

GROUP 1 AUTOMOTIVE INC

Form 10-Q/A

January 31, 2006

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**FORM 10-Q/A**  
**(Amendment No. 1)**  
**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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

**For the quarterly period ended September 30, 2005**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-13461**

**Group 1 Automotive, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

76-0506313  
(I.R.S. Employer  
Identification No.)

950 Echo Lane, Suite 100  
Houston, Texas 77024  
(Address of Principal Executive Offices) (Zip Code)

(713) 647-5700

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

As of October 31, 2005, the Company had 24,432,321 shares of common stock, par value \$.01, outstanding.

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**Signatures**

Certification of CEO Pursuant to Section 302  
Certification of CFO Pursuant to Section 302  
Certification of CEO Pursuant to Section 906  
Certification of CFO Pursuant to Section 906

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**Amendment No. 1 Explanatory Note**

We are filing Amendment No. 1 (this Amendment) to the Group 1 Automotive, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, to change the presentation of certain floorplan notes payable information. We finance substantially all of our new, and a portion of our used, vehicle inventories under revolving credit arrangements with a syndicated lending group (which includes both lenders affiliated with manufacturers of new vehicles and non-affiliated lenders) and, for certain new vehicle models, with lenders affiliated with the manufacturers of those vehicles. Consistent with industry practice, we previously reported all amounts outstanding under the caption Floorplan notes payable in our consolidated balance sheets and substantially all cash flows arising in connection with changes in floorplan notes payable as an item of cash flows from operating activities in our consolidated statements of cash flows.

In response to recent comments from the Staff of the Securities and Exchange Commission (the Staff) in connection with a customary review of our 2004 Annual Report on Form 10-K, we reevaluated our presentation of this information. On January 30, 2006, our management and the Audit Committee of our Board of Directors concluded to amend and restate our 2004 Annual Report on Form 10-K and our September 30, 2005, Quarterly Report on Form 10-Q to reflect certain information in conformity with guidance under the Securities and Exchange Commission's rules and regulations and Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. This Amendment revises our consolidated balance sheets to reflect floorplan notes payable to the syndicated lending group separately from floorplan notes payable to lenders affiliated with manufacturers. It also revises our consolidated statements of cash flows to reflect borrowings and repayments from the syndicated lending group as an item of cash flows from financing activities with gross borrowings reflected separately from gross repayments.

The changes in presentation have no effect on previously reported consolidated net income, earnings per share, total assets or liabilities, stockholders' equity, total cash flows or our conclusion that our disclosure controls and procedures were effective as of September 30, 2005. This Form 10-Q/A contains changes to Part I Item 1, Item 2 and Item 4 to reflect this restatement. There are no other significant changes to the original Form 10-Q other than those outlined above. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update disclosures therein in any way other than as required to reflect the Amendment set forth below. Among other things, forward looking statements made in the original Form 10-Q have not been revised to reflect events that occurred or facts that became known to us after the filing of the original Form 10-Q (other than the restatement), and such forward looking statements should be read in their historical context. In addition, currently-dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this Amendment.

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

(Restated)

(in thousands, except per share amounts)

	<b>September 30, 2005 (unaudited)</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,528	\$ 37,750
Contracts-in-transit and vehicle receivables, net	137,000	172,402
Accounts and notes receivable, net	89,114	76,687
Inventories	686,694	877,575
Deferred income taxes	17,691	14,755
Prepaid expenses and other current assets	17,395	26,046
Total current assets	981,422	1,205,215
Property and equipment, net	176,033	160,297
Goodwill	373,530	366,673
Intangible franchise rights	169,185	187,135
Deferred costs related to insurance policy and vehicle service contract sales	6,477	7,996
Other assets	19,093	19,904
Total assets	\$ 1,725,740	\$ 1,947,220
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Floorplan notes payable - revolving credit facility	\$ 492,727	\$ 632,593
Floorplan notes payable - manufacturer affiliates	142,103	215,667
Acquisition line - revolving credit facility	25,000	
Current maturities of long-term debt	948	1,054
Accounts payable	99,561	108,920
Accrued expenses	99,469	91,528
Total current liabilities	859,808	1,049,762
Long-term debt, net of current maturities	158,185	156,747
Acquisition line		84,000
Deferred income taxes	27,030	33,197
Other liabilities	27,156	24,288
Total liabilities before deferred revenues	1,072,179	1,347,994

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Deferred revenues	27,040	32,052
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; none issued or outstanding		
Common stock, \$.01 par value, 50,000 shares authorized; 24,424 and 23,916 issued, respectively	244	239
Additional paid-in capital	273,112	265,645
Retained earnings	357,008	318,931
Accumulated other comprehensive loss	(218)	(173)
Deferred stock-based compensation	(3,625)	
Treasury stock, at cost; 0 and 607 shares, respectively		(17,468)
Total stockholders' equity	626,521	567,174
Total liabilities and stockholders' equity	\$ 1,725,740	\$ 1,947,220

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

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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>REVENUES:</b>				
New vehicle retail sales	\$ 977,492	\$ 962,021	\$ 2,791,812	\$ 2,451,916
Used vehicle retail sales	279,484	265,544	819,816	737,541
Used vehicle wholesale sales	98,439	101,551	301,419	264,848
Parts and service sales	165,017	154,285	487,534	409,588
Finance, insurance and other, net	49,737	49,006	143,648	130,442
<b>Total revenues</b>	<b>1,570,169</b>	<b>1,532,407</b>	<b>4,544,229</b>	<b>3,994,335</b>
<b>COST OF SALES:</b>				
New vehicle retail sales	907,731	895,634	2,594,379	2,280,237
Used vehicle retail sales	243,756	232,779	715,978	647,018
Used vehicle wholesale sales	100,248	104,132	303,702	270,026
Parts and service sales	75,316	69,978	222,473	185,232
<b>Total cost of sales</b>	<b>1,327,051</b>	<b>1,302,523</b>	<b>3,836,532</b>	<b>3,382,513</b>
<b>GROSS PROFIT</b>	<b>243,118</b>	<b>229,884</b>	<b>707,697</b>	<b>611,822</b>
Selling, general and administrative expenses	186,216	182,682	560,853	489,309
Depreciation and amortization expense	4,597	4,086	14,522	11,241
Asset impairments	4,987	41,373	4,987	41,373
<b>INCOME FROM OPERATIONS</b>	<b>47,318</b>	<b>1,743</b>	<b>127,335</b>	<b>69,899</b>
<b>OTHER INCOME AND (EXPENSE):</b>				
Floorplan interest expense	(9,259)	(6,813)	(27,998)	(17,660)
Other interest expense, net	(4,344)	(4,697)	(14,174)	(13,627)
Loss on redemption of senior subordinated notes				(6,381)
Other income (expense), net	87	1	95	(63)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>33,802</b>	<b>(9,766)</b>	<b>85,258</b>	<b>32,168</b>
Provision (benefit) for income taxes	12,176	(151)	31,143	15,582
<b>INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>21,626</b>	<b>(9,615)</b>	<b>54,115</b>	<b>16,586</b>

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Cumulative effect of a change in accounting principle, net of tax benefit of \$10,231				(16,038)				
NET INCOME (LOSS)	\$	21,626	\$	(9,615)	\$	38,077	\$	16,586
EARNINGS (LOSS) PER SHARE:								
BASIC:								
Income (loss) before cumulative effect of a change in accounting principle	\$	0.89	\$	(0.42)	\$	2.27	\$	0.73
Cumulative effect of a change in accounting principle						(0.67)		
Net income (loss)	\$	0.89	\$	(0.42)	\$	1.60	\$	0.73
DILUTED:								
Income (loss) before cumulative effect of a change in accounting principle	\$	0.88	\$	(0.42)	\$	2.24	\$	0.71
Cumulative effect of a change in accounting principle						(0.66)		
Net income (loss)	\$	0.88	\$	(0.42)	\$	1.58	\$	0.71
WEIGHTED AVERAGE SHARES OUTSTANDING:								
Basic		24,185		22,946		23,794		22,685
Diluted		24,571		22,946		24,150		23,427

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



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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
(in thousands)

	<b>Common Shares</b>	<b>Common Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Deferred Comp</b>	<b>Treasury Stock</b>	<b>Total</b>
BALANCE, December 31, 2004	23,916	\$ 239	\$ 265,645	\$ 318,931	\$ (173)	\$	\$ (17,468)	\$ 567,174
Comprehensive income:								
Net income				38,077				38,077
Unrealized loss on investments, net of income tax benefit of \$27					(45)			(45)
Total comprehensive income								38,032
Issuance of common shares to employee benefit plans	390	4	(1,321)				17,778	16,461
Issuance of restricted shares	155	2	5,868			(5,870)		
Restricted stock amortization						1,201		1,201
Forfeiture of restricted shares	(37)	(1)	(1,043)			1,044		
Purchase of treasury stock							(310)	(310)
Tax benefit from options exercised			3,963					3,963
BALANCE, September 30, 2005	24,424	\$ 244	\$ 273,112	\$ 357,008	\$ (218)	\$ (3,625)	\$	\$ 626,521

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

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

(Restated)  
(in thousands)

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 38,077	\$ 16,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle, net of tax	16,038	
Asset impairments	4,987	41,373
Depreciation and amortization	14,522	11,241
Amortization of debt discount and issue costs	1,384	1,504
Amortization of deferred compensation	1,201	
Deferred income taxes	2,413	(6,849)
Tax benefit from options exercised	3,963	1,311
Provision for doubtful accounts and uncollectible notes	3,260	333
Losses on sales of assets	588	184
Loss on repurchase of senior subordinated notes		6,381
Changes in operating assets and liabilities, net of effects of acquisitions:		
Contracts-in-transit and vehicle receivables	35,402	(18,788)
Accounts and notes receivable	2,972	(9,580)
Inventories	191,689	4,998
Prepaid expenses and other assets	11,650	3,976
Floorplan notes payable - manufacturer affiliates	(73,564)	(2,641)
Accounts payable and accrued expenses	(3,803)	35,117
Deferred revenues	(5,081)	(7,454)
<b>Net cash provided by operating activities</b>	<b>245,698</b>	<b>77,692</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(45,007)	(35,445)
Proceeds from sales of property and equipment	15,423	3,583
Purchases of restricted investments	(1,416)	(1,464)
Maturities of restricted investments	642	844
Decrease in restricted cash	168	1,938
Escrow deposits for acquisition of franchises	(500)	
Cash paid in acquisitions, net of cash received	(20,456)	(221,721)
<b>Net cash used in investing activities</b>	<b>(51,146)</b>	<b>(252,265)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on revolving credit facility	2,653,469	2,700,136
Repayments on revolving credit facility	(2,867,507)	(2,435,495)
Principal payments of long-term debt	(887)	(670)
Repurchase of senior subordinated notes		(79,479)

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Proceeds from issuance of common stock to benefit plans	16,461	6,753
Repurchase of common stock, amounts based on settlement date	(310)	(7,019)
Net cash provided by (used in) financing activities	(198,774)	184,226
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,222)	9,653
CASH AND CASH EQUIVALENTS, beginning of period	37,750	26,483
CASH AND CASH EQUIVALENTS, end of period	\$ 33,528	\$ 36,136
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 44,899	\$ 48,921
Income taxes, net of refunds received	\$ 16,077	\$ 11,040

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

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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Restated)

**1. BUSINESS AND ORGANIZATION:**

Group 1 Automotive, Inc., a Delaware corporation, is a leading operator in the automotive retailing industry. Group 1 Automotive, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries, which are located in California, Colorado, Florida, Georgia, Louisiana, Massachusetts, New Hampshire, New Jersey, New Mexico, New York, Oklahoma and Texas. These subsidiaries sell new and used cars and light trucks; arrange related financing, vehicle service and insurance contracts; provide maintenance and repair services; and sell replacement parts. Group 1 Automotive, Inc. and its subsidiaries are herein collectively referred to as the Company or Group 1.

**2. RESTATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***Restatement*

Subsequent to the issuance of the Company's September 30, 2005, consolidated financial statements, the Company's management determined that certain information in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows should be restated and reclassified for all periods presented to comply with the guidance set forth by the rules and regulations of the Securities and Exchange Commission and Statement of Financial Accounting Standards (SFAS) No. 95, Statement of Cash Flows. Floorplan notes payable to a party other than the manufacturer of a particular new vehicle, and all floorplan notes payable relating to used vehicles, have been reclassified as floorplan notes payable credit facility on the Consolidated Balance Sheets, and related cash flows have been reclassified from operating activities to financing activities on the Consolidated Statements of Cash Flows. Consistent with industry practice, the Company previously reported all cash flow information relating to floorplan notes payable as operating cash flows.

A summary of the significant effects of the restatement are as follows:

**Consolidated Balance Sheets**

	<b>At September 30, 2005</b>		<b>At December 31, 2004</b>	
	<b>Reported</b>	<b>Restated</b>	<b>Reported</b>	<b>Restated</b>
	(in thousands)			
Floorplan notes payable	\$634,830	\$	\$848,260	\$
Floorplan notes payable - credit facility		492,727		632,593
Floorplan notes payable - manufacturer affiliates		142,103		215,667

**Consolidated Statements of Cash Flows**

	<b>For the Nine Months Ended,</b>			
	<b>September 30, 2005</b>		<b>September 30, 2004</b>	
	<b>Reported</b>	<b>Restated</b>	<b>Reported</b>	<b>Restated</b>
	(in thousands)			
Floorplan notes payable	\$(220,525)	\$	\$(19,502)	\$
Floorplan notes payable - manufacturer affiliates		(73,564)		(2,641)
Net cash provided by operating activities	98,737	245,698	60,831	77,692
Net borrowings (payments) on revolving credit facility	(67,077)		281,502	
Borrowings on revolving credit facility		2,653,469		2,700,136
Repayments on revolving credit facility		(2,867,507)		(2,435,495)
Net cash provided by (used in) financing activities	(51,813)	(198,774)	201,087	184,226

*Basis of Presentation*

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