GROUP 1 AUTOMOTIVE INC
Form 10-Q
May 11, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 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	76-0506313
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

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

Large accelerated filer þ ¨ Accelerated filer

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

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

As of May 5, 2015, the registrant had 23,337,439 shares of common stock, par value $0.01, outstanding.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	3
	Cautionary Statement about Forward-Looking Statements	31
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	55
Item 4.	Controls and Procedures	56
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	58
Item 1A.	Risk Factors	58
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 6.	Exhibits	58
SIGNATURE		59

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

	March 31, 2015 (Unaudited)	December 31, 2014
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$26,279	$40,975
Contracts-in-transit and vehicle receivables, net	225,048	237,448
Accounts and notes receivable, net	137,373	151,330
Inventories, net	1,547,436	1,556,705
Deferred income taxes	13,316	11,062
Prepaid expenses and other current assets	33,037	37,699
Total current assets	1,982,489	2,035,219
PROPERTY AND EQUIPMENT, net	944,485	950,388
GOODWILL	847,672	830,377
INTANGIBLE FRANCHISE RIGHTS	305,750	303,947
OTHER ASSETS	18,071	21,561
Total assets	$4,098,467	$4,141,492
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility and other	$1,138,495	$1,143,246
Offset account related to floorplan notes payable - credit facility	(79,795)	(39,616)
Floorplan notes payable - manufacturer affiliates	290,038	307,656
Offset account related to floorplan notes payable - manufacturer affiliates	(21,000)	(22,500)
Current maturities of long-term debt	69,275	72,630
Accounts payable	250,526	288,320
Accrued expenses	169,567	172,463
Total current liabilities	1,817,106	1,922,199
LONG-TERM DEBT, net of current maturities	1,077,964	1,008,837
DEFERRED INCOME TAXES	142,074	141,239
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	33,793	25,311
OTHER LIABILITIES	67,703	65,896
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, 1,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.01 par value, 50,000 shares authorized; 25,752 and 25,724 issued, respectively	258	257
Additional paid-in capital	283,940	286,854
Retained earnings	882,995	852,057
Accumulated other comprehensive loss	(117,124)	(81,984)
Treasury stock, at cost; 1,475 and 1,385 shares, respectively	(90,242)	(79,174)
Total stockholders' equity	959,827	978,010
Total liabilities and stockholders' equity	$4,098,467	$4,141,492

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

3

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
	(Unaudited, in thousands, except per share amounts)	
REVENUES:		
New vehicle retail sales	$1,332,724	$1,268,836
Used vehicle retail sales	623,193	549,897
Used vehicle wholesale sales	100,192	89,173
Parts and service sales	282,189	269,317
Finance, insurance and other, net	94,556	83,640
Total revenues	2,432,854	2,260,863
COST OF SALES:		
New vehicle retail sales	1,262,993	1,201,930
Used vehicle retail sales	577,072	507,096
Used vehicle wholesale sales	97,513	86,061
Parts and service sales	131,392	127,654
Total cost of sales	2,068,970	1,922,741
GROSS PROFIT	363,884	338,122
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	271,469	257,558
DEPRECIATION AND AMORTIZATION EXPENSE	11,684	9,925
INCOME FROM OPERATIONS	80,731	70,639
OTHER EXPENSE:		
Floorplan interest expense	(9,348)	(10,913)
Other interest expense, net	(13,911)	(10,513)
INCOME BEFORE INCOME TAXES	57,472	49,213
PROVISION FOR INCOME TAXES	(21,657)	(17,910)
NET INCOME	$35,815	$31,303
BASIC EARNINGS PER SHARE	$1.47	$1.29
Weighted average common shares outstanding	23,443	23,339
DILUTED EARNINGS PER SHARE	$1.47	$1.19
Weighted average common shares outstanding	23,446	25,428
CASH DIVIDENDS PER COMMON SHARE	$0.20	$0.17

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

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
	(Unaudited, in thousands)	
NET INCOME	$35,815	$31,303
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustment	(30,594)	8,215
Net unrealized gain (loss) on interest rate swaps:		
Unrealized loss arising during the period, net of tax (provision) benefit of $3,907 and $1,512, respectively	(6,513)	(2,520)
Reclassification adjustment for loss included in interest expense, net of tax provision of $1,180 and $1,044, respectively	1,967	1,740
Net unrealized loss on interest rate swaps, net of tax	(4,546)	(780)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES	(35,140)	7,435
COMPREHENSIVE INCOME	$675	$38,738

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

Table of Contents

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	Shares	Amount					
	(Unaudited, in thousands)						
BALANCE, December 31, 2014	25,724	$257	$286,854	$852,057	$(81,984)	$(79,174)	$978,010
Net income	—	—	—	35,815	—	—	35,815
Other comprehensive loss, net	—	—	—	—	(35,140)	—	(35,140)
Purchases of treasury stock	—	—	—	—	—	(17,717)	(17,717)
Net issuance of treasury shares to employee stock compensation plans	28	1	(8,791)	—	—	6,649	(2,141)
Stock-based compensation	—	—	4,873	—	—	—	4,873
Tax effect from stock-based compensation plans	—	—	1,004	—	—	—	1,004
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(4,877)	—	—	(4,877)
BALANCE, March 31, 2015	25,752	$258	$283,940	$882,995	$(117,124)	$(90,242)	$959,827

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

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$35,815	$31,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,684	9,925
Deferred income taxes	3,320	2,913
Stock-based compensation	4,888	3,660
Amortization of debt discount and issue costs	899	3,612
Gain on disposition of assets	8	(16)
Tax effect from stock-based compensation	(1,004)	(733)
Other	1,729	544
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	(10,329)	46,555
Accounts and notes receivable	6,275	4,822
Inventories	(1,469)	38,269
Contracts-in-transit and vehicle receivables	10,487	16,780
Prepaid expenses and other assets	2,589	2,697
Floorplan notes payable - manufacturer affiliates	(6,589)	(27,643)
Deferred revenues	(136)	504
Net cash provided by operating activities	58,167	133,192
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(50,142)	(52,648)
Proceeds from disposition of franchises, property and equipment	1,171	197
Purchases of property and equipment, including real estate	(23,157)	(27,095)
Other	287	(1,539)
Net cash used in investing activities	(71,841)	(81,085)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - floorplan line and other	1,597,034	1,503,650
Repayments on credit facility - floorplan line and other	(1,641,072)	(1,511,811)
Borrowings on credit facility - acquisition line	189,933	19,963
Repayment on credit facility - acquisition line	(135,907)	(30,000)
Borrowings on real estate credit facility	—	200
Principal payments on real estate credit facility	(836)	(677)
Borrowings on other debt	13,678	19,683
Principal payments on other debt	(10,644)	(24,321)
Borrowings on debt related to real estate	17,600	13,855
Principal payments on debt related to real estate	(5,622)	(11,510)
Employee stock purchase plan purchases, net of employee tax withholdings	(2,140)	(1,089)
Repurchases of common stock, amounts based on settlement date	(16,175)	(16,942)
Tax effect from stock-based compensation	1,004	733
Dividends paid	(4,892)	(4,115)
Net cash provided by (used in) financing activities	1,961	(42,381)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,983)	(12,254)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(14,696)	(2,528)

CASH AND CASH EQUIVALENTS, beginning of period	40,975	20,215
CASH AND CASH EQUIVALENTS, end of period	$26,279	$17,687
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable	$10,035	$656

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 March 31, 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 (76 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 March 31, 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 17 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 changes in the economic environment as well as seasonal variations. Generally there are higher volumes of vehicles sales and service in the second and third calendar quarters of each year in the U.S., in the first and third quarters in the U.K. and during the third and fourth quarters in Brazil. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, 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 accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in the accompanying unaudited condensed Consolidated Financial Statements. Due to seasonality and other factors, the results of operations for the interim period are not necessarily indicative of the results that will be realized for 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 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.

Business Segment Information

The Company, through its regions, conducts business in the automotive retailing industry including selling new and used cars and light trucks, arranging related vehicle financing, selling service and insurance contracts, providing automotive maintenance and repair services and selling vehicle parts. The Company has three reportable segments: the U.S., which includes the activities of the Company's corporate office, the U.K. and Brazil. 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 that 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 no 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 March 31, 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 March 31, 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) included in the Company's consolidated statements of financial position for the consolidated VIE as of March 31, 2015 and December 31, 2014, are as follows (in thousands):

	March 31, 2015	December 31, 2014
Current assets	$14,447	$19,049
Non-current assets	26,179	31,783
Total assets	$40,626	$50,832
Current liabilities	$12,821	$16,374
Non-current liabilities	16,732	15,955
Total liabilities	$29,553	$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, 2016 with no early adoption permitted. However, the FASB recently agreed to propose a one-year deferral of the effective date for all entities along with the option to adopt the standard as of the original effective date. 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 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.

2. ACQUISITIONS AND DISPOSITIONS
During the three months ended March 31, 2015, the Company acquired one dealership in the U.S. and terminated one dealership franchise in the U.S.
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 11, “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 $103.9 million, $18.4 million and zero, respectively.

	As of Acquisition Date (In thousands)
Inventory	$131,878
Other current assets	6,601
Property and equipment	82,147
Goodwill and intangible franchise rights	183,449
Deferred tax asset	7,265
Total assets	$411,340
Current liabilities	$37,545
Long-term debt	13,250
Total liabilities	$50,795

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.

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 Accounting Standards Codification.

The related gains or losses on these interest rate derivatives are deferred in stockholders' equity as a component of accumulated other comprehensive loss. These deferred gains and losses are recognized in income in the period in which the related items being hedged are recognized in expense. However, to the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in other income or expense. Monthly contractual settlements of these swap positions are recognized as floorplan or other interest expense in the Company's accompanying Consolidated Statements of Operations. All of the Company's interest rate hedges are designated as cash flow hedges.

The Company held interest rate swaps in effect as of March 31, 2015 of $563.0 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.5%. 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 months ended March 31, 2015 and 2014, the impact of the Company's interest rate hedges in effect increased floorplan interest expense by $2.7 million and $2.4 million, respectively. Total floorplan interest expense was $9.3 million and $10.9 million for the three months ended March 31, 2015 and 2014, respectively.

In addition to the $563.0 million of swaps in effect as of March 31, 2015, the Company held 15 additional interest rate swaps with forward start dates between August 2015 and January 2018 and expiration dates between December 2017 and December 2020. The aggregate notional value of these 15 forward-starting swaps was $775.0 million, and the weighted average interest rate was 2.8%. 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 August 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 March 31, 2015 and December 31, 2014, the Company reflected liabilities from interest rate risk management activities of $35.9 million and $28.7 million, respectively, in its Consolidated Balance Sheets. Included in Accumulated Other Comprehensive Loss at March 31, 2015 and 2014 were accumulated unrealized losses, net of income taxes, totaling $22.5 million and $14.6 million, respectively, related to these interest rate swaps.

At March 31, 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 months ended March 31, 2015 or 2014, respectively.

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 Gain (Loss), Net of Tax, Recognized in Other Comprehensive Income (Loss)	
	Three Months Ended March 31,	
Derivatives in Cash Flow Hedging Relationship	2015	2014
	(In thousands)	
Interest rate swap contracts	$(6,513)	$(2,520)

Amount of Loss Reclassified from Other Comprehensive Income (Loss) into

Location of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	Statements of Operations	
	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Floorplan interest expense	$(2,708)	$(2,429)
Other interest expense	(439)	(355)

11

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 $12.9 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 1998 Employee Stock Purchase Plan, as amended (the "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 March 31, 2015, there were 1,529,795 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 from 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 these awards is calculated based on the market price of the Company’s common stock at the date of grant and recognized over the requisite service period. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted annually based on the extent to which actual or expected forfeitures differ from the previous estimate.

A summary of the restricted stock awards as of March 31, 2015, along with the changes during the three months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	911,350	$58.86
Granted	192,723	83.14
Vested	(152,236)	52.19
Forfeited	(12,720)	62.89
Nonvested at March 31, 2015	939,117	$64.84

Employee Stock Purchase Plan

The Purchase Plan authorizes the issuance of up to 3.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after March 6, 2016. The Purchase Plan is available to all employees of the Company and its participating subsidiaries and is a qualified plan as defined by Section 423 of the Internal Revenue Code. At the end of each fiscal quarter (the “Option Period”) during the term of the Purchase Plan, employees can acquire shares of common stock from the Company at 85% of the fair market value of the common stock on the first or the last day of the Option Period, whichever is lower. As of March 31, 2015, there were 490,430 shares available for issuance under the Purchase Plan. During the three months ended March 31, 2015 and 2014, the Company issued 26,280 and 28,451 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 $18.72 and $14.85 during the three months ended March 31, 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 $4.9 million and $3.7 million for the three months ended March 31, 2015 and 2014, respectively. Cash received from Purchase Plan purchases was $1.9 million and $1.6 million for the three months ended March 31, 2015 and 2014, respectively. The tax benefit realized for the tax deductions from the vesting of restricted shares totaled $1.0 million and $0.7 million and increased additional paid in capital for the three months ended March 31, 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.

The following table sets forth the calculation of EPS for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
	(In thousands, except per share amounts)	
Weighted average basic common shares outstanding	23,443	23,339
Dilutive effect of contingently convertible notes and warrants	—	2,085
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	3	4
Weighted average dilutive common shares outstanding	23,446	25,428
Basic:		
Net Income	$35,815	$31,303
Less: Earnings allocated to participating securities	1,388	1,241
Earnings available to basic common shares	$34,427	$30,062
Basic earnings per common share	$1.47	$1.29
Diluted:		
Net Income	$35,815	$31,303
Less: Earnings allocated to participating securities	1,388	1,156
Earnings available to diluted common shares	$34,427	$30,147
Diluted earnings per common share	$1.47	$1.19

For the periods during which the 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 calculation. The average adjusted closing price of the Company's common stock for the three months ended March 31, 2014 was more than the conversion price then in effect at the end of the period. Therefore, the dilutive effect of the 2.25% Notes was included in the computation of diluted EPS for the three month periods ended March 31, 2014. The 2.25% Notes and 2.25% Warrants were subsequently converted or redeemed and settled, respectively, during the three months ended September 30, 2014.

In addition, for the periods during which the 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 three months ended March 31, 2014 was more than the conversion price then in effect at the end of the period. 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 months ended March 31, 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 rate of 37.7% of pretax income for the three months ended March 31, 2015 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.

For the three months ended March 31, 2015, the Company's effective tax rate increased to 37.7% compared to 36.4% for the same period in 2014. This increase was primarily due to the increase of valuation allowances for net operating losses in certain U.S. states and in Brazil in 2015.

As of March 31, 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 three months ended March 31, 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:

	March 31, 2015 (unaudited)	December 31, 2014
	(In thousands)	
Amounts due from manufacturers	$79,044	$86,062
Parts and service receivables	33,061	35,034
Finance and insurance receivables	19,161	20,898
Other	9,781	12,977
Total accounts and notes receivable	141,047	154,971
Less allowance for doubtful accounts	3,674	3,641
Accounts and notes receivable, net	$137,373	$151,330

Inventories consisted of the following:

	March 31, 2015 (unaudited)	December 31, 2014
	(In thousands)	
New vehicles	$1,086,597	$1,137,478
Used vehicles	287,979	254,939
Rental vehicles	110,878	103,184
Parts, accessories and other	67,937	67,466
Total inventories	1,553,391	1,563,067
Less lower of cost or market reserves	5,955	6,362
Inventories, net	$1,547,436	$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.

Property and equipment consisted of the following:

	Estimated Useful Lives in Years (unaudited)	March 31, 2015	December 31, 2014
		(dollars in thousands)	
Land	—	$330,494	$328,474
Buildings	30 to 40	481,340	482,496
Leasehold improvements	varies	133,968	134,658
Machinery and equipment	7 to 20	89,672	87,728
Furniture and fixtures	3 to 10	78,525	77,581
Company vehicles	3 to 5	10,961	10,706
Construction in progress	—	32,384	32,115
Total		1,157,344	1,153,758
Less accumulated depreciation		212,859	203,370
Property and equipment, net		$944,485	$950,388

During the three months ended March 31, 2015, the Company incurred $8.4 million of capital expenditures for the construction of new or expanded facilities and the purchase of equipment and other fixed assets in the maintenance of the Company's dealerships and facilities. In addition, the Company purchased real estate (including land and buildings) during the three months ended March 31, 2015 associated with existing dealership operations totaling $3.6 million.
As of March 31, 2015 and December 31, 2014, the Company determined that certain real estate qualified as held-for-sale. 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 25 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.

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 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 one-month LIBOR plus 125 basis points for new vehicle inventory and the one-month LIBOR plus 150 basis points for used vehicle inventory. The Acquisition Line bears interest at the one-month LIBOR plus 150 basis points plus a margin that ranges from zero to 100 basis points for borrowings in U.S. dollars and 150 to 250 basis points on borrowings in euros or 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. 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 $4.9 million of related unamortized costs as of March 31, 2015 that are being amortized over the term of the facility.

After considering the outstanding balance of $1,054.1 million at March 31, 2015, the Company had $325.9 million of available floorplan borrowing capacity under the Floorplan Line. Included in the $325.9 million available borrowings under the Floorplan Line was $79.8 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.4% as of March 31, 2015 and December 31, 2014, excluding the impact of the Company’s interest rate swaps. Amounts borrowed by the Company under the Floorplan Line for specific vehicle inventory are to be repaid upon the sale of the vehicle financed, and in no case is a borrowing for a vehicle to remain outstanding for greater than one year. With regards to the Acquisition Line, borrowings outstanding as of March 31, 2015 and December 31, 2014 were $123.7 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 $150.6 million of available borrowing capacity under the Acquisition Line as of March 31, 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 March 31, 2015, the Restricted Payment Basket totaled $176.4 million. As of March 31, 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 March 31, 2015, the Company had an outstanding balance of $117.0 million under the FMCC Facility with an available floorplan borrowing capacity of $183.0 million. Included in the $183.0 million available borrowings under the FMCC Facility was $21.0 million of immediately available funds. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives. The interest rate on the FMCC Facility was 4.75% before considering the applicable incentives as of March 31, 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 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 March 31, 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 March 31, 2015, the annual interest rates charged on borrowings outstanding under these facilities ranged from 16.77% to 21.70%.

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 March 31, 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:

	March 31, 2015	December 31, 2014
	(dollars in thousands)	
5.00% Senior Notes (aggregate principal of $550,000 at March 31, 2015 and December 31, 2014)	$540,381	$540,100
Acquisition Line	123,739	69,713
Real Estate Credit Facility	57,168	58,003
Other Real Estate Related and Long-Term Debt	371,382	358,271
Capital lease obligations related to real estate, maturing in varying amounts through June 2034 with a weighted average interest rate of 9.6%	54,569	55,380
	1,147,239	1,081,467
Less current maturities of real estate credit facility and other long-term debt	69,275	72,630
	$1,077,964	$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 ("5.00% Notes") due 2022. 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.

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

has agreed to file a registration statement with the Securities and Exchange Commission, so that holders of the 5.00% Notes can exchange the 5.00% Notes for registered 5.00% Notes that have substantially identical terms as the 5.00% Notes. The Company has also agreed to use commercially reasonable efforts to cause the exchange to be completed by June 2, 2015. On November 24, 2014, the Company filed a registration statement with the SEC for an offer to exchange the 5.00% Notes with a new series of freely tradable notes having substantially identical terms as the 5.00% Notes. The registration statement was not yet declared effective by the SEC as of May 8, 2015. If it fails to complete the exchange by June 2, 2015, the Company will be required to pay additional interest of 0.25% per annum for the first 90-day period beginning on June 3, 2015, and an additional 0.25% per annum with respect to each subsequent 90-day period up to 1.00%. The additional interest accrues until such time as the exchange is complete.

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 $9.6 million as of March 31, 2015. At the time of issuance of the 5.00% Notes, the Company capitalized $2.4 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 March 31, 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 up to $99.1 million of term loans, of which $74.1 million had been used as of March 31, 2015. 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. This 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 that are being amortized over the term of the facility, $0.3 million of which were still unamortized as of March 31, 2015.

The interest rate 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 three months ended March 31, 2015, the Company made no additional borrowings and made principal payments of $0.8 million on outstanding borrowings from the Real Estate Credit Facility. As of March 31, 2015, borrowings outstanding under the Real Estate Credit Facility totaled $57.2 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 March 31, 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 9.00%, 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 that are being amortized over the terms of the notes, $0.4 million of which were still unamortized as of March 31, 2015.

The loan agreements with TMCC consist of eight term loans. As of March 31, 2015, $49.4 million was outstanding under the TMCC term loans, with $5.1 million classified as a current maturity of long-term debt. For the three months ended March 31, 2015, the Company made no additional borrowings and made principal payments of $0.5 million. These loans will mature by November 2021 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 March 31, 2015, $27.1 million was outstanding under the MBFS term loans, with $1.1 million classified as a current maturity of long-term debt. For the three months ended March 31, 2015, the Company made no additional borrowings and made principal payments of $0.3 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 March 31, 2015, $64.8 million was outstanding under the BMWFS term loans, with $4.5 million classified as a current maturity of long-term debt. For the three months ended March 31, 2015, the Company made no additional borrowings and made principal payments of $1.1 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 March 31, 2015, $34.7 million was outstanding under the FMCC term loans, with $1.5 million classified as a current maturity of long-term debt. For the three months ended March 31, 2015, the Company made no additional borrowings and made principal payments of $0.4 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 19 term loans for an aggregate principal amount of $127.2 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 March 31, 2015, borrowings under these notes totaled $113.6 million, with $6.6 million classified as a current maturity of long-term debt. For the three months ended March 31, 2015, the Company made no additional borrowings and made principal payments of $1.5 million. These 19 loans are cross-defaulted with the Revolving Credit Facility.

The Company has also 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, “Foreign Notes”) are being repaid in monthly installments that will mature by September 2034. As of March 31, 2015, borrowings under the Foreign Notes totaled $60.4 million, with $4.5 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. For the three months ended March 31, 2015, the Company made additional borrowings and principal payments of $17.4 million and $0.5 million, respectively.

In 2014, the Company entered into working capital loan agreements with third-party financial institutions in Brazil for R$38.0 million. The proceeds were used to partially pay off manufacturer-affiliated floorplan borrowings. These loans will mature by February 2017. As of March 31, 2015, borrowings under the Brazilian third-party loans totaled $15.0 million, with $8.2 million classified as a current maturity of long-term debt. For the three months ended March 31, 2015, the Company made additional borrowings and principal payments of $0.1 million and $0.1 million, respectively.

Fair Value of Long-Term Debt

The Company's outstanding 5.00% Notes had a fair value of $551.4 million and $534.9 million as of March 31, 2015 and December 31, 2014, respectively. The Company's fixed interest rate borrowings included in other real estate related and long-term debt totaled $156.6 million and $158.1 million as of March 31, 2015 and December 31, 2014, respectively. The fair value of such fixed interest rate borrowings was $181.1 million and $186.4 million as of

March 31, 2015 and December 31, 2014, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of March 31, 2015 and December 31, 2014. The Company determined the estimated fair value of its long-term debt using available market information and commonly accepted valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on estimated fair values. The carrying value of the Company’s variable rate debt approximates fair value due to the short-term nature of the interest rates.

10. FAIR VALUE MEASUREMENTS

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

•Level 1 — unadjusted, quoted prices for identical assets or liabilities in active markets;

•Level 2 — quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation; and

•Level 3 — unobservable inputs based upon the reporting entity’s internally developed assumptions that market participants would use in pricing the asset or liability.

The Company’s financial instruments consist primarily of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, investments in debt and equity securities, accounts payable, credit facilities, long-term debt and interest rate swaps. The fair values of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, accounts payable, and credit facilities approximate their carrying values due to the short-term nature of these instruments or the existence of variable interest rates. The Company 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.

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 and interest rate derivative instruments as having met such criteria. Assets and liabilities recorded at fair value in the accompanying balance sheets as of March 31, 2015 and December 31, 2014, respectively, were as follows:

	As of March 31, 2015		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Investments	$—	$10,661	$10,661
Debt securities:			
Demand obligations	$—	$116	$116
Total	$—	$10,777	$10,777
Liabilities:			
Interest rate derivative financial instruments	$—	$35,925	$35,925
Total	$—	$35,925	$35,925

	As of December 31, 2014		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Investments	$—	$12,283	$12,283
Debt securities:			
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 SG&A expenses in the Company’s Consolidated Statements of Operations. In addition, the manufacturers of the vehicles that the Company sells and services have audit rights allowing them to review the validity of amounts claimed for incentive, rebate or warranty-related items and charge the Company back for amounts determined to be invalid payments under the manufacturers’ programs, subject to the Company’s right to appeal any such decision. Amounts that have been accrued or paid related to the settlement of manufacturer chargebacks of recognized incentives and rebates are included in cost of sales in the Company’s Consolidated Statements of Operations, while such amounts for manufacturer chargebacks of recognized warranty-related items are included as a reduction of revenues in the Company’s Consolidated Statements of Operations.

Legal Proceedings

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

20

Other Matters

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

From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries assign or sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships. In general, the Company's subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, the Company and its subsidiaries generally remain subject to the terms of any guarantees made by the Company and its subsidiaries in connection with such leases. Although the Company generally has indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, and the Company presently has no reason to believe that it or its subsidiaries will be called on to perform under any such assigned leases or subleases, the Company estimates that lessee rental payment obligations during the remaining terms of these leases were $2.6 million as of March 31, 2015. The Company's exposure under these leases is difficult to estimate and there can be no assurance that any performance of the Company or its subsidiaries required under these leases would not have a material adverse effect on the Company's business, financial condition, or cash flows. The Company and its subsidiaries also may be called on to perform other obligations under these leases, such as environmental remediation of the leased premises or repair of the leased premises upon termination of the lease. However, the Company does not have any known material environmental commitments or contingencies and presently has no reason to believe that it or its subsidiaries will be called on to so perform.

12. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

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

	Intangible Franchise Rights			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2014	$257,502	$8,157	$38,288	$303,947
Additions through acquisitions	8,844	—	—	8,844
Purchase price allocation adjustments	—	—	—	—
Disposals and assets held for sale	—	—	—	—
Impairments	—	—	—	—
Currency translation	—	(367)	(6,674)	(7,041)
BALANCE, March 31, 2015	$266,346	$7,790	$31,614	$305,750

	Goodwill			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
BALANCE, December 31, 2014	$700,642	$35,138	$94,597	$830,377 [1]
Additions through acquisitions	33,756	—	—	33,756
Purchase price allocation adjustments	(11)	1,638	—	1,627
Disposals	(15)	—	—	(15)
Currency translation	—	(1,580)	(16,487)	(18,067)
Tax adjustments	(6)	—	—	(6)
BALANCE, March 31, 2015	$734,366	$35,196	$78,110	$847,672 [1]

[1] Net of accumulated impairment of $42.4 million.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the balances of each component of accumulated other comprehensive loss for the three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended March 31, 2015		
	Accumulated foreign currency translation loss	Accumulated loss on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2014	$(64,075)	$(17,909)	$(81,984)
Other comprehensive income (loss) before reclassifications:			
Pre-tax	(30,594)	(10,420)	(41,014)
Tax effect	—	3,907	3,907
Amounts reclassified from accumulated other comprehensive loss to:			
Floorplan interest expense	—	2,708	2,708
Other interest expense	—	439	439
Tax effect	—	(1,180)	(1,180)
Net current period other comprehensive loss	(30,594)	(4,546)	(35,140)
Balance, March 31, 2015	$(94,669)	$(22,455)	$(117,124)

	Three Months Ended March 31, 2014		
	Accumulated foreign currency translation loss	Accumulated loss on interest rate swaps	Total
	(In thousands)		
Balance, December 31, 2013	$(37,827)	$(13,850)	$(51,677)
Other comprehensive income (loss) before reclassifications:			
Pre-tax	8,215	(4,032)	4,183
Tax effect	—	1,512	1,512
Amounts reclassified from accumulated other comprehensive income to:			
Floorplan interest expense	—	2,429	2,429
Other interest expense	—	355	355
Tax effect	—	(1,044)	(1,044)
Net current period other comprehensive (loss) income	8,215	(780)	7,435
Balance, March 31, 2014	$(29,612)	$(14,630)	$(44,242)

14. SEGMENT INFORMATION

As of March 31, 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 months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total revenues	$1,998,500	$299,541	$134,813	$2,432,854
Income (loss) before income taxes	53,156	5,121	(805)	57,472
(Provision) benefit for income taxes	(20,361)	(999)	(297)	(21,657)
Net income (loss)	32,795	4,122	(1,102)	35,815

	Three Months Ended March 31, 2014			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total revenues	$1,834,626	$247,701	$178,536	$2,260,863
Income before income taxes	45,862	4,617	(1,266)	49,213
Provision for income taxes	(16,828)	(965)	(117)	(17,910)
Net income	29,034	3,652	(1,383)	31,303

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

	As of March 31, 2015			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Total assets	$3,516,075	$359,588	$222,804	$4,098,467

	As of December 31, 2014			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
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 March 31, 2015 and December 31, 2014, and for the three months ended March 31, 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
March 31, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$—	$4,449	$ 21,830	$—	$26,279
Contracts-in-transit and vehicle receivables, net	—	196,674	28,374	—	225,048
Accounts and notes receivable, net	—	105,570	31,803	—	137,373
Intercompany accounts receivable	—	257,147	—	(257,147)	
Inventories, net	—	1,346,561	200,875	—	1,547,436
Deferred income taxes	240	13,076	—	—	13,316
Prepaid expenses and other current assets	743	17,297	14,997	—	33,037
Total current assets	983	1,940,774	297,879	(257,147)	1,982,489
PROPERTY AND EQUIPMENT, net	—	835,370	109,115	—	944,485
GOODWILL	—	734,367	113,305	—	847,672
INTANGIBLE FRANCHISE RIGHTS	—	266,345	39,405	—	305,750
INVESTMENT IN SUBSIDIARIES	2,039,365	—	—	(2,039,365)	—
OTHER ASSETS	—	9,277	8,794	—	18,071
Total assets	$2,040,348	$3,786,133	$ 568,498	$(2,296,512)	$4,098,467
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Floorplan notes payable — credit facility and other	$—	$1,133,884	$ 4,611	$—	$1,138,495
Offset account related to floorplan notes payable - credit facility	—	(79,795)	—	—	(79,795)
Floorplan notes payable — manufacturer affiliates	—	195,038	95,000	—	290,038
Offset account related to floorplan notes payable - manufacturer affiliates	—	(21,000)	—	—	(21,000)
Current maturities of long-term debt and short-term financing	—	56,439	12,836	—	69,275
Accounts payable	—	139,261	111,265	—	250,526
Intercompany accounts payable	299,275	—	257,147	(556,422)	—
Accrued expenses	—	146,999	22,568	—	169,567
Total current liabilities	299,275	1,570,826	503,427	(556,422)	1,817,106
	664,120	347,809	66,035	—	1,077,964

LONG-TERM DEBT, net of current maturities					
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	—	33,793	—	—	33,793
DEFERRED INCOME TAXES AND OTHER LIABILITIES	—	197,710	12,067	—	209,777
STOCKHOLDERS' EQUITY:					
Group 1 stockholders' equity	1,076,953	1,935,270	(13,031)	(2,039,365)	959,827
Intercompany note receivable	—	(299,275)	—	299,275	—
Total stockholders' equity	1,076,953	1,635,995	(13,031)	(1,740,090)	959,827
Total liabilities and stockholders' equity	$2,040,348	$3,786,133	$ 568,498	$(2,296,512)	$4,098,467

25

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.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
ASSETS					
CURRENT ASSETS:					
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
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
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 and short-term financing	—	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
STOCKHOLDERS’ EQUITY:					
Group 1 stockholders’ equity	1,059,995	1,879,485	2,972	(1,964,442)	978,010

Intercompany note receivable	—	(295,421)	—	295,421	—
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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended March 31, 2015

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	$—	$1,998,500	$ 434,354	$—	$2,432,854
COST OF SALES:	—	1,684,012	384,958	—	2,068,970
GROSS PROFIT	—	314,488	49,396	—	363,884
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,231	227,472	42,766	—	271,469
DEPRECIATION AND AMORTIZATION EXPENSE	—	10,118	1,566	—	11,684
INCOME FROM OPERATIONS	(1,231)	76,898	5,064	—	80,731
OTHER EXPENSE:					
Floorplan interest expense	—	(8,519)	(829)	—	(9,348)
Other interest expense, net	592	(12,723)	(1,780)	—	(13,911)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(639)	55,656	2,455	—	57,472
(PROVISION) BENEFIT FOR INCOME TAXES	240	(20,602)	(1,295)	—	(21,657)
EQUITY IN EARNINGS OF SUBSIDIARIES	36,214	—	—	(36,214)	—
NET INCOME (LOSS)	$35,815	$35,054	$ 1,160	$(36,214)	$35,815
COMPREHENSIVE INCOME (LOSS)	—	(4,546)	(30,594)	—	(35,140)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	$35,815	$30,508	$ (29,434)	$(36,214)	$675

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Three Months Ended March 31, 2014

	Group 1 Automotive, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Total Company
	(In thousands)				
REVENUES:	$—	$1,834,627	$ 426,236	$—	$2,260,863
COST OF SALES:	—	1,544,895	377,846	—	1,922,741
GROSS PROFIT	—	289,732	48,390	—	338,122
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	842	214,658	42,058	—	257,558
DEPRECIATION AND AMORTIZATION EXPENSE	—	8,626	1,299	—	9,925
INCOME FROM OPERATIONS	(842)	66,448	5,033	—	70,639
OTHER EXPENSE:					
Floorplan interest expense	—	(8,584)	(2,329)	—	(10,913)
Other interest expense, net	565	(10,264)	(814)	—	(10,513)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(277)	47,600	1,890	—	49,213
(PROVISION) BENEFIT FOR INCOME TAXES	103	(16,931)	(1,082)	—	(17,910)
EQUITY IN EARNINGS OF SUBSIDIARIES	31,477	—	—	(31,477)	—
NET INCOME (LOSS)	$31,303	$30,669	$ 808	$(31,477)	$31,303
COMPREHENSIVE INCOME (LOSS)	—	(780)	8,215	—	7,435
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO PARENT	$31,303	$29,889	$ 9,023	$(31,477)	$38,738