7% and 8.9%, respectively, compared to the same periods in 2014. The Brazilian real weakened against the U.S. dollar, as well, as the average exchange rate during the three and nine months ended September 30, 2015 declined 55.7% and 38.0% as compared to the same periods in 2014.

Our consolidated revenues from new vehicle retail sales increased 5.3% and 5.0% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This growth was primarily a result of better industry conditions in both the U.S. and U.K., dealership acquisition activity, and the continued execution of key initiatives by our operating team. The U.S. SAAR rose to 18.1 million units in September and to an average of 17.8 and 17.2 million units for the three and nine months ended September 30, 2015, respectively, as compared to 16.8 and 16.3 million units for the same periods in 2014. In the U.K., industry sales increased by 8.6% in September 2015 as compared to the prior year period and for the nine months ended September 30, 2015, registrations in the U.K. increased 7.1% as compared to the same period in 2014. In the U.S. and U.K., our new vehicle retail unit sales rose 4.6% and 38.2%, for the three months ended September 30, 2015, respectively, from 2014 levels. For the nine months ended September 30, 2015, our U.S. and U.K. new vehicle unit sales increased 5.3% and 29.3%, respectively,

over the same period a year ago. Our new vehicle growth in the U.S. and U.K. was partially offset by weakening economic conditions in Brazil due to weaker exchange rates, decreased consumer confidence and higher interest rates, as well as dealership dispositions and the negative impact to industry sales from the expiration of the government sponsored auto purchase tax incentive at the end of 2014. Consolidated new vehicle retail gross margin declined 30 basis points to 5.0% for the three months ended September 30, 2015 and 40 basis points to 5.0% for the nine months ended September 30, 2015, as compared to the same periods in 2014, primarily reflecting the competitive selling environments in both the U.S. and U.K. markets in which we operate.

Table of Contents

Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory. The improving industry conditions in the U.S. and U.K. that have benefited new vehicle sales also supported used vehicle demand. As a result, our revenues from used vehicle retail sales increased 11.6% for the three months ended September 30, 2015, as compared to the same period in 2014. This increase was driven by the U.S. and U.K. which experienced increases of 11.9% and 27.3%, respectively, but were partially offset by a 30.0% decline in Brazil, as the result of weaker exchange rates in 2015. On a local currency basis, Brazil's used vehicle retail revenues increased 8.1% as compared to the third quarter of last year. Used vehicle retail gross profit increased for the three months ended September 30, 2015, primarily as a result of growth in used vehicle retail unit sales of 12.9%, reflecting increases of 11.0%, 35.2% and 2.9% in the U.S., U.K. and Brazil, respectively. These improvements in used vehicle retail unit sales were partially offset by a decline in used vehicle retail gross profit per retail unit ("PRU") of 6.9% for the three months ended September 30, 2015, reflecting declines of 3.3%, 17.7% and 54.0% in the U.S., U.K. and Brazil respectively as compared to the same period in 2014. For the nine months ended September 30, 2015, revenues from used vehicle retail sales increased 14.3% as compared to the same period in 2014 driven by increases of 15.4% and 25.5% in the U.S. and U.K., respectively, but were partially offset by a decline in Brazil of 29.8%. Used vehicle retail gross profit increased 4.5%, for the nine months ended September 30, 2015, as compared to the same period in 2014 driven by increases in used vehicle retail units sales of 14.0%. These improvements in used vehicle retail unit sales were partially offset by a decline in used vehicle retail gross profit PRU of 8.3% as a result of declines of 6.0%, 16.6% and 43.7% in the U.S., U.K., and Brazil, respectively. On a regional basis, used vehicle retail gross profit increased 6.4% and 11.7% in the U.S. and U.K., respectively, which was partially offset by a 50.9% decline in Brazil. Our parts and service sales increased 4.0% and 5.3% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This growth was driven by increases in all aspects of our business: warranty parts and service, wholesale parts, customer-pay parts and service, and collision. Generally, this is due to the execution of key management initiatives, dealership acquisition activity, an increase in the number of units being recalled, and an increase in the number of the late-model vehicles in operation, which tend to more consistently return to the dealership for warranty, maintenance and repair services. Specifically, during the first nine months of 2015, our warranty parts and service revenues were bolstered from high volume recall campaigns by manufacturers in each of our segments, including BMW, Toyota, Honda, Acura and our U.S. domestic brands. Additionally, as manufacturer paid maintenance programs continue to expand in the U.S., there is an ongoing shift of business from customer-pay to warranty. The increase in our collision sales was the result of enhanced operational processes, the addition of technicians to add operating capacity and the expansion of our relationships with insurance providers. The increase in our customer-pay and parts wholesales revenues was driven by the U.S. primarily as a result of the execution of management initiatives and dealership acquisition activity. Our parts and service gross margin increased 190 and 130 basis points for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014 driven primarily by improvements in the U.S. parts and service gross margin of 180 and 120 basis points for the three and nine month periods of 2015, respectively, as compared to 2014. These increases in gross margin were primarily due to improved profitability in our customer-pay and warranty parts and service business as well as higher volume of internal work between the parts and service departments of our dealerships and the new and used vehicle departments, which was generated by improved new and used retail vehicle sales volumes. Our consolidated finance and insurance revenues PRU sold increased \$27 and \$58 for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014, primarily as a result of increased income per contract and penetration rates from most of our major U.S. product offerings. Our total consolidated gross margin decreased 10 basis points for both the three and nine months ended September 30, 2015 to 14.2% and 14.5% , respectively, as compared to the same periods in 2014. Improvements in the parts and service, as well as finance and insurance sectors of our business were more than offset by new and used retail vehicle results. Our consolidated SG&A expenses increased in absolute dollars for the three and nine months ended September 30, 2015, as compared to the same periods in 2014, primarily as a result of dealership acquisitions, as well as the

correlation to vehicle sales volumes. Our consolidated SG&A expenses as a percentage of gross profit increased by 200 basis points to 72.5% for the third quarter of 2015, as compared to the same period a year ago, primarily as a result of a \$14.3 million pretax gain recognized in the third quarter of 2014 relative to dealership disposition transactions. For the nine months ended September 30, 2015, our consolidated SG&A expenses as a percentage of gross profit fell 50 basis points to 72.9%, as compared to the same period in 2014, primarily reflecting leverage of our cost structure realized with the improved revenue and gross profit.

The combination of all of these factors, including non-cash asset impairments of \$0.9 million and \$2.0 million for the three and nine months ended September 30, 2015, respectively, resulted in an operating margin of 3.5% for both periods in 2015. This reflects a 10 and 20 basis-point improvement in the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014.

Table of Contents

For the three and nine months ended September 30, 2015, floorplan interest expense decreased 7.3% and 8.4%, respectively, as compared to the same periods in 2014. This decline was primarily driven by Brazil, as a result of improvements in vehicle inventory management processes and the change in exchange rates between periods. Other interest expense, net increased 5.1% and 15.8% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014, primarily attributable to interest incurred on our 5.00% Notes offerings. The vast majority of the proceeds from the 5.00% Notes offerings were used to extinguish our 2.25% and our 3.00% Notes (each defined below) during the second and third quarters of 2014.

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

**Critical Accounting Policies and Accounting Estimates**

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

We disclosed certain critical accounting policies and estimates in our 2014 Form 10-K, and no significant changes have occurred since that time.

**Results of Operations**

The “Same Store” amounts presented below include the results of dealerships for the identical months in each period presented in 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. The following table summarizes our combined Same Store results for the three months and nine months ended September 30, 2015, as compared to 2014. Same Store results also include the activities of our corporate headquarters.

Table of Contents

## Total Same Store Data

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	% Change	2014	2015	% Change	2014
<b>Revenues</b>						
New vehicle retail	\$1,514,167	3.5%	\$1,463,601	\$4,159,629	2.2%	\$4,069,351
Used vehicle retail	650,459	9.2%	595,477	1,836,722	9.2%	1,682,086
Used vehicle wholesale	87,497	(9.4)%	96,628	263,687	(2.8)%	271,300
Parts and service	288,631	3.3%	279,378	835,668	4.1%	802,947
Finance, insurance and other	103,835	9.1%	95,158	289,347	9.5%	264,342
Total revenues	\$2,644,589	4.5%	\$2,530,242	\$7,385,053	4.2%	\$7,090,026
<b>Cost of Sales</b>						
New vehicle retail	\$1,439,526	3.9%	\$1,386,078	\$3,953,688	2.6%	\$3,851,704
Used vehicle retail	605,789	9.7%	552,098	1,707,895	10.0%	1,552,471
Used vehicle wholesale	89,197	(8.9)%	97,877	263,251	(1.9)%	268,361
Parts and service	130,634	(0.2)%	130,926	383,778	1.9%	376,661
Total cost of sales	\$2,265,146	4.5%	\$2,166,979	\$6,308,612	4.3%	\$6,049,197
Gross profit	\$379,443	4.5%	\$363,263	\$1,076,441	3.4%	\$1,040,829
SG&A	\$274,596	3.6%	\$265,080	\$784,031	2.5%	\$764,546
Depreciation and amortization expenses	\$11,331	9.3%	\$10,367	\$33,239	10.8%	\$30,012
Floorplan interest expense	\$9,204	(10.1)%	\$10,236	\$27,442	(10.8)%	\$30,753
<b>Gross Margin</b>						
New vehicle retail	4.9	%	5.3	%	5.0	%
Total used vehicle	5.8	%	6.1	%	6.2	%
Parts and service	54.7	%	53.1	%	54.1	%
Total gross margin	14.3	%	14.4	%	14.6	%
SG&A as a % of gross profit	72.4	%	73.0	%	72.8	%
Operating margin	3.5	%	3.5	%	3.5	%
Finance and insurance revenues per retail unit sold	\$1,361	1.3%	\$1,344	\$1,368	3.1%	\$1,327

The discussion that follows provides explanation for the variances noted above. Each table presents by primary income statement line item comparative financial and non-financial data of our Same Store locations, those locations acquired or disposed of ("Transactions") during the periods and the consolidated company for the three and nine months ended September 30, 2015 and 2014.

Table of Contents

## New Vehicle Retail Data

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	% Change	2014	2015	% Change	2014
Retail Unit Sales						
Same Stores						
U.S.	37,132	4.4%	35,567	101,468	4.1%	97,436
U.K.	4,494	19.1%	3,773	12,338	10.7%	11,144
Brazil	3,511	1.3%	3,465	9,874	(8.1)%	10,746
Total Same Stores	45,137	5.4%	42,805	123,680	3.6%	119,326
Transactions	1,989		1,689	7,450		5,373
Total	47,126	5.9%	44,494	131,130	5.2%	124,699
Retail Sales Revenues						
Same Stores						
U.S.	\$1,272,198	6.0%	\$1,199,736	\$3,477,534	5.6%	\$3,292,040
U.K.	151,967	12.7%	134,858	410,135	3.2%	397,264
Brazil	90,002	(30.2)%	129,007	271,960	(28.4)%	380,047
Total Same Stores	1,514,167	3.5%	1,463,601	4,159,629	2.2%	4,069,351
Transactions	87,046		57,645	308,571		186,795
Total	\$1,601,213	5.3%	\$1,521,246	\$4,468,200	5.0%	\$4,256,146
Gross Profit						
Same Stores						
U.S.	\$59,341	(1.0)%	\$59,963	\$161,991	(3.1)%	\$167,156
U.K.	9,572	2.9%	9,303	25,708	(4.2)%	26,844
Brazil	5,728	(30.6)%	8,257	18,242	(22.9)%	23,647
Total Same Stores	74,641	(3.7)%	77,523	205,941	(5.4)%	217,647
Transactions	4,851		2,707	19,412		10,335
Total	\$79,492	(0.9)%	\$80,230	\$225,353	(1.2)%	\$227,982
Gross Profit per Retail Unit Sold						