GROUP 1 AUTOMOTIVE INC
Form 10-Q
May 03, 2016

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ ¨ Accelerated filer

Non-accelerated filer ¨ (Do not check if a smaller reporting company) ¨ Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of April 30, 2016, the registrant had 22,095,331 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, 2016	December 31, 2015
	(Unaudited, in thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$22,381	$13,037
Contracts-in-transit and vehicle receivables, net	209,542	252,438
Accounts and notes receivable, net	154,162	157,768
Inventories, net	1,826,531	1,737,751
Prepaid expenses and other current assets	41,463	27,376
Total current assets	2,254,079	2,188,370
PROPERTY AND EQUIPMENT, net	1,063,852	1,033,981
GOODWILL	886,293	854,915
INTANGIBLE FRANCHISE RIGHTS	319,895	307,588
OTHER ASSETS	9,727	11,862
Total assets	$4,533,846	$4,396,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable - credit facility and other	$1,239,792	$1,265,719
Offset account related to floorplan notes payable - credit facility	(104,081)	(110,759)
Floorplan notes payable - manufacturer affiliates	437,672	389,071
Offset account related to floorplan notes payable - manufacturer affiliates	(30,000)	(25,500)
Current maturities of long-term debt and short-term financing	37,506	54,991
Accounts payable	327,594	280,423
Accrued expenses	194,870	185,323
Total current liabilities	2,103,353	2,039,268
LONG-TERM DEBT, net of current maturities	1,256,679	1,199,534
DEFERRED INCOME TAXES	138,984	136,644
LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES	43,122	31,153
OTHER LIABILITIES	78,915	71,865
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; 25,708 and 25,706 issued, respectively	257	257
Additional paid-in capital	283,196	291,092
Retained earnings	955,326	926,169
Accumulated other comprehensive loss	(144,856)	(137,984)
Treasury stock, at cost; 2,700 and 2,291 shares, respectively	(181,130)	(161,282)
Total stockholders' equity	912,793	918,252
Total liabilities and stockholders' equity	$4,533,846	$4,396,716

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

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

	Three Months Ended March 31,	
	2016	2015
	(Unaudited, in thousands, except per share amounts)	
REVENUES:		
New vehicle retail sales	$1,409,851	$1,332,724
Used vehicle retail sales	688,171	623,193
Used vehicle wholesale sales	101,592	100,192
Parts and service sales	308,592	282,189
Finance, insurance and other, net	100,149	94,556
Total revenues	2,608,355	2,432,854
COST OF SALES:		
New vehicle retail sales	1,338,124	1,262,993
Used vehicle retail sales	638,971	577,072
Used vehicle wholesale sales	100,143	97,513
Parts and service sales	142,016	131,392
Total cost of sales	2,219,254	2,068,970
GROSS PROFIT	389,101	363,884
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	293,664	271,469
DEPRECIATION AND AMORTIZATION EXPENSE	12,464	11,684
ASSET IMPAIRMENTS	932	—
INCOME FROM OPERATIONS	82,041	80,731
OTHER EXPENSE:		
Floorplan interest expense	(11,010)	(9,348)
Other interest expense, net	(16,929)	(13,911)
INCOME BEFORE INCOME TAXES	54,102	57,472
PROVISION FOR INCOME TAXES	(19,811)	(21,657)
NET INCOME	$34,291	$35,815
BASIC EARNINGS PER SHARE	$1.47	$1.47
Weighted average common shares outstanding	22,448	23,443
DILUTED EARNINGS PER SHARE	$1.47	$1.47
Weighted average common shares outstanding	22,453	23,446
CASH DIVIDENDS PER COMMON SHARE	$0.22	$0.20

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

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

	Three Months Ended March 31,	
	2016	2015
	(Unaudited, in thousands)	
NET INCOME	$34,291	$35,815
Other comprehensive loss, net of taxes:		
Foreign currency translation adjustment	2,155	(30,594)
Net unrealized loss on interest rate risk management activities:		
Unrealized loss arising during the period, net of tax benefit of $6,685 and $3,907, respectively	(11,141)	(6,513)
Reclassification adjustment for loss included in interest expense, net of tax provision of $1,269 and $1,180, respectively	2,114	1,967
Net unrealized loss on interest rate risk management activities, net of tax	(9,027)	(4,546)
OTHER COMPREHENSIVE LOSS, NET OF TAXES	(6,872)	(35,140)
COMPREHENSIVE INCOME	$27,419	$675

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	Shares	Amount					
	(Unaudited, in thousands)						
BALANCE, December 31, 2015	25,706	$ 257	$291,092	$926,169	$ (137,984)	$(161,282)	$918,252
Net income	—	—	—	34,291	—	—	34,291
Other comprehensive loss, net	—	—	—	—	(6,872)	—	(6,872)
Purchases of treasury stock	—	—	—	—	—	(31,945)	(31,945)
Net issuance of treasury shares to employee stock compensation plans	2	—	(13,340)	—	—	12,097	(1,243)
Stock-based compensation, including tax effect of $53	—	—	5,444	—	—	—	5,444
Cash dividends, net of estimated forfeitures relative to participating securities	—	—	—	(5,134)	—	—	(5,134)
BALANCE, March 31, 2016	25,708	$ 257	$283,196	$955,326	$ (144,856)	$(181,130)	$912,793

The accompanying notes are an integral part of these consolidated financial statements.
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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2016	2015
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$34,291	$35,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,464	11,684
Deferred income taxes	5,000	3,320
Asset impairments	932	—
Stock-based compensation	5,511	4,888
Amortization of debt discount and issue costs	484	899
Gain on disposition of assets	(590)	8
Tax effect from stock-based compensation	53	(1,004)
Other	666	1,729
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts payable and accrued expenses	32,180	(10,329)
Accounts and notes receivable	10,804	6,275
Inventories	(55,737)	(1,469)
Contracts-in-transit and vehicle receivables	50,262	10,487
Prepaid expenses and other assets	4,476	2,589
Floorplan notes payable - manufacturer affiliates	15,410	(6,589)
Deferred revenues	(131)	(136)
Net cash provided by operating activities	116,075	58,167
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid in acquisitions, net of cash received	(51,110)	(50,142)
Proceeds from disposition of franchises, property and equipment	13,871	1,171
Purchases of property and equipment, including real estate	(33,702)	(23,157)
Other	(106)	287
Net cash used in investing activities	(71,047)	(71,841)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facility - floorplan line and other	1,648,527	1,597,034
Repayments on credit facility - floorplan line and other	(1,666,103)	(1,641,072)
Borrowings on credit facility - acquisition line	40,000	189,933
Repayment on credit facility - acquisition line	(40,000)	(135,907)
Borrowings on other debt	7,415	13,678
Principal payments on other debt	(12,768)	(10,644)
Borrowings on debt related to real estate, net of debt issue costs	30,331	17,600
Principal payments on debt related to real estate	(5,538)	(6,458)
Employee stock purchase plan purchases, net of employee tax withholdings	(1,243)	(2,140)
Repurchases of common stock, amounts based on settlement date	(31,945)	(16,175)
Tax effect from stock-based compensation	(53)	1,004
Dividends paid	(5,148)	(4,892)
Net cash (used in) provided by financing activities	(36,525)	1,961
EFFECT OF EXCHANGE RATE CHANGES ON CASH	841	(2,983)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,344	(14,696)

CASH AND CASH EQUIVALENTS, beginning of period	13,037	40,975
CASH AND CASH EQUIVALENTS, end of period	$22,381	$26,279
SUPPLEMENTAL CASH FLOW INFORMATION:		
Purchases of property and equipment, including real estate, accrued in accounts payable	$22,274	$10,035

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 14 states in the United States of America ("U.S."), 19 towns in the United Kingdom ("U.K.") and three states in Brazil. Group 1 Automotive, Inc. and its subsidiaries are collectively referred to as the "Company" in these Notes to Consolidated Financial Statements.

The Company, through its regions, sells new and used cars and light trucks; arranges related vehicle financing; sells service and insurance contracts; provides automotive maintenance and repair services; and sells vehicle parts. As of March 31, 2016, the Company's U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (a) the East (37 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, and South Carolina), and (b) the West (77 dealerships in California, Kansas, Louisiana, Oklahoma, and Texas). The U.S. regional vice presidents report directly to the Company's Chief Executive Officer and are responsible for the overall performance of their regions, as well as for overseeing the market directors and dealership general managers that report to them. In addition, as of March 31, 2016, the Company had two international regions: (a) the U.K. region, which consisted of 29 dealerships in the U.K. and (b) the Brazil region, which consisted of 17 dealerships in Brazil. The operations of the Company's international regions are structured similarly to the U.S. regions, each with a regional vice president reporting directly to the Company's Chief Executive Officer.

The Company's operating results are generally subject to seasonal variations, as well as changes in the economic environment. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some markets within the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, U.S. revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. For the U.K., the first and third calendar quarters tend to be stronger, driven by plate change months of March and September. For Brazil, the Company expects higher volumes in the third and fourth calendar quarters. The first quarter is generally the weakest, driven by heavy consumer vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic condition, manufacturer incentive programs, or shifts in governmental taxes or regulations may exaggerate seasonal or cause counter-seasonal fluctuations in the Company's revenues and operating income.

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP 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, 2015 ("2015 Form 10-K").

All business acquisitions completed during the periods presented have been accounted for using the purchase method of accounting, and their results of operations are included from the effective dates of the closings of the acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed are assigned and recorded based on estimates of fair value and are subject to change within the purchase price allocation period (generally one year from the respective acquisition date). 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. The reportable segments are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by its chief operating decision maker to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer. See Note 14, "Segment Information," for additional details regarding the Company's reportable segments.

Variable Interest Entity

In 2013, the Company entered into arrangements to provide a related-party entity, which owns and operates retail automotive dealerships, a fixed-interest-rate working capital loan and various administrative services for a variable fee, both of which constitute variable interests in the entity. The Company's exposure to loss as a result of its involvement in the entity includes the balance outstanding under the loan arrangement. The Company holds an 8% 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, 2016 and December 31, 2015, as well as the results of operations of the VIE beginning on the effective date of the variable interests arrangements to March 31, 2016. The floorplan notes payable liability of the VIE is securitized by the new and used vehicle inventory of the VIE. The carrying amounts and classification of assets (which can only be used to settle the liabilities of the VIE) and liabilities (for which creditors do not have recourse to the general credit of the Company) that are included in the Company's consolidated statements of financial position for the consolidated VIE as of March 31, 2016 and December 31, 2015, are as follows (in thousands):

	March 31, 2016	December 31, 2015
Current assets	$ 17,596	$ 12,849
Non-current assets	12,106	11,022
Total assets	$ 29,702	$ 23,871
Current liabilities	$ 13,950	$ 8,257
Non-current liabilities	18,820	17,064
Total liabilities	$ 32,770	$ 25,321

Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes. This update requires an entity to classify deferred tax liabilities and assets as non-current within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company has elected to early adopt ASU 2015-17 during the first quarter of fiscal 2016, with retrospective application. Accordingly, deferred tax assets in the amount of $14.1 million, which were previously classified as current assets at December 31, 2015, were reclassified to non-current deferred income tax liabilities on the Company's Consolidated Balance Sheets to conform to current year presentation.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The amendments in the accounting standard require debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. The amendments in this ASU are to be applied retrospectively and are effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-03 during the first quarter of fiscal 2016, with retrospective application. Accordingly, debt issuance costs in the amounts of $0.5 million and $3.6 million, which were previously classified as current and long-term assets, respectively, at December 31, 2015, were reclassified as a direct reduction from the carrying amount of the related debt liability on the Company's Consolidated Balance Sheets to conform to current year presentation.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments. The amendments in the accounting standard eliminate the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The amendments also require that the acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The amendments in this ASU are to be applied prospectively to adjustments to provisional amounts that occur after the effective date and are effective for interim and annual periods beginning after December 15, 2015. The Company adopted ASU 2015-16 during the first quarter of fiscal 2016. The adoption of this amendment did not materially impact the Company's financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), that amends the accounting guidance on revenue recognition. The amendments in this ASU are intended to provide a framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. The amendments in this accounting standard update are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the method of adoption and the impact the provisions of the ASU will have on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory. The amendments in the accounting standard replace the lower of cost or market test with a lower of cost and net realizable value test. The amendments in this ASU should be applied prospectively and are effective for interim and annual periods beginning after December 15, 2016. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company does not expect the adoption to materially impact its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU relate to the accounting of leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the impact the adoption of the ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. The amendment addresses several aspects of the accounting for share-based payment award transactions, including: income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the ASU will have on its consolidated financial statements.

2. ACQUISITIONS AND DISPOSITIONS

During the three months ended March 31, 2016, the Company acquired 12 U.K. dealerships, inclusive of 15 franchises. The purchase price for these dealerships totaled $56.1 million, including the associated real estate and goodwill. Also, included in the purchase price of $56.1 million was $3.9 million of cash received in the acquisition of the dealerships and a payable to the seller as of March 31, 2016 of $1.1 million. The purchase price has been allocated based upon the consideration paid and the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The allocation of the purchase price is preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the respective acquisition date).

In addition, during the three months ended March 31, 2016, the Company disposed of two U.S. dealerships and two dealerships in Brazil. As a result of these U.S. and Brazil dealership dispositions, a net pretax gain of $0.9 million and a net pretax loss of $1.0 million, respectively, were recognized for the three months ended March 31, 2016.

During the three months ended March 31, 2015, the Company acquired one dealership in the U.S. and disposed of 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”) and certain variable-rate real estate related borrowings in the U.S. are indexed to the one-month London Inter Bank Offered Rate (“LIBOR”), plus an associated company credit risk rate. In order to minimize the earnings variability related to fluctuations in these rates, the Company employs an interest rate hedging strategy, whereby it enters into arrangements with various financial institutional counterparties with investment grade credit ratings, swapping its variable interest rate exposure for a fixed interest rate over terms not to exceed the related variable-rate debt.

The Company presents the fair value of all derivatives on its Consolidated Balance Sheets. The Company measures the fair value of its interest rate derivative instruments utilizing an income approach valuation technique, converting future amounts of cash flows to a single present value in order to obtain a transfer exit price within the bid and ask spread that is most representative of the fair value of its derivative instruments. In measuring fair value, the Company utilizes the option-pricing Black-Scholes present value technique for all of its derivative instruments. This option-pricing technique utilizes a one-month LIBOR forward yield curve, obtained from an independent external service provider, matched to the identical maturity term of the instrument being measured. Observable inputs utilized in the income approach valuation technique incorporate identical contractual notional amounts, fixed coupon rates, periodic terms for interest payments and contract maturity. The fair value estimate of the interest rate derivative instruments also considers the credit risk of the Company for instruments in a liability position or the counterparty for instruments in an asset position. The credit risk is calculated by using the spread between the one-month LIBOR yield curve and the relevant average 10 and 20-year rate according to Standard and Poor’s. The Company has determined the valuation measurement inputs of these derivative instruments to maximize the use of observable inputs that market participants would use in pricing similar or identical instruments and market data obtained from independent sources, which is readily observable or can be corroborated by observable market data for substantially the full term of the derivative instrument. Further, the valuation measurement inputs minimize the use of unobservable inputs. Accordingly, the Company has classified the derivatives within Level 2 of the hierarchy framework as described by Accounting Standards Codification ("ASC") 820, Fair Value Measurement. The related gains or losses on these interest rate derivatives are deferred in stockholders’ equity as a component of accumulated other comprehensive loss. These deferred gains and losses are recognized in income in the period in which the related items being hedged are recognized in expense. However, to the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in other income or expense. Monthly contractual settlements of these swap positions are recognized as floorplan or other interest expense in the Company’s accompanying Consolidated Statements of Operations. All of the Company’s interest rate hedges are designated as cash flow hedges. At March 31, 2016, all of the Company’s derivative contracts that were in effect were determined to be effective. The Company had no gains or losses related to ineffectiveness or amounts excluded from effectiveness testing recognized in the Consolidated Statements of Operations for the three months ended March 31, 2016 or 2015, respectively.

The Company held interest rate swaps in effect as of March 31, 2016 of $617.5 million in notional value that fixed its underlying one-month LIBOR at a weighted average rate of 2.6%. The Company records the majority of the impact of the periodic settlements of these swaps as a component of floorplan interest expense. For the three months ended March 31, 2016 and 2015, the impact of the Company’s interest rate hedges in effect increased floorplan interest expense by $2.8 million and $2.7 million, respectively. Total floorplan interest expense was $11.0 million and $9.3 million for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, the Company entered into four interest rate swaps with an aggregate notional value of $36.2 million that were immediately effective.

In addition to the $617.5 million of swaps in effect as of March 31, 2016, the Company held 17 additional interest rate swaps with forward start dates between December 2016 and January 2019 and expiration dates between December 2019 and December 2021. The aggregate notional value of these 17 forward-starting swaps was $850.0 million, and the weighted average interest rate was 2.3%. In addition to the four interest rate swaps entered into during the first quarter of 2016 mentioned above, four forward-starting interest rate swaps with an aggregate notional value of $200.0 million were added in the three months ended March 31, 2016. The combination of the interest rate swaps currently in effect and these forward-starting swaps is structured such that the notional value in effect through March 2023 does not exceed $908.6 million, which is less than the Company's expectation for variable rate debt outstanding during such period.

As of March 31, 2016 and December 31, 2015, the Company reflected liabilities from interest rate risk management activities of $45.6 million and $31.2 million, respectively, in its Consolidated Balance Sheets. Included in Accumulated Other Comprehensive Loss at March 31, 2016 and 2015 were accumulated unrealized losses, net of income taxes, totaling $28.5 million and $22.5 million, respectively, related to these interest rate swaps.

The following table presents the impact during the current and comparative prior year periods for the Company's derivative financial instruments on its Consolidated Statements of Operations and Consolidated Balance Sheets.

Derivatives in Cash Flow Hedging Relationship	Amount of Unrealized Loss, Net of Tax, Recognized in Other Comprehensive Income (Loss)	
	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Interest rate swap contracts	$ (11,141)	$ (6,513)

Location of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	Amount of Loss Reclassified from Other Comprehensive Income (Loss) into Statements of Operations	
	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Floorplan interest expense	$ (2,758)	$ (2,708)
Other interest expense	(625)	(439)

The amount expected to be reclassified out of other comprehensive income (loss) into earnings as additional floorplan interest expense or other interest expense in the next twelve months is $12.9 million.

4. STOCK-BASED COMPENSATION PLANS

The Company provides stock-based compensation benefits to employees and non-employee directors pursuant to its 2014 Long Term Incentive Plan (the "Incentive Plan"), as well as to employees pursuant to its Employee Stock Purchase Plan, as amended (the "Purchase Plan", formerly named the 1998 Employee Stock Purchase Plan).

Long Term Incentive Plan

The Incentive Plan provides for the grant of options (including options qualified as incentive stock options under the Internal Revenue Code of 1986 and options that are non-qualified), restricted stock, performance awards, bonus stock, and phantom stock to the Company's employees, consultants, non-employee directors and officers. The Incentive Plan expires on May 21, 2024. The terms of the awards (including vesting schedules) are established by the Compensation Committee of the Company's Board of Directors. As of March 31, 2016, there were 1,265,911 shares available for issuance under the Incentive Plan.

Restricted Stock Awards

Under the Incentive Plan, the Company grants to non-employee directors and certain employees restricted stock awards or, at their election, restricted stock units at no cost to the recipient. Restricted stock awards qualify as participating securities as each award contains non-forfeitable rights to dividends. As such, the two-class method is required for the computation of earnings per share. See Note 5, "Earnings Per Share," for further details. Restricted stock awards are considered outstanding at the date of grant but are subject to vesting periods upon issuance up to five years. Restricted stock units are considered vested at the time of issuance, however, since they cannot vote, they are not considered outstanding when issued. Restricted stock units settle in cash 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. The Company issues new shares or treasury shares, if available, when restricted stock vests. Compensation expense for restricted stock awards is calculated based on the market price of the Company's common stock at the date of grant and recognized over the requisite service period. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted annually based on the extent to which actual or expected forfeitures differ from the previous estimate.

A summary of the restricted stock awards as of March 31, 2016, along with the changes during the three months then ended, is as follows:

	Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	893,360	$ 69.16
Granted	193,070	52.69
Vested	(185,220)	56.51
Forfeited	(5,780)	77.32
Nonvested at March 31, 2016	895,430	$ 68.17

Employee Stock Purchase Plan

The Purchase Plan authorizes the issuance of up to 4.5 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after May 19, 2025. 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, 2016, there were 1,373,804 shares available for issuance under the Purchase Plan. During the three months ended March 31, 2016 and 2015, the Company issued 40,877 and 26,280 shares, respectively, of common stock to employees participating in the Purchase Plan. 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.

The weighted average fair value of employee stock purchase rights issued pursuant to the Purchase Plan was $15.61 and $18.72 during the three months ended March 31, 2016 and 2015, respectively. The fair value of