FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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GROUP 1 AUTOMOTIVE INC

CIK:**1031203**| IRS No.: **760506313** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-13461** | Film No.: **1697260**
SIC: **5500** Auto dealers & gasoline stations

Mailing Address
950 ECHO LANE
STE 100
HOUSTON TX 77024

Business Address
950 ECHO LANE
STE 100
HOUSTON TX 77024
7134676268

FORM 10-Q

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 June 30, 2001

Commission file number: 1-13461

GROUP 1 AUTOMOTIVE, INC.
(Exact name of Registrant as specified in its charter)

Delaware	76-0506313
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 X No
   ---   ---

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

<Table>
<Caption>

Title	Outstanding
<S>	<C>
Common stock, par value $.01	19,516,854

</Table>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

<Table>
<Caption>

	JUNE 30, 2001	DECEMBER 31, 2000
	(unaudited)	
<S>	<C>	<C>

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$ 150,576	$ 140,878
Accounts and notes receivable, net	42,729	39,709
Inventories, net	491,742	527,101
Deferred income taxes	9,188	7,661
Other assets	4,184	5,190
Total current assets	698,419	720,539
PROPERTY AND EQUIPMENT, net	72,675	70,901
GOODWILL, net	280,383	285,892
OTHER ASSETS	24,429	22,221
Total assets	$ 1,075,906	$ 1,099,553

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Floorplan notes payable	$ 501,216	$ 536,707
Current maturities of long-term debt	1,552	1,506
Accounts payable	65,683	57,872
Accrued expenses	71,133	69,685
Total current liabilities	639,584	665,770
DEBT, net of current maturities	30,624	45,949
SENIOR SUBORDINATED NOTES	89,520	94,444
DEFERRED INCOME TAXES	9,853	8,668
OTHER LIABILITIES	41,259	37,306
STOCKHOLDERS' EQUITY:		
Preferred stock, 1,000,000 shares authorized, none issued or outstanding	--	--
Common stock, $.01 par value, 50,000,000 shares authorized, 19,698,782 and 21,260,227 issued	197	213
Additional paid-in capital	151,995	170,683
Retained earnings	115,908	92,517
Treasury stock, at cost, 256,586 and 1,494,488 shares	(3,034)	(15,997)
Total stockholders' equity	265,066	247,416
Total liabilities and stockholders' equity	$ 1,075,906	$ 1,099,553

</Table>

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

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

(dollars in thousands, except per share amounts)

<Table>
<Caption>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
REVENUES:				
New vehicle	$ 592,897	$ 559,819	$ 1,130,339	$ 1,071,236
Used vehicle	289,702	266,381	564,360	516,078
Parts and service	88,910	75,223	173,681	148,067
Other dealership revenues, net	35,062	28,714	67,055	54,667

Total revenues	1,006,571	930,137	1,935,435	1,790,048
COST OF SALES:				
New vehicle	547,091	516,101	1,045,163	987,908
Used vehicle	266,345	244,691	517,180	474,316
Parts and service	39,314	33,648	77,343	66,777
Total cost of sales	852,750	794,440	1,639,686	1,529,001
GROSS PROFIT	153,821	135,697	295,749	261,047
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	115,303	99,028	224,498	194,848
Income from operations before non-cash charges	38,518	36,669	71,251	66,199
DEPRECIATION EXPENSE	1,972	1,920	3,933	3,670
AMORTIZATION EXPENSE	2,281	2,127	4,551	4,138
Income from operations	34,265	32,622	62,767	58,391
OTHER INCOME AND EXPENSES:				
Floorplan interest expense	(7,830)	(9,582)	(17,137)	(17,955)
Other interest expense, net	(3,722)	(3,799)	(7,922)	(7,682)
Other income (expense), net	(18)	(1)	20	1,023
INCOME BEFORE INCOME TAXES	22,695	19,240	37,728	33,777
PROVISION FOR INCOME TAXES	8,625	7,311	14,337	12,835
NET INCOME	$ 14,070	$ 11,929	$ 23,391	$ 20,942
Earnings per share:				
Basic	$ 0.72	$ 0.55	$ 1.19	$ 0.95
Diluted	$ 0.68	$ 0.54	$ 1.15	$ 0.93
Weighted average shares outstanding:				
Basic	19,479,775	21,846,856	19,585,027	22,115,594
Diluted	20,719,924	22,230,813	20,365,291	22,506,251

</Table>

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

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

(dollars in thousands)

<Table>
<Caption>

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,391	$ 20,942

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,484	7,808
Deferred income taxes	(342)	536
Provision for doubtful accounts and uncollectible notes	603	596
Loss (Gain) on sale of assets	(28)	15
Gain on sale of franchise	--	(1,048)
Changes in assets and liabilities:		
Accounts receivable	(3,080)	(7,906)
Inventories	22,688	(44,606)
Other assets	(2,062)	(470)
Floorplan notes payable	(22,802)	27,233
Accounts payable and accrued expenses	27,249	11,286
Total adjustments	30,710	(6,556)
Net cash provided by operating activities	54,101	14,386
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in notes receivable	(1,496)	(1,452)
Collections on notes receivable	568	834
Purchases of property and equipment	(6,741)	(9,103)
Proceeds from sales of property and equipment	357	535
Proceeds from sales of franchises	3,973	9,700
Cash paid in acquisitions, net of cash received	(600)	(37,490)
Net cash used by investing activities	(3,939)	(36,976)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) borrowings on acquisition tranche of revolving credit facility	(14,750)	32,000
Principal payments of long-term debt	(683)	(742)
Borrowings of long-term debt	154	678
Purchase of senior subordinated notes	(5,000)	(957)
Proceeds from issuance of common stock to benefit plans	1,247	1,817
Purchase of treasury stock	(21,432)	(14,611)
Net cash provided (used) by financing activities	(40,464)	18,185
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,698	(4,405)
CASH AND CASH EQUIVALENTS, beginning of period	140,878	118,824
CASH AND CASH EQUIVALENTS, end of period	$ 150,576	$ 114,419
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for -		
Interest	$ 26,932	$ 25,603
Taxes	$ 1,954	$ 9,644

</Table>

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

GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Group 1 Automotive, Inc. is a leading operator in the automotive retailing industry. Group 1 Automotive, Inc. is a holding company with its primary operations and assets being its investments in its subsidiaries. These subsidiaries sell new and used cars and light trucks through their dealerships and Internet sites, provide maintenance and repair services and arrange vehicle finance, service and insurance contracts. Group 1 Automotive, Inc. and its subsidiaries are herein collectively referred to as the "Company" or "Group 1".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation/Reclassifications

All acquisitions completed during the periods presented have been accounted for using the purchase method of accounting and their results of operations are included from the effective dates of the closings of the acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed are initially assigned and recorded based on preliminary estimates of fair value and may be revised as additional information concerning the valuation of such assets and liabilities becomes available. All significant intercompany balances and transactions have been eliminated in consolidation.

Interim Financial Information

These interim financial statements are unaudited, and certain information normally included in financial statements prepared in accordance with generally accepted accounting principles has not been included herein. In the opinion of management, all adjustments necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been properly included. Due to seasonality and other factors, the results of operations for the interim periods are not necessarily indicative of the results that will be realized for the entire fiscal year.

Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" was issued. SFAS No. 141 eliminates the use of the pooling-of-interests method of accounting for business combinations and establishes the purchase method as the only acceptable method. The statement is effective beginning June 30, 2001. Management has reviewed the requirements of the statement and does not believe it will have a material impact on the financial position or results of operations of the Company.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142 changes the treatment of goodwill by no longer amortizing goodwill, and instead requiring, at least annually, an assessment for impairment by applying a fair-value based test. However, other identifiable intangible assets are to be separately recognized and amortized. The statement is effective for fiscal years beginning after December 15, 2001. The adoption of the statement will result in the elimination of approximately $7.4 million of goodwill amortization, annually, subsequent to December 31, 2001. Additionally, adoption could result in an impairment of goodwill, based on the new fair-value based test, which would be reflected as a cumulative effect of change in accounting principle on January 1, 2002.

3. EARNINGS PER SHARE:

SFAS No. 128 requires the presentation of basic earnings per share and diluted earnings per share in financial statements of public enterprises. Under the provisions of this statement, basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impacts of all potentially dilutive securities. The following table sets forth the shares outstanding for the earnings per share calculations:

<Table>
<Caption>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Common stock outstanding, beginning of period	19,716,069	22,435,255	21,260,227	21,801,367
Weighted average common stock issued -				
Acquisitions	--	--	--	633,888
Employee Stock Purchase Plan	81,218	93,862	116,937	119,414

Stock options exercised	23,260	1,723	20,821	862
Less: Weighted average treasury shares purchased and weighted average shares repurchased and cancelled ...	(340,772)	(683,984)	(1,812,958)	(439,937)
Shares used in computing basic earnings per share	19,479,775	21,846,856	19,585,027	22,115,594
Dilutive effect of stock options, net of assumed repurchase of treasury stock	1,240,149	383,957	780,264	390,657
Shares used in computing diluted earnings per share	20,719,924	22,230,813	20,365,291	22,506,251

</Table>

4. SENIOR SUBORDINATED NOTES:

The Company completed the offering of $100 million of its 10 7/8% Senior Subordinated Notes due 2009 (the "Notes") on March 5, 1999. The Notes pay interest semi-annually on March 1 and September 1, each year. Before March 1, 2002, the Company may redeem up to $35 million of the Notes with the proceeds of certain public offerings of common stock at a redemption price of 110.875% of the principal amount plus accrued interest to the redemption date. Additionally, the Company may redeem all or part of the Notes at redemption prices of 105.438%, 103.625%, 101.813% and 100.000% of the principal amount plus accrued interest during the twelve-month periods beginning March 1, of 2004, 2005, 2006, and 2007 and thereafter, respectively. The Notes are jointly and severally guaranteed, on an unsecured senior subordinated basis, by all subsidiaries of the Company (the "Subsidiary Guarantors"), other than certain minor subsidiaries. All of the Subsidiary Guarantors are wholly-owned subsidiaries of the Company. Certain manufacturers have minimum working capital guidelines, which may limit a subsidiary's ability to make distributions to the parent company.

5. SUBSEQUENT EVENT:

During July 2001, the Company entered into an interest rate swap to hedge its variable rate debt. The Company swapped $100 million of floating rate for a fixed rate of interest, for a period of two years.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the response to Part I, Item 1 of this Report and our other filings with the Securities and Exchange Commission ("SEC").

OVERVIEW

We are a leading operator in the $1 trillion automotive retailing industry. We operate automobile dealership franchises located in Texas, Oklahoma, Florida, New Mexico, Colorado, Georgia, Louisiana and Massachusetts. We sell new and used cars and light trucks, provide maintenance and repair services, sell replacement parts and arrange vehicle finance, service and insurance contracts. We also operate 22 collision service centers.

We have diverse sources of revenues, including: new car sales, new truck sales, used car sales, used truck sales, manufacturer remarketed vehicle sales, parts sales, service sales, collision repair service sales, finance fees, vehicle service contract commissions, insurance commissions, documentary fees and after-market product sales. Sales revenues from new and used vehicle sales and parts and service sales include sales to retail customers, other dealerships and wholesalers. Other dealership revenues includes revenues from arranging financing, insurance and vehicle service contracts and documentary fees, net of a provision for anticipated chargebacks.

Our total gross margin varies as our merchandise mix (the mix between new vehicle sales, used vehicle sales, parts and service sales, collision repair service sales and other dealership revenues) changes. Our gross margin on the sale of products and services generally varies significantly, with new vehicle sales generally resulting in the lowest gross margin and other dealership revenues generally resulting in the highest gross margin. When our new vehicle sales increase or decrease at a rate greater than our other revenue sources, our gross margin responds inversely. Factors such as seasonality, weather, cyclicality and manufacturers' advertising and incentives may impact our merchandise mix and, therefore, influence our gross margin.

Selling, general and administrative expenses consist primarily of incentive-based compensation for sales, administrative, finance and general management personnel, rent, marketing, insurance and utilities. We believe that approximately 65% of our selling, general and administrative expenses are variable, allowing us to adjust our cost structure based on business trends. Interest expense consists of interest charges on interest-bearing debt, including floorplan inventory financing, net of interest income earned. We receive interest assistance from various of our manufacturers. This assistance, which is reflected as a reduction of cost of sales, generally equals between 80% and 90% of our floorplan interest expense.

SELECTED OPERATIONAL AND FINANCIAL DATA FOR THE THREE MONTH PERIODS ENDED JUNE 30, 2001 AND JUNE 30, 2000

NEW VEHICLE DATA

(dollars in thousands, except per unit amounts)	2001	2000	INCREASE/ (DECREASE)	PERCENT CHANGE
Retail unit sales	22,884	22,687	197	0.9%
Retail sales revenues	$ 592,897	$ 559,819	$ 33,078	5.9%
Gross profit	$ 45,806	$ 43,718	$ 2,088	4.8%
Average gross profit per retail unit sold	$ 2,002	$ 1,927	$ 75	3.9%
Gross margin	7.7%	7.8%	(0.1)%	

USED VEHICLE DATA

(dollars in thousands, except per unit amounts)	2001	2000	INCREASE/ (DECREASE)	PERCENT CHANGE
Retail unit sales	17,028	15,630	1,398	8.9%
Retail sales revenues (1)	$ 239,204	$ 214,293	$ 24,911	11.6%
Gross profit	$ 23,357	$ 21,690	$ 1,667	7.7%
Average gross profit per retail unit sold	$ 1,372	$ 1,388	$ (16)	(1.2)%
Gross margin	9.8%	10.1%	(0.3)%	

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(1) Excludes used vehicle wholesale revenues, as these transactions facilitate retail vehicle sales and are not expected to generate profit.

PARTS AND SERVICE DATA

(dollars in thousands)	2001	2000	INCREASE	PERCENT CHANGE
Sales revenues	$ 88,910	$ 75,223	$ 13,687	18.2%
Gross profit	$ 49,596	$ 41,575	$ 8,021	19.3%
Gross margin	55.8%	55.3%	0.5%	

</Table>

OTHER DEALERSHIP REVENUES, NET

(dollars in thousands, except per unit amounts)

	2001	2000	INCREASE	PERCENT CHANGE
Retail new and used unit sales	39,912	38,317	1,595	4.2%
Retail sales revenues	$ 35,062	$ 28,714	$ 6,348	22.1%
Other dealership revenues, net per retail unit sold	$ 878	$ 749	$ 129	17.2%

SAME STORE REVENUES COMPARISON (2)

(dollars in thousands)

	2001	2000	INCREASE	PERCENT CHANGE
New vehicle	$ 559,624	$ 546,664	$ 12,960	2.4%
Used vehicle	268,263	257,072	11,191	4.4%
Parts and service	81,906	72,513	9,393	13.0%
Other dealership revenues, net ...	32,570	27,562	5,008	18.2%
Total revenues	$ 942,363	$ 903,811	$ 38,552	4.3%

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(2) Includes only those dealerships owned during all of the months of both periods in the comparison.

THREE MONTHS ENDED JUNE 30, 2001 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2000

REVENUES. Revenues increased $76.5 million, or 8.2%, to $1,006.6 million for the three months ended June 30, 2001, from $930.1 million for the three months ended June 30, 2000. Although new vehicle unit sales were stable, new vehicle revenues increased as trucks, which have a higher average selling price than cars, and luxury vehicles became a greater percentage of our business. The growth in used vehicle revenues was primarily attributable to expanded operations in Atlanta, Albuquerque and Boston and dealership operations acquired in Atlanta. The increase in parts and service revenues was due to strong same store sales growth in the Houston, south Florida, Oklahoma and Boston markets, coupled with the additional dealership operations acquired. Other dealership revenues increased primarily due to increased sales training, company-wide benchmarking and a favorable interest rate environment.

GROSS PROFIT. Gross profit increased $18.1 million, or 13.3%, to $153.8 million for the three months ended June 30, 2001, from $135.7 million for the three months ended June 30, 2000. The increase was attributable to increased revenues and an increase in gross margin from 14.6% for the three months ended June 30, 2000, to 15.3% for the three months ended June 30, 2001. The gross margin increased as lower margin new vehicle revenues decreased as a percentage of total revenues to 58.9% from 60.2%. The gross margin on retail used vehicle sales decreased to 9.8% from 10.1% due primarily to softness in our Florida used vehicle operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $16.3 million, or 16.5%, to $115.3 million for the three months ended June 30, 2001, from $99.0 million for the three months ended June 30, 2000. The increase was primarily attributable to the additional dealership operations acquired and increased variable expenses, including incentive pay to employees. Selling, general and administrative expenses increased as a percentage of gross profit to 75.0% from 73.0% due primarily to the additional dealership operations acquired and incentive compensation.

INTEREST EXPENSE. Floorplan and other interest expense, net, decreased $1.8 million, or 13.4%, to $11.6 million for the three months ended June 30, 2001, from $13.4 million for the three months ended June 30, 2000. The decrease was due to a decline in interest rates. During the quarter there was a 219 basis point rate reduction of the average LIBOR as compared to the prior year. Partially offsetting the rate decrease was an increase in debt outstanding. The increase in debt outstanding was primarily attributable to the floorplan borrowings of the additional dealership operations acquired.

SELECTED OPERATIONAL AND FINANCIAL DATA FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2001 AND JUNE 30, 2000

NEW VEHICLE DATA

(dollars in thousands, except per unit amounts)

	2001	2000	INCREASE/ (DECREASE)	PERCENT CHANGE
Retail unit sales	43,610	43,466	144	0.3%
Retail sales revenues	$ 1,130,339	$ 1,071,236	$ 59,103	5.5%
Gross profit	$ 85,176	$ 83,328	$ 1,848	2.2%
Average gross profit per retail unit sold	$ 1,953	$ 1,917	$ 36	1.9%
Gross margin	7.5%	7.8%	(0.3)%	

USED VEHICLE DATA

(dollars in thousands, except per unit amounts)

	2001	2000	INCREASE	PERCENT CHANGE
Retail unit sales	33,528	30,281	3,247	10.7%
Retail sales revenues (1)	$ 464,303	$ 412,895	$ 51,408	12.5%
Gross profit	$ 47,180	$ 41,762	$ 5,418	13.0%
Average gross profit per retail unit sold	$ 1,407	$ 1,379	$ 28	2.0%
Gross margin	10.2%	10.1%	0.1%	

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(1) Excludes used vehicle wholesale revenues, as these transactions facilitate retail vehicle sales and are not expected to generate profit.

PARTS AND SERVICE DATA

(dollars in thousands)

	2001	2000	INCREASE	PERCENT CHANGE
Sales revenues	$ 173,681	$ 148,067	$ 25,614	17.3%
Gross profit	$ 96,338	$ 81,290	$ 15,048	18.5%
Gross margin	55.5%	54.9%	0.6%	

OTHER DEALERSHIP REVENUES, NET

(dollars in thousands, except per unit amounts)

	2001	2000	INCREASE	PERCENT CHANGE
Retail new and used unit sales	77,138	73,747	3,391	4.6%
Retail sales revenues	$ 67,055	$ 54,667	$ 12,388	22.7%
Net revenues per retail unit sold ...	$ 869	$ 741	$ 128	17.3%

SAME STORE REVENUES COMPARISON (2)

(dollars in thousands)

	2001	2000	INCREASE	PERCENT CHANGE
New vehicle	$ 1,058,063	$ 1,039,450	$ 18,613	1.8%
Used vehicle	518,329	494,533	23,796	4.8%
Parts and service	158,201	142,124	16,077	11.3%
Other dealership revenues, net ...	62,102	51,328	10,774	21.0%
Total revenues	$ 1,796,695	$ 1,727,435	$ 69,260	4.0%

(2) Includes only those dealerships owned during all of the months of both periods in the comparison.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2000

REVENUES. Revenues increased $145.4 million, or 8.1%, to $1,935.4 million for the six months ended June 30, 2001, from $1,790.0 million for the six months ended June 30, 2000. Although new vehicle unit sales were stable, new vehicle revenues increased as trucks, which have a higher average selling price than cars, and luxury vehicles became a greater percentage of our business. The growth in used vehicle revenues was primarily attributable to expanded operations in Atlanta and Albuquerque and dealership operations acquired in Atlanta. The increase in parts and service revenues was due to strong same store growth in the Houston, south Florida, Oklahoma and Boston markets, coupled with the additional dealership operations acquired. Other dealership revenues increased primarily due to increased sales training, company-wide benchmarking and a favorable interest rate environment.

GROSS PROFIT. Gross profit increased $34.7 million, or 13.3%, to $295.7 million for the six months ended June 30, 2001, from $261.0 million for the six months ended June 30, 2000. The increase was attributable to increased revenues and an increase in gross margin to 15.3% for the six months ended June 30, 2001, from 14.6% for the six months ended June 30, 2000. The gross margin increased as lower margin new vehicle revenues decreased as a percentage of total revenues to 58.4% from 59.8%. The gross margin on new retail vehicle sales declined to 7.5% from 7.8%, due to aggressively marketing excess inventory during the first three months of 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $29.7 million, or 15.2%, to $224.5 million for the six months ended June 30, 2001, from $194.8 million for the six months ended June 30, 2000. The increase was primarily attributable to the additional dealership operations acquired and increased variable expenses, including incentive pay to employees. Selling, general and administrative expenses increased as a percentage of gross profit to 75.9% from 74.6% due primarily to the additional dealership operations acquired and incentive compensation.

INTEREST EXPENSE. Floorplan and other interest expense, net, decreased $0.5 million, or 2.0%, to $25.1 million for the six months ended June 30, 2001, from $25.6 million for the six months ended June 30, 2000. The decrease was due to a decline in interest rates. During the six month period ended June 30, 2001, there was a 130 basis point rate reduction of the average LIBOR as compared to the prior year. Offsetting the rate decrease was an increase in average debt outstanding. The increase in debt outstanding was primarily attributable to the floorplan borrowings of the additional dealership operations acquired, additional floorplan borrowings due to excess inventory levels during the first three months of 2001 and borrowings related to share repurchases.

OTHER INCOME, NET. Other income, net, decreased $1,003,000 to $20,000 for the six months ended June 30, 2001, from $1,023,000 for the six months ended June 30, 2000. The decrease is due primarily to a $1 million gain from the sale of a Chrysler franchise in Austin, Texas, in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash on hand, cash from operations, our credit facility, which includes the floorplan tranche and the acquisition tranche, and equity and debt offerings.

CASH FLOWS

OPERATING ACTIVITIES. During the first six months of 2001 we generated cash flow from operations of approximately $54.1 million, an increase of $39.7 million compared to the same period in the prior year. Excluding working capital changes, cash flows from operating activities increased $3.3 million over the prior year period.

INVESTING ACTIVITIES. During the first six months of 2001 we used approximately $3.9 million in investing activities. We paid $6.7 million for purchases of property and equipment, of which $3.4 million was used for the purchase of land and construction of facilities for new or expanded operations. We received $4.0 million from the sales of franchises.

FINANCING ACTIVITIES. During the first six months of 2001 we used approximately $40.5 million in financing activities, primarily to repay borrowings under our credit facility and for purchases of our common stock.

WORKING CAPITAL. At June 30, 2001, we had working capital of $58.8 million. Historically, we have funded our operations with internally generated cash flow and borrowings. Certain manufacturers have minimum working capital guidelines, which may limit a subsidiary's ability to make distributions to the parent company. While we cannot guarantee it, based on current facts and circumstances, we believe we have adequate cash flows coupled with borrowings under our credit facility to fund our current operations.

CREDIT FACILITY

We have a $900 million credit facility, which matures in December 2003. The credit facility consists of two tranches: the floorplan and acquisition tranches. The acquisition tranche totals $198 million and, as of June 30, 2001, $177.5 million was available, subject to a cash flow calculation and the maintenance of certain financial ratios and various covenants.

CAPITAL EXPENDITURES

Our capital expenditures include expenditures to extend the useful life of current facilities and expenditures to start or expand operations. Historically, our annual capital expenditures, exclusive of new or expanded operations, have approximately equaled our annual depreciation charge. Expenditures relating to the construction or expansion of dealership facilities, generally, are driven by new franchises being awarded to us by a manufacturer or significant growth in sales at an existing facility. During 2001, we plan to invest approximately $10 million to expand six existing facilities and prepare three new facilities for operations.

ACQUISITION FINANCING

We anticipate investing between $20 million and $30 million in completing tuck-in acquisitions during 2001. We expect the cash needed to complete our acquisitions will come from the operating cash flows of our existing dealerships and borrowings under our current credit facility. We anticipate, subject to market conditions, increasing our acquisition activity during 2002.

STOCK REPURCHASE

The board of directors has authorized us to repurchase a portion of our stock, subject to management's judgment and the restrictions of our various debt agreements. Our agreements, subject to other covenants, allow us to spend approximately 33% of our cumulative net income to repurchase stock. During the first six months of 2001, we repurchased approximately 545,000 shares for $7.9 million, excluding shares repurchased to fulfill obligations under our employee stock purchase plan. Management will continue to review its investment alternatives to determine when it is appropriate to repurchase stock.

CAUTIONARY STATEMENT ABOUT FORWARD LOOKING STATEMENTS

This quarterly report includes certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include statements regarding our plans, goals, beliefs or current expectations, including those plans, goals, beliefs and expectations of our officers and directors with respect to, among other things:

- the completion of pending and future acquisitions
- operating cash flows and availability of capital
- future stock repurchases
- capital expenditures

Any such forward-looking statements are not assurances of future performance and involve risks and uncertainties. Actual results may differ materially from anticipated results in the forward-looking statements for a number of reasons, including:

- the future economic environment, including consumer confidence, may affect the demand for new and used vehicles and parts and service sales
- regulatory environment, adverse legislation, or unexpected litigation
- our principal automobile manufacturers, especially Ford and Toyota, may not continue to enjoy high customer satisfaction with their products and they may not continue to support and make high-demand vehicles available to us
- requirements imposed on us by our manufacturers may affect our acquisitions and capital expenditures related to our dealership facilities
- our dealership operations may not perform at expected levels or achieve expected improvements
- we may not achieve expected future cost savings and our future costs could be higher than we expected
- available capital resources and various debt agreements may limit our ability to repurchase shares. Any repurchases of our stock may be made, from time to time, in accordance with applicable securities laws, in the open market or in privately negotiated transactions at such time and in such amounts, as we consider appropriate
- available capital resources may limit our ability to complete acquisitions
- available capital resources may limit our ability to complete construction of new or expanded facilities

This information and additional factors that could affect our operating results and performance are described in our filings with the SEC. We urge you to carefully consider those factors.

All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following information about our market sensitive financial instruments updates the information provided as of December 31, 2000, in our Annual Report on Form 10-K and constitutes a "forward-looking statement". Our major market risk exposure is changing interest rates. Our policy is to manage interest rates through use of a combination of fixed and floating rate debt. Interest rate swaps may be used to adjust interest rate exposures when appropriate, based upon market conditions. These swaps are entered into with financial institutions with investment grade credit ratings, thereby minimizing the risk of credit loss. All items described are non-trading.

Since December 31, 2000, our floorplan notes payable have decreased, primarily due to decreases in inventory levels. As of June 30, 2001, there was $20.5 million outstanding under the acquisition portion of the credit facility, a $14.8 million decrease since December 31, 2000. Additionally, during July 2001, we entered into a two-year interest rate swap with a notional amount of $100 million. The effect of the swap is to convert the interest rate on a portion of our borrowings from the 30-day LIBOR to a fixed rate of interest.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, our dealerships are named in claims involving the manufacture of automobiles, contractual disputes and other matters arising in the ordinary course of business. Currently, no legal proceedings are pending against or involve us that, in our opinion, based on current known facts and circumstances, could reasonably be expected to have a material adverse effect on our financial position.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the May 23, 2001, Annual Meeting of Stockholders, our stockholders voted on two matters.

(1) Election of four Directors:

The stockholders elected three of the nominees as directors for three-year terms based on the following voting results:

<Table>
<Caption>

	VOTES CAST:	
NOMINEE ELECTED	FOR	AGAINST OR WITHHELD
<S>	<C>	<C>
John L. Adams	18,067,281	49,151
Max P. Watson, Jr.	18,065,318	51,114
Kevin H. Whalen	16,639,525	1,476,907

</Table>

The stockholders elected one nominee as director for a two-year term based on the following voting results:

<Table>
<Caption>

	VOTES CAST:	
NOMINEE ELECTED	FOR	AGAINST OR WITHHELD
<S>	<C>	<C>
Bennett E. Bidwell	18,067,281	49,151

</Table>

(2) Appointment of Independent Public Accountants:

The stockholders ratified the appointment of Arthur Andersen LLP as the Company's independent public accountants for 2001. The results of the voting were as follows:

For	17,814,063
Against	250
Abstain	302,119

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS:

11.1 Statement re: computation of earnings per share is included under Note 3 to the financial statements.

B. REPORTS ON FORM 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Group 1 Automotive, Inc.

August 3, 2001	By: /s/ Scott L. Thompson
Date	Scott L. Thompson, Senior Vice President, Chief Financial Officer and Treasurer