

GROUP 1 AUTOMOTIVE INC
Form 10-Q
April 29, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from _____ to _____
Commission File Number: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

76-0506313

(I.R.S. Employer
Identification No.)

800 Gessner, Suite 500

Houston, Texas 77024

(Address of principal executive offices) (Zip code)

(713) 647-5700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of April 22, 2014, the registrant had 24,211,197 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, 2014 (Unaudited)	December 31, 2013
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$17,687	\$20,215
Contracts-in-transit and vehicle receivables, net	208,461	225,156
Accounts and notes receivable, net	131,494	135,058
Inventories, net	1,537,112	1,542,318
Deferred income taxes	18,262	21,150
Prepaid expenses and other current assets	23,257	24,041
Total current assets	1,936,273	1,967,938
PROPERTY AND EQUIPMENT, net	827,121	796,356
GOODWILL	747,091	737,303
INTANGIBLE FRANCHISE RIGHTS	301,174	301,505
OTHER ASSETS	14,278	16,376
Total assets	\$3,825,937	\$3,819,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility and other	\$1,108,849	\$1,143,104
Offset account related to floorplan notes payable - credit facility	(33,646)	) (56,198)
Floorplan notes payable - manufacturer affiliates	314,976	346,572
Current maturities of long-term debt and short-term financing	29,967	36,225
Accounts payable	280,454	254,930
Accrued expenses	150,319	140,543
Total current liabilities	1,850,919	1,865,176
LONG-TERM DEBT, net of current maturities	665,042	663,689
DEFERRED INCOME TAXES	150,009	152,291
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	25,661	26,078
OTHER LIABILITIES	49,052	47,975
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
TEMPORARY EQUITY - Redeemable equity portion of the 3.00% Convertible Senior Notes	28,194	29,094
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; 25,801 and 25,746 issued, respectively	258	257
Additional paid-in capital	368,728	368,641
Retained earnings	803,302	776,101
Accumulated other comprehensive loss	(44,242)	) (51,677)
Treasury stock, at cost; 1,588 and 1,432 shares, respectively	(70,986)	) (58,147)
Total stockholders' equity	1,057,060	1,035,175
Total liabilities and stockholders' equity	\$3,825,937	\$3,819,478

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		
	2014	2013	
	(Unaudited, in thousands, except per share amounts)		
REVENUES:			
New vehicle retail sales	\$1,268,836	\$1,110,235	
Used vehicle retail sales	549,897	471,399	
Used vehicle wholesale sales	89,173	74,551	
Parts and service sales	269,317	237,510	
Finance, insurance and other, net	83,640	70,137	
Total revenues	2,260,863	1,963,832	
COST OF SALES:			
New vehicle retail sales	1,201,930	1,047,599	
Used vehicle retail sales	507,096	431,123	
Used vehicle wholesale sales	86,061	72,129	
Parts and service sales	127,654	112,492	
Total cost of sales	1,922,741	1,663,343	
GROSS PROFIT	338,122	300,489	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	257,558	233,433	
DEPRECIATION AND AMORTIZATION EXPENSE	9,925	8,413	
INCOME FROM OPERATIONS	70,639	58,643	
OTHER EXPENSE:			
Floorplan interest expense	(10,913) (9,364)
Other interest expense, net	(10,513) (9,242)
Other expense, net	—	(789)
INCOME BEFORE INCOME TAXES	49,213	39,248	
PROVISION FOR INCOME TAXES	(17,910) (17,130)
NET INCOME	\$31,303	\$22,118	
BASIC EARNINGS PER SHARE	\$1.29	\$0.95	
Weighted average common shares outstanding	23,339	22,282	
DILUTED EARNINGS PER SHARE	\$1.19	\$0.88	
Weighted average common shares outstanding	25,428	24,113	
CASH DIVIDENDS PER COMMON SHARE	\$0.17	\$0.15	

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2014	2013
	(Unaudited, in thousands)	
NET INCOME	\$31,303	\$22,118
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustment	8,215	(7,456)
Net unrealized gain (loss) on interest rate swaps:		
Unrealized loss arising during the period, net of tax benefit of \$1,512 and \$8, respectively	(2,520	) (14)
Reclassification adjustment for loss included in interest expense, net of tax provision of \$1,044 and \$1,025, respectively	1,740	1,708
Net unrealized (loss) gain on interest rate swaps, net of tax	(780	) 1,694
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES	7,435	(5,762)
COMPREHENSIVE INCOME	\$38,738	\$16,356

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

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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, 2013	25,746	\$257	\$368,641	\$776,101	\$(51,677)	\$(58,147)	\$1,035,175
Net income	—	—	—	31,303	—	—	31,303
Other comprehensive income, net	—	—	—	—	7,435	—	7,435
Purchases of treasury stock	—	—	—	—	—	(16,942)	(16,942)
Temporary equity adjustment related to 3.00% Convertible Notes	—	—	899	—	—	—	899
Net issuance of treasury shares to employee stock compensation plans	55	1	(5,192)	—	—	4,103	(1,088)
Stock-based compensation	—	—	3,647	—	—	—	3,647
Tax effect from stock-based compensation plans	—	—	733	—	—	—	733
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(4,102)	—	—	(4,102)
BALANCE, March 31, 2014	25,801	\$258	\$368,728	\$803,302	\$(44,242)	\$(70,986)	\$1,057,060

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2014	2013
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$31,303	\$22,118
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,925	8,413
Deferred income taxes	2,913	9,127
Stock-based compensation	3,660	3,403
Amortization of debt discount and issue costs	3,612	3,386
Gain on disposition of assets	(16	) (578
Tax effect from stock-based compensation	(733	) (749
Other	544	804
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	46,555	53,266
Accounts and notes receivable	4,822	1,838
Inventories	38,269	(84,053
Contracts-in-transit and vehicle receivables	16,780	14,065
Prepaid expenses and other assets	2,697	1,764
Floorplan notes payable - manufacturer affiliates	(27,643	) 29,043
Deferred revenues	504	79
Net cash provided by operating activities	133,192	61,926
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(52,648	) (58,272
Proceeds from disposition of franchises, property and equipment	197	17,523
Purchases of property and equipment, including real estate	(27,095	) (19,971
Other	(1,539	) 452
Net cash used in investing activities	(81,085	) (60,268
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - floorplan line and other	1,503,650	1,545,263
Repayments on credit facility - floorplan line and other	(1,511,811	) (1,460,150
Borrowings on credit facility - acquisition line	19,963	—
Repayments on credit facility - acquisition line	(30,000) —
Borrowings on real estate credit facility	200	—
Principal payments on real estate credit facility	(677	) (6,563
Borrowings of other long-term debt	19,683	—
Principal payments of other long-term debt	(24,321	) (66,415
Borrowings of short-term and long-term debt related to real estate	13,855	6,009
Principal payments of long-term debt related to real estate loans	(11,510	) (3,277
Issuance of common stock to benefit plans	(1,089	) (392
Repurchases of common stock, amounts based on settlement date	(16,942) —
Tax effect from stock-based compensation	733	749
Dividends paid	(4,115	) (3,627
Net cash (used in) provided by financing activities	(42,381	) 11,597
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(12,254) (176
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,528) 13,079

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CASH AND CASH EQUIVALENTS, beginning of period	20,215	4,650
CASH AND CASH EQUIVALENTS, end of period	\$17,687	\$17,729
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable and accrued expenses	\$656	\$4,386

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, is a leading operator in the automotive retailing industry with business activities in 15 states in the United States of America (“U.S.”), 13 towns in the United Kingdom (“U.K.”) and two 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, 2014, the Company’s U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (a) the East (48 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York and South Carolina), and (b) the West (70 dealerships in California, Kansas, Louisiana, Oklahoma, and Texas). Each U.S. 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. The financial matters of each U.S. region are managed by a regional chief financial officer who reports directly to the Company’s Chief Financial Officer. In addition, as of March 31, 2014, the Company had two international regions: (a) the U.K. region, which consisted of 14 dealerships in the U.K. and (b) the Brazil region, which consisted of 19 dealerships in Brazil. The international regions are also managed locally with direct reporting responsibilities to the Company’s corporate management team.

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, we expect higher volumes in the third and fourth calendar quarters. The first quarter is generally the weakest, driven by heavy consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic condition, manufacturer incentive programs, or shifts in governmental taxes or regulations may exaggerate seasonal or cause counter-seasonal fluctuations in our 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. 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, 2013 (“2013 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 preliminary 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.

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 fixed-interest-rate working capital loan and various administrative services to a related-party entity that owns and operates retail automotive dealerships for a variable fee, both of

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, 2014 and December 31, 2013, as well as the results of operations of the VIE beginning on the effective date of the variable interests arrangements to March 31, 2014. The floorplan notes payable liability of the VIE is securitized by the new and used vehicle inventory of the VIE, as well as the associated receivable balances from the sale of such inventory to the extent necessary. 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) are included in the Company's purchase price allocations set forth in Note 2, "Acquisitions and Dispositions." The final allocation of assets and liabilities included in the Company's consolidated statements of financial position for the consolidated VIE as of March 31, 2014, as well as a preliminary allocation as of December 31, 2013, are as follows (in thousands):

	March 31, 2014	December 31, 2013
Current assets	\$27,182	\$24,170
Non-current assets	39,777	71,033
Total assets	\$66,959	\$95,203
Current liabilities	\$21,662	\$21,653
Non-current liabilities	23,818	25,374
Total liabilities	\$45,480	\$47,027

2. ACQUISITIONS AND DISPOSITIONS

During the three months ended March 31, 2014, the Company acquired two dealerships in the U.S. and opened a dealership for an awarded franchise in Brazil. Aggregate consideration paid for these acquisitions totaled \$52.6 million including associated real estate.

In February 2013, the Company purchased all of the outstanding stock of UAB Motors Participações S.A. ("UAB Motors"). At the time of acquisition, UAB Motors consisted of 18 dealerships and 22 franchises in Brazil, as well as five collision centers. As discussed in Note 1, "Interim Financial Information," in connection with this acquisition, the Company entered into arrangements that are variable interests in a VIE. The Company qualifies as the primary beneficiary of the VIE. The consolidation of the VIE into the financial statements of the Company was accounted for as a business combination. In addition to the acquisition of UAB Motors, during the three months ended March 31, 2013, the Company acquired certain assets of four dealerships in the U.K. (collectively with the acquisition of UAB Motors, the "2013 Acquisitions"). In conjunction with these acquisitions, the Company incurred \$6.5 million of costs, primarily related to professional services associated with the UAB Motors transaction. The Company included these costs in selling, general and administrative expenses ("SG&A") in the Consolidated Statement of Operations for the three months ended March 31, 2013.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Aggregate consideration paid for the 2013 Acquisitions totaled \$138.2 million, including \$58.3 million of cash and 1.39 million shares of the Company's common stock. The Company also assumed debt in conjunction with the 2013 Acquisitions, of which \$65.1 million was contemporaneously extinguished. In conjunction with the extinguishment, the Company recognized a loss of \$0.8 million that is included in Other Expense, net on the Consolidated Statement of Operations for the three months ended March 31, 2013.

The purchase price for the 2013 Acquisitions was 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. Goodwill was assigned to the U.K. and Brazil reportable segments in the amounts of \$1.5 million and \$130.9 million, respectively.

	As of Acquisition Date (In thousands)
Inventory	\$86,848
Other Current Assets	26,632
Property and Equipment	24,865
Goodwill & Intangible Franchise Rights	214,035
Other assets	864
Total Assets	\$353,244
Current Liabilities	\$116,500
Deferred Income Taxes	29,898
Long-term Debt	68,639
Total Liabilities	\$215,037

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 ASC 350. Goodwill represents the excess of consideration paid compared to net assets received in the acquisition. The goodwill relative to the Brazil reportable segment is not currently deductible for tax purposes.

During the three months ended March 31, 2013, the Company sold one dealership in the U.S.

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

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Other interest expense \$(355) \$(313)

The amount expected to be reclassified out of other comprehensive income (loss) into earnings (through floorplan interest expense or other interest expense) in the next twelve months is \$11.1 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 (the "Incentive Plan"), as well as to employees pursuant to its 1998 Employee Stock Purchase Plan, as amended (the "Purchase Plan").

2007 Long Term Incentive Plan

The Incentive Plan provides for the issuance of up to 7.5 million shares for grants to non-employee directors, officers and other employees of the Company and its subsidiaries of: (a) 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 (b) stock appreciation rights, restricted stock, performance awards, and bonus stock, each granted at the market price of the Company's common 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. As of March 31, 2014, there were 593,374 shares available for issuance under the Incentive Plan.

Restricted Stock Awards

The Company grants 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. Restricted stock 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 vesting 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. 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 awards as of March 31, 2014, along with the changes during the nine months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2013	933,740	\$49.87
Granted	211,040	64.31
Vested	(124,880)	) 47.41
Forfeited	(31,240)	) 49.23
Nonvested at March 31, 2014	988,660	\$53.28

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, 2014, there were 591,514 shares available for issuance under the Purchase Plan. During the three months ended March 31, 2014 and 2013, the Company issued 28,451 and 29,528 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 \$14.85 and \$13.67 during the three months ended March 31, 2014 and 2013, 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

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Total stock-based compensation cost was \$3.7 million and \$3.4 million for the three months ended March 31, 2014 and 2013, respectively. Cash received from Purchase Plan purchases was \$1.6 million and \$1.5 million for the three months ended March 31, 2014 and 2013, respectively. The tax benefit realized for the tax deductions from the vesting of restricted shares, which increased additional paid in capital, totaled \$0.7 million for both the three months ended March 31, 2014 and 2013, 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, which included 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, 2014 and 2013.

	Three Months Ended March 31,	
	2014	2013
	(In thousands, except per share amounts)	
Weighted average basic common shares outstanding	23,339	22,282
Dilutive effect of contingently convertible notes and warrants	2,085	1,825
Dilutive effect of employee stock purchases, net of assumed repurchase of treasury stock	4	6
Weighted average dilutive common shares outstanding	25,428	24,113
Basic:		
Net Income	\$31,303	\$22,118
Less: Earnings allocated to participating securities	1,241	992
Earnings available to basic common shares	\$30,062	\$21,126
Basic earnings per common share	\$1.29	\$0.95
Diluted:		
Net Income	\$31,303	\$22,118
Less: Earnings allocated to participating securities	1,156	930
Earnings available to diluted common shares	\$30,147	\$21,188
Diluted earnings per common share	\$1.19	\$0.88

The weighted average number of stock-based awards not included in the calculation of the dilutive effect of stock-based awards was immaterial for the three months ended March 31, 2014 and 2013.

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. As a result, the number of shares included in the Company's diluted shares outstanding each period varies based upon the Company's average adjusted closing common stock price during the applicable period. Although the ten-year call options that 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. The average adjusted closing price of the Company's common stock for the three months ended March 31, 2014 and 2013 was more than the conversion price then in effect at the end of those periods.

Therefore, the respective dilutive effect of the 2.25% Notes was included in the computation of diluted EPS for the three months ended March 31, 2014 and 2013. Refer to Note 9, "Long-Term Debt" for a description of the change to the conversion price of the 2.25% Notes, which occurred during the three months ended March 31, 2014 as a result of the Company's decision to pay a cash dividend in excess of \$0.14.

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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, "Long-Term Debt") and the 3.00% Warrants sold in connection with the 3.00% Notes ("3.00% Warrants"). As a result, the number of shares included in the Company's diluted shares outstanding each period varies based upon the Company's average adjusted closing common stock price during the applicable period. Although the ten-year call options that 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, 2014 and 2013, was more than the conversion price then in effect at the end of those periods, the respective dilutive effect of the 3.00% Notes and Warrants was included in the computation of diluted EPS for the three months ended March 31, 2014 and 2013. Refer to Note 9, "Long-Term Debt" for a description of the change to the conversion price of the 3.00% Notes, which occurred during the three months ended March 31, 2014 as a result of the Company's decision to pay a cash dividend, as well as the convertibility of the 3.00% Notes as of March 31, 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 effective income tax rate of 36.4% of pretax income for the three months ended March 31, 2014 differed from the federal statutory rate of 35.0% due primarily to taxes provided for in the taxable state and foreign jurisdictions in which the Company operates.

As of March 31, 2014 and December 31, 2013, 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, 2014. When applicable, consistent with prior practice, the Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Taxable years 2009 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, 2014 (unaudited) (In thousands)	December 31, 2013
Amounts due from manufacturers	\$72,841	\$78,131
Parts and service receivables	33,248	31,950
Finance and insurance receivables	18,328	19,283
Other	9,337	8,099
Total accounts and notes receivable	133,754	137,463
Less allowance for doubtful accounts	2,260	2,405
Accounts and notes receivable, net	\$131,494	\$135,058

Inventories consisted of the following:

	March 31, 2014 (unaudited) (In thousands)	December 31, 2013
New vehicles	\$1,151,182	\$1,165,335
Used vehicles	239,177	231,960
Rental vehicles	89,041	88,523
Parts, accessories and other	65,083	64,156
Total inventories	1,544,483	1,549,974
Less lower of cost or market reserves	7,371	7,656
Inventories, net	\$1,537,112	\$1,542,318

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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 or market determined on either a first-in, first-out basis or on an average cost basis.

Property and equipment consisted of the following:

	Estimated Useful Lives in Years (unaudited)	March 31, 2014	December 31, 2013
		(dollars in thousands)	
Land	—	\$283,656	\$269,778
Buildings	30 to 40	415,774	405,918
Leasehold improvements	varies	129,811	120,531
Machinery and equipment	7 to 20	81,700	79,209
Furniture and fixtures	3 to 10	74,350	70,918
Company vehicles	3 to 5	8,630	8,508
Construction in progress	—	20,941	19,224
Total		1,014,862	974,086
Less accumulated depreciation		187,741	177,730
Property and equipment, net		\$827,121	\$796,356

During the three months ended March 31, 2014, the Company incurred \$16.2 million of capital expenditures for the construction of new or expanded facilities and the purchase of equipment and other fixed assets in the maintenance of the Company's dealerships and facilities. In addition, the Company purchased real estate during the three months ended March 31, 2014 associated with existing dealership operations totaling \$3.0 million. And, in conjunction with the Company's 2014 acquisitions, the Company acquired \$19.2 million of real estate and other property and equipment.

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 \$200.0 million floorplan financing arrangement ("FMCC Facility") with Ford Motor Credit Company ("FMCC") for financing of new Ford vehicles in the U.S. and other floor plan financing arrangements with several other automobile manufacturers for financing of a portion of its 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

On June 20, 2013, the Company amended its Revolving Credit Facility principally to increase the total borrowing capacity from \$1.35 billion to \$1.7 billion and to extend the term from an expiration date of June 1, 2016 to 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

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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 also requires a commitment fee of 0.20% per annum on the unused portion. The Acquisition Line 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 \$6.4 million of related unamortized costs as of March 31, 2014 that are being amortized over the term of the facility.

After considering the outstanding balance of \$1,060.7 million at March 31, 2014, the Company had \$319.3 million of available floorplan borrowing capacity under the Floorplan Line. Included in the \$319.3 million available borrowings under the Floorplan Line was \$33.6 million of immediately available funds. The weighted average interest rate on the Floorplan Line was 1.4% as of March 31, 2014 and of December 31, 2013, under the Revolving Credit Facility, 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, 2014 and December 31, 2013 were \$50.0 million and \$60.0 million, respectively. After considering \$31.1 million of outstanding letters of credit and other factors included in the Company's available borrowing base calculation, there was \$198.8 million of available borrowing capacity under the Acquisition Line as of March 31, 2014. The amount of available borrowing capacity under the Acquisition Line is limited from time to time based upon certain debt covenants.

All of the Company's domestic dealership-owning subsidiaries are co-borrowers under the Revolving Credit Facility. The Company's obligations under the Revolving Credit Facility are secured by essentially all of the Company's domestic personal property (other than equity interests in dealership-owning subsidiaries), including all motor vehicle inventory and proceeds from the disposition of dealership-owning subsidiaries, 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, 2014, the Restricted Payment Basket totaled \$158.5 million. As of March 31, 2014, the Company was in compliance with all applicable covenants and ratios under the Revolving Credit Facility.

Ford Motor Credit Company Facility

The FMCC Facility provides for the financing of, and is collateralized by, the Company's Ford new vehicle inventory, including affiliated brands. This arrangement provides for \$200.0 million of floorplan financing and is an evergreen arrangement that may be canceled with 30 days notice by either party. As of March 31, 2014, the Company had an outstanding balance of \$174.0 million under the FMCC Facility with an available floorplan borrowing capacity of \$26.0 million. This facility bears interest at a rate of Prime plus 150 basis points minus certain incentives. As of March 31, 2014, the interest rate on the FMCC Facility was 4.75% before considering the applicable incentives.

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. Dependent upon the type of inventory financed, the interest rates charged on borrowings outstanding under these facilities ranged from 1.14% to 3.95% as of March 31, 2014.

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

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financed. As of March 31, 2014, the interest rates charged on borrowings outstanding under these facilities ranged from 14.85% to 19.02%.

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, 2014, 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 rental 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, 2014	December 31, 2013
	(dollars in thousands)	
2.25% Convertible Senior Notes	\$ 162,425	\$ 160,334
3.00% Convertible Senior Notes	85,255	84,305
Real Estate Credit Facility	67,242	67,719
Acquisition Line	49,970	60,000
Other Real Estate Related and Long-Term Debt	282,368	279,167
Capital lease obligations related to real estate, maturing in varying amounts through June 2034 with a weighted average interest rate of 10.3%	46,903	47,553
	694,163	699,078
Less current maturities of real estate credit facility and other long-term debt	29,121	35,389
	\$ 665,042	\$ 663,689

Included in current maturities of long-term debt and short-term financing in the Company's Consolidated Balance Sheets as of each of March 31, 2014 and December 31, 2013 was \$0.8 million, of short-term financing that is due within one year of the respective balance sheet date.

Fair Value of Long-Term Debt

The Company's outstanding 2.25% Convertible Senior Notes due 2036 ("2.25% Notes") had a fair value of \$221.2 million and \$231.6 million as of March 31, 2014 and December 31, 2013, respectively. The Company's outstanding 3.00% Convertible Senior Notes due 2020 ("3.00% Notes") had a fair value of \$214.8 million and \$231.2 million as of March 31, 2014 and December 31, 2013, respectively. Of the \$282.4 million and \$279.2 million other real estate related and long-term debt as of March 31, 2014 and December 31, 2013, respectively, \$162.2 million and \$164.1 million represented fixed interest rate borrowings. The fair value of such fixed interest rate borrowings was \$187.9 million and \$190.0 million as of March 31, 2014 and December 31, 2013, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of March 31, 2014 and December 31, 2013. 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. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented. The carrying value of the Company's variable rate debt approximates fair value due to the short-term nature of the interest rates.

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2.25% Convertible Senior Notes

As of March 31, 2014 and December 31, 2013, the carrying value of the 2.25% Notes, related discount and equity component consisted of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Carrying amount of equity component	\$65,270	\$65,270
Allocated underwriter fees, net of taxes	(1,475	) (1,475)
Allocated debt issuance cost, net of taxes	(58	) (58)
Total net equity component	\$63,737	\$63,737
Deferred income tax component	\$7,281	\$8,023
Principal amount of 2.25% Notes	\$182,753	\$182,753
Unamortized discount	(19,562	) (21,574)
Unamortized underwriter fees	(766	) (845)
Net carrying amount of liability component	\$162,425	\$160,334
Unamortized debt issuance cost	\$30	\$33

For the three months ended March 31, 2014 and 2013, the contractual interest expense and the discount amortization, which is recorded as other interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Three Months Ended March 31,	
	2014	2013
	(dollars in thousands)	
Year-to-date contractual interest expense	\$1,028	\$1,028
Year-to-date discount amortization ⁽¹⁾	\$2,012	\$1,826
Effective interest rate of liability component	7.7	% 7.7 %

⁽¹⁾ Represents the incremental impact of the accounting for convertible debt as primarily codified in ASC 470, Debt. The Company determined the discount using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 7.50% was estimated by comparing debt issuances from companies with similar credit ratings during the same annual period as the Company. The effective interest rate differs from the 7.50% due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount and are being amortized to interest expense through 2016. The effective interest rate may change in the future as a result of future repurchases of the 2.25% Notes. The Company utilized a ten-year term for the assessment of the fair value of its 2.25% Notes.

The 2.25% Notes are convertible into cash and, if applicable, common stock based on the then-applicable conversion rate under the following circumstances: (a) during any calendar quarter (and only during such calendar quarter), if the closing price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the applicable conversion price per share (or \$77.08 as of March 31, 2014); (b) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount for each day of the ten day trading period was less than 98% of the product of the last reported sale/bid price of the Company's common stock and the conversion rate on that day; and (c) upon the occurrence of specified corporate transactions set forth in the indenture governing the 2.25% Notes (the "2.25% Notes Indenture"). Upon conversion, a holder will receive an amount in cash and, if applicable, shares of the Company's common stock, determined in the manner set forth in the 2.25% Notes Indenture. The if-converted value of the 2.25% Notes exceeded the principal amount of the 2.25% Notes by \$17.5 million at March 31, 2014.

The Company may redeem all or part of the 2.25% Notes if the last reported sale price of the Company's common stock is greater than or equal to 130% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date on which the Company mails the

redemption notice.

As of March 31, 2014, the conversion rate was 16.87 shares of common stock per \$1,000 principal amount of 2.25% Notes, with a conversion price of \$59.29 per share, which was reduced during the first quarter of 2014 as the result of the Company's decision to pay a cash dividend in excess of \$0.14 per share. As of March 31, 2014, the exercise price of the 2.25% Warrants, which are related to the issuance of the 2.25% Notes, was reduced to \$80.12 due to the Company's decision to pay a cash dividend in excess of \$0.14 per share during the first quarter of 2014. If any cash dividend or distribution is made to all, or

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substantially all, holders of the Company's common stock in excess of \$0.14 per share in the future, the conversion rate will be further adjusted based on the formula defined in the 2.25% Notes Indenture.

Under the terms of the 2.25% Purchased Options, which become exercisable upon conversion of the 2.25% Notes, the Company has the right to receive a total of 3.1 million shares of its common stock at the conversion price then in effect. The exercise price of the 2.25% Purchased Options is subject to certain adjustments that mirror the adjustments to the conversion price of the 2.25% Notes (including payments of cash dividends in excess of \$0.14 per share).

3.00% Convertible Senior Notes

As of March 31, 2014 and December 31, 2013, the carrying value of the 3.00% Notes, related discount and equity component consisted of the following

	March 31, 2014	December 31, 2013
	(In thousands)	
Carrying amount of equity component (including temporary equity)	\$25,359	\$25,359
Allocated underwriter fees, net of taxes	(760)	(760)
Allocated debt issuance cost, net of taxes	(112)	(112)
Total net equity component	\$24,487	\$24,487
Deferred income tax component	\$10,302	\$10,625
Principal amount of 3.00% Notes	\$115,000	\$115,000
Unamortized discount	(28,194)	(29,094)
Unamortized underwriter fees	(1,551)	(1,601)
Net carrying amount of liability component	\$85,255	\$84,305
Unamortized debt issuance costs	\$229	\$236

For the three months ended March 31, 2014 and 2013, the contractual interest expense and the discount amortization, which is recorded as interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Three Months Ended March 31,	
	2014	2013
	(dollars in thousands)	
Year-to-date contractual interest expense	\$863	\$863
Year-to-date discount amortization ⁽¹⁾	\$899	\$785
Effective interest rate of liability component	8.6	% 8.6

⁽¹⁾ Represents the incremental impact of the accounting for convertible debt as primarily codified in ASC 470, Debt. The Company determined the discount using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 8.25% was estimated by receiving a range of quotes from the underwriters for the estimated rate that the Company could reasonably expect to issue non-convertible debt for the same tenure. The effective interest rate differs from the 8.25% due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount and are being amortized to interest expense through 2020. The effective interest rate may change in the future as a result of future repurchases of the 3.00% Notes. The Company utilized a ten-year term for the assessment of the fair value of its 3.00% Notes.

The 3.00% Notes are convertible into cash and, if applicable, common stock based on the then-applicable conversion rate under the following circumstances: (a) during any fiscal quarter (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days in the pe