GROUP 1 AUTOMOTIVE INC
Form 10-Q
April 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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	**(I.R.S. Employer**
incorporation or organization)	**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 x 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 x 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	x	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 x

As of April 23, 2012, the registrant had 22,924,214 shares of common stock, par value $0.01, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,316	$ 14,895
Contracts-in-transit and vehicle receivables, net	149,606	167,507
Accounts and notes receivable, net	85,724	92,775
Inventories, net	966,209	867,470
Deferred income taxes	18,275	16,012
Prepaid expenses and other current assets	10,112	16,925
Total current assets	1,251,242	1,175,584
PROPERTY AND EQUIPMENT, net	604,831	585,633
GOODWILL	546,346	531,458
INTANGIBLE FRANCHISE RIGHTS	182,770	170,687
OTHER ASSETS	14,635	12,981
Total assets	$ 2,599,824	$ 2,476,343
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility	$ 800,976	$ 718,946
Offset account related to floorplan notes payable - credit facility	(110,998)	(109,207)
Floorplan notes payable - manufacturer affiliates	154,580	155,980
Current maturities of long-term debt	15,616	14,663
Current liabilities from interest rate risk management activities	4,719	7,273
Accounts payable	144,128	148,048
Accrued expenses	113,060	109,244
Total current liabilities	1,122,081	1,044,947
LONG-TERM DEBT, net of current maturities	494,745	482,601
DEFERRED INCOME TAXES	83,465	78,459
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	27,075	26,766
OTHER LIABILITIES	38,613	36,470
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
TEMPORARY EQUITY - Redeemable equity portion of the 3.00% Convertible Senior Notes	34,880	
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value, 1,000 shares authorized; none issued or outstanding		

Common stock, $0.01 par value, 50,000 shares authorized; 26,126 and 25,967 issued, respectively	261	260
Additional paid-in capital	330,533	363,375
Retained earnings	610,986	591,037
Accumulated other comprehensive loss	(26,436)	(29,236)
Treasury stock, at cost; 3,200 and 3,260 shares, respectively	(116,379)	(118,336)
Total stockholders equity	798,965	807,100
Total liabilities and stockholders equity	$ 2,599,824	$ 2,476,343

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited, in thousands, except per share amounts)	
REVENUES:		
New vehicle retail sales	$ 912,595	$ 784,714
Used vehicle retail sales	414,974	323,447
Used vehicle wholesale sales	66,857	61,951
Parts and service sales	213,101	194,950
Finance, insurance and other, net	57,218	44,240
Total revenues	1,664,745	1,409,302
COST OF SALES:		
New vehicle retail sales	859,775	741,942
Used vehicle retail sales	378,577	294,547
Used vehicle wholesale sales	64,153	59,457
Parts and service sales	101,816	91,581
Total cost of sales	1,404,321	1,187,527
GROSS PROFIT	260,424	221,775
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	199,112	175,884
DEPRECIATION AND AMORTIZATION EXPENSE	7,236	6,455
ASSET IMPAIRMENTS	101	222
INCOME FROM OPERATIONS	53,975	39,214
OTHER EXPENSE:		
Floorplan interest expense	(7,619)	(6,760)
Other interest expense, net	(9,040)	(7,942)
INCOME BEFORE INCOME TAXES	37,316	24,512
PROVISION FOR INCOME TAXES	(14,199)	(9,150)
NET INCOME	$ 23,117	$ 15,362
BASIC EARNINGS PER SHARE	$ 1.01	$ 0.64
Weighted average common shares outstanding	21,629	22,582
DILUTED EARNINGS PER SHARE	$ 0.97	$ 0.64
Weighted average common shares outstanding	22,532	22,736
CASH DIVIDENDS PER COMMON SHARE	$ 0.14	$ 0.11

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited, in thousands)	
NET INCOME	$ 23,117	$ 15,362
Other comprehensive income (loss):		
Foreign currency translation adjustment	1,394	1,340
Unrealized gain (loss) on marketable securities, net of tax benefit (provision) of ($2) and $4, respectively	3	(7)
Net unrealized gain on interest rate swaps:		
Unrealized loss arising during the period, net of tax benefit of $293 and $214, respectively	(488)	(356)
Reclassification adjustment for loss included in interest expense, net of tax provision of $1,134 and $1,296, respectively	1,891	2,160
Net unrealized gain on interest rate swaps, net of tax	1,403	1,804
OTHER COMPREHENSIVE INCOME, NET OF TAXES	2,800	3,137
COMPREHENSIVE INCOME	$ 25,917	$ 18,499

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

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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, 2011	25,967	$ 260	$ 363,375	$ 591,037	$ (29,236)	$ (118,336)	$ 807,100
Comprehensive income:							
Net income				23,117			23,117
Other comprehensive income, net					2,800		2,800
3.00% Convertible Notes reclassification to temporary equity			(34,880)				(34,880)
Issuance of common and treasury shares to employee stock purchase plans	(69)	(1)	(2,678)			1,957	(722)
Proceeds from sales of common stock under employee stock purchase plans	27		1,342				1,342
Issuance of restricted stock	233	2	(2)				
Forfeiture of restricted stock	(32)						
Stock-based compensation			2,882				2,882
Tax effect from the vesting of restricted shares			494				494
Cash dividends				(3,168)			(3,168)
BALANCE, March 31, 2012	26,126	$ 261	$ 330,533	$ 610,986	$ (26,436)	$ (116,379)	$ 798,965

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,117	$ 15,362
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,236	6,455
Deferred income taxes	3,063	7,048
Asset impairments	101	222
Stock-based compensation	2,894	2,744
Amortization of debt discount and issue costs	3,170	2,878
Gain on disposition of assets	(8)	
Tax effect from stock-based compensation	(491)	(325)
Other	420	152
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	7,838	10,436
Accounts and notes receivable	7,139	7,278
Inventories	(84,600)	5,736
Contracts-in-transit and vehicle receivables	18,046	(3,623)
Prepaid expenses and other assets	4,452	1,397
Floorplan notes payable - manufacturer affiliates	(1,654)	(804)
Deferred revenues	(173)	(501)
Net cash provided by (used in) operating activities	(9,450)	54,455
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(55,323)	(35,033)
Proceeds from disposition of franchises, property and equipment	139	4,235
Purchases of property and equipment, including real estate	(17,617)	(15,306)
Other	292	113
Net cash used in investing activities	(72,509)	(45,991)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - Floorplan Line	1,357,442	1,237,710
Repayments on credit facility - Floorplan Line	(1,277,202)	(1,217,231)
Borrowings on mortgage facility	4,000	
Principal payments on mortgage facility	(533)	
Borrowings of other long-term debt	36	80
Principal payments of long-term debt related to real estate loans	(2,302)	(2,000)
Borrowings of long-term debt related to real estate	9,600	
Principal payments of other long-term debt	(840)	(767)
Proceeds from issuance of common stock to benefit plans	620	880
Tax effect from stock-based compensation	491	325
Dividends paid	(3,180)	(2,619)
Net cash provided by financing activities	88,132	16,378
EFFECT OF EXCHANGE RATE CHANGES ON CASH	248	119

NET INCREASE IN CASH AND CASH EQUIVALENTS		6,421		24,961
CASH AND CASH EQUIVALENTS, beginning of period		14,895		19,843
CASH AND CASH EQUIVALENTS, end of period	$	21,316	$	44,804
SUPPLEMENTAL CASH FLOW INFORMATION:				
Purchases of property and equipment, including real estate, accrued in accounts payable and accrued expenses	$	847	$	

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL INFORMATION

Business and Organization

Group 1 Automotive, Inc., a Delaware corporation, through its subsidiaries, is a leading operator in the automotive retailing industry with operations in 15 states in the United States of America (U.S.) and five towns in the United Kingdom (U.K.). Group 1 Automotive, Inc. and its subsidiaries are herein collectively referred to as the Company. Through its dealerships, the Company sells new and used cars and light trucks; arranges related vehicle financing; service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts.

As of March 31, 2012, the Company s U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (i) the East (43 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York and South Carolina), and (ii) the West (64 dealerships in California, Kansas, Oklahoma, and Texas). Each region is managed by a regional vice president who reports directly to the Company s Chief Executive Officer and is responsible for the overall performance of their regions, as well as for overseeing the market directors and dealership general managers that report to them. Each region is also managed by a regional chief financial officer who reports directly to the Company s Chief Financial Officer. The Company s five dealerships in the U.K. are also managed locally with direct reporting responsibilities to the Company s corporate management team.

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in the accompanying unaudited condensed Consolidated Financial Statements. Due to seasonality and other factors, the results of operations for the interim period are not necessarily indicative of the results that will be realized for the entire fiscal year. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Form 10-K).

All acquisitions of dealerships completed during the periods presented have been accounted for using the purchase method of accounting and their results of operations are included from the effective dates of the closings of the respective acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed are assigned and recorded based on estimates of fair value. All intercompany balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update changes certain fair value measurement principles and enhances the disclosure requirements, particularly Level 3 fair value measurements. The Company adopted ASU 2011-04 as of March 31, 2012 and it did not have a material impact on its consolidated financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment.* This update permits an entity to first assess qualitative factors to determine whether it is more likely than not (likelihood more than 50%) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company adopted ASU 2011-08 as of March 31, 2012 and it did not have an impact on its consolidated financial position or results of operations.

2. ACQUISITIONS AND DISPOSITIONS

During the first three months of 2012, the Company acquired one dealership in each of the following states: South Carolina, Texas and Kansas. Consideration paid for these dealerships totaled $55.3 million.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the first three months of 2011, the Company acquired two dealerships located in Texas. Consideration paid for these dealerships totaled $35.0 million.

3. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

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

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

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

As of March 31, 2012, the Company held interest rate swaps in effect of $275.0 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 4.4%. For the three months ended March 31, 2012 and 2011, the impact of the Company s interest rate hedges in effect increased floorplan interest expense by $2.8 million and $3.3 million, respectively. Total floorplan interest expense was $7.6 million and $6.8 million for the three months ended March 31, 2012 and 2011, respectively.

As of March 31, 2012 and December 31, 2011, the Company reflected liabilities from interest risk management activities of $31.8 million and $34.0 million, respectively, in its Consolidated Balance Sheets. Several of the Company s interest rate swaps expire in 2012, as such, the fair value of these instruments are classified as current liabilities in the accompanying Consolidated Balance Sheet. Included in accumulated other comprehensive loss at March 31, 2012 and 2011 are unrealized losses, net of income taxes, totaling $19.9 million and $9.1 million, respectively, related to these hedges.

At March 31, 2012, all of the Company s derivative contracts were determined to be effective. The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Statements of Operations for either the three months ended March 31, 2012 or 2011 respectively.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivatives in Cash Flow Hedging Relationship	Amount of Unrealized Loss, Net of Tax, Recognized in OCI Three Months Ended March 31, 2012	2011
	(In thousands)	
Interest rate swap contracts	$ 488	$ 356

Location of Loss Reclassified from OCI into Statements of Operations	Amount of Loss Reclassified from OCI into Statements of Operations Three Months Ended March 31, 2012	2011
	(In thousands)	
Floorplan interest expense	$ (2,762)	$ (3,251)
Other interest expense	$ (263)	$ (205)

The amount expected to be reclassified out of other comprehensive income into earnings (through floorplan interest expense or other interest expense) in the next twelve months is $10.1 million.

4. STOCK-BASED COMPENSATION PLANS

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

2007 Long Term Incentive Plan

The Group 1 Automotive, Inc. 2007 Long Term Incentive Plan (Incentive Plan) was amended and restated in May 2010 to increase the number of shares available for issuance under the plan to 7.5 million, for grants to non-employee directors, officers and other employees of the Company and its subsidiaries of: (1) options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 and options that are non-qualified), the exercise price of which may not be less than the fair market value of the common stock on the date of the grant, and (2) stock appreciation rights, restricted stock, performance awards, and bonus stock, each granted at the market price of the Company s stock at the date of grant. The Incentive Plan expires on March 8, 2017. The

terms of the awards (including vesting schedules) are established by the Compensation Committee of the Company s Board of Directors. All outstanding option awards are exercisable over a period not to exceed ten years and vest over a period not to exceed five years. Certain of the Company s option awards are subject to graded vesting over a service period for the entire award. As of March 31, 2012, there were 1,070,540 shares available for issuance under the Incentive Plan.

Restricted Stock Awards

In 2005, the Company began granting to non-employee directors and certain employees, at no cost to the recipient, restricted stock awards or, at their election, restricted stock units pursuant to the Incentive Plan. In 2006, the Company began granting to certain employees, at no cost to the recipient, performance awards pursuant to the Incentive Plan. Restricted stock awards and performance awards qualify as participating securities as each contain non-forfeitable rights to dividends. As such, the two-class method is required for the computation of earnings per share. See Note 5, Earnings Per Share for further details. Restricted stock awards are considered outstanding at the date of grant but are subject to forfeiture provisions for periods ranging from six months to five years. Vested restricted stock units, which are not considered outstanding at the grant date, will settle in shares of common stock upon the termination of the grantees employment or directorship. Performance awards are considered outstanding at the date of grant and have forfeiture provisions that lapse based on the passage of time and the achievement of certain performance criteria established by the Compensation Committee of the Board of Directors. During the first three months of March 31, 2012, there were no outstanding performance awards and none were granted. In the event the employee or non-employee director terminates his or her employment or directorship with the Company prior to the lapse of the restrictions, the shares, in most cases, will be forfeited to the Company.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Compensation expense for these awards is calculated based on the price of the Company s common stock at the date of grant and recognized over the requisite service period. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual or expected forfeitures differ from the previous estimate.

A summary of these awards as of March 31, 2012, along with the changes during the three months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2011	1,154,004	$ 23.57
Granted	232,624	54.62
Vested	(42,132)	25.47
Forfeited	(31,022)	28.61
Nonvested at March 31, 2012	1,313,474	$ 33.05

Employee Stock Purchase Plan

In 1997, the Company adopted the Group 1 Automotive, Inc. Employee Stock Purchase Plan as amended (the Purchase Plan). The Purchase Plan authorizes the issuance of up to 3.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after March 6, 2016. The Purchase Plan is available to all employees of the Company and its participating subsidiaries and is a qualified plan as defined by Section 423 of the Internal Revenue Code. At the end of each fiscal quarter (the Option Period) during the term of the Purchase Plan, the employee acquires shares of common stock from the Company at 85% of the fair market value of the common stock on the first or the last day of the Option Period, whichever is lower. As of March 31, 2012, there were 803,878 shares remaining in reserve for future issuance under the Purchase Plan. During the three months ended March 31, 2012 and 2011, the Company issued 27,163 and 23,298 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 $12.96 and $10.22 during the three months ended March 31, 2012 and 2011, respectively. The fair value of stock purchase rights is calculated using the quarter-end stock price, the value of the embedded call option and the value of the embedded put option.

Stock-Based Compensation

Total stock-based compensation cost was $2.9 million and $2.7 million for the three months ended March 31, 2012 and 2011, respectively. Cash received from option exercises and Purchase Plan purchases was $1.3 million and $0.9 million for the three months ended March 31, 2012 and 2011, respectively. Additional paid-in capital increased by $0.5 million and $0.4 million for the three months ended March 31, 2012 and 2011, respectively, for the effect of tax deductions for options exercised and vesting of restricted shares that were more than the associated book expense previously recognized. Total income tax benefit recognized for stock-based compensation arrangements was $0.8 million for both the three months ended March 31, 2012 and 2011.

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

5. EARNINGS PER SHARE

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

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the calculation of EPS for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In thousands, except per share amounts)	
Weighted average basic common shares outstanding	21,629	22,582
Dilutive effect of contingently Convertible 3.00% Notes	892	139
Dilutive effect of stock options, net of assumed repurchase of treasury stock	5	12
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	6	3
Weighted average dilutive common shares outstanding	22,532	22,736
Basic:		
Net Income	$ 23,117	$ 15,362
Less: Earnings allocated to participating securities	1,206	916
Earnings available to basic common shares	$ 21,911	$ 14,446
Basic earnings per common share	$ 1.01	$ 0.64
Diluted:		
Net Income	$ 23,117	$ 15,362
Less: Earnings allocated to participating securities	1,165	911
Earnings available to diluted common shares	$ 21,952	$ 14,451
Diluted earnings per common share	$ 0.97	$ 0.64

Any options with an exercise price in excess of the average market price of the Company s common stock during each of the quarterly periods in the years presented are not considered when calculating the dilutive effect of stock options for the diluted EPS calculations. The weighted average number of stock-based awards not included in the calculation of the dilutive effect of stock-based awards was immaterial for both the three months ended March 31, 2012 and 2011.

As discussed in Note 9, Long-term Debt, below, the Company is required to include the dilutive effect, if applicable, of the net shares issuable under the 2.25% Notes (as defined in Note 9) and the 2.25% Warrants sold in connection with the 2.25% Notes (2.25% Warrants) in its diluted common shares outstanding for the diluted earnings calculation. Although the ten-year call options the Company purchased on its common stock in connection with the issuance of the 2.25% Notes (2.25% Purchased Options) have the economic benefit of decreasing the dilutive effect of the 2.25% Notes, the Company cannot factor this benefit into the diluted common shares outstanding for the diluted earnings calculation since the impact would be anti-dilutive. Since the average price of the Company s common stock for the three months ended March 31, 2012 was less than $59.43, no net shares were included in the computation of diluted EPS for such period, as the impact would have been anti-dilutive.

In addition, the Company is required to include the dilutive effect, if applicable, of the net shares issuable under the 3.00% Notes (as defined in Note 9) and the 3.00% Warrants sold in connection with the 3.00% Notes (3.00% Warrants). Although the ten-year call options the Company purchased on its common stock in connection with the issuance of the 3.00% Notes (3.00% Purchased Options) have the economic benefit of decreasing the dilutive effect of the 3.00% Notes, the Company cannot factor this benefit into the diluted common shares outstanding for the diluted earnings calculation since the impact would be anti-dilutive. Since the average price of the Company s common stock for the three months ended March 31, 2012 was more than the conversion price in effect at the end of the respective periods, the dilutive effect of the 3.00% Notes and 3.00% Warrants was included in the computation of diluted earnings per share. Refer to Note 9 for a description of the change to the conversion price, which occurred during the three months ended March 31, 2012 as a result of the Company s decision to pay a cash dividend, as well as the change in the convertibility of the 3.00% Notes as of March 31, 2012.

6. INCOME TAXES

The Company is subject to U.S. federal income taxes and income taxes in numerous states. In addition, the Company is subject to income tax in the U.K. relative to its foreign subsidiaries. The effective income tax rate of 38.1% of pretax income for the three months ended March 31, 2012 differed from the federal statutory rate of 35.0% due primarily to taxes provided for the taxable state jurisdictions in which the Company operates.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended March 31, 2012, the Company s effective tax rate increased to 38.1% from 37.3% for the same period in 2011. The change was primarily due to the mix of pretax income from the taxable state jurisdictions in which the Company operates, as well as a change in valuation allowances for certain state net operating losses that occurred during the three months ended March 31, 2011.

As of March 31, 2012 and December 31, 2011, the Company had no unrecognized tax benefits. Consistent with prior practices, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company did not incur any interest and penalties nor did it accrue any interest for the three months ended March 31, 2012.

Taxable years 2007 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, 2012 (unaudited)	December 31, 2011
	(In thousands)	
Amounts due from manufacturers	$ 43,982	$ 48,912
Parts and service receivables	16,244	16,956
Finance and insurance receivables	13,633	16,755
Other	12,943	11,395
Total accounts and notes receivable	86,802	94,018
Less allowance for doubtful accounts	1,078	1,243
Accounts and notes receivable, net	$ 85,724	$ 92,775