FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, Ladies and gentlemen, and welcome to the Group 1 Automotive Incorporated second quarter 2010 earnings conference call. Please be advised that this call is being recorded. I would now like to turn the call over to Mr. Pete DeLongchamps, Vice President of Manufacturing Relations and Public Affairs. Please go ahead, sir.

Pete DeLongchamps - *Group 1 Automotive - VP, Manufacturing Relations and Public Affairs*

Thank you, Elizabeth and good morning, everyone and welcome to today's call. Before we begin, I would like to make some brief remarks about forward-looking statements and the use of non-GAAP financial measures.

Except for historical information mentioned during the conference call, statements made about management of Group 1 Automotive are forward-looking statements that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve both known and unknown risks and uncertainties which may cause the Company's actual results in future periods to differ materially from forecasted results. Those risks include, but are not limited to risks associated with pricing, volume and the conditions of markets. Those and other risks are described in the Company's filings with the Securities and Exchange Commission over the last 12 months. Copies of these filings are available from both the FCC and the Company.

In addition, certain non-GAAP financial measures as defined under SEC rules might be discussed on this call. As required by applicable SEC rules, the Company provides reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures on its website.

Participating today on today's call are Earl Hesterberg, President and Chief Executive Officer, John Rickel, Senior Vice President and Chief Financial Officer, and Lance Parker, Vice President and Corporate Controller, and myself. I would now like to hand the call over to Earl. Earl?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thank you, Pete, and good morning, everyone. Before I turn the call over to John Rickel so he can provide details of our second quarter financial results, I will review our operating highlights.

During the second quarter, as recorded by JD Power, year-over-year industry new vehicle retail sales increased 10%. We're pleased to report this morning that we far exceeded those results as our same-store new vehicle unit sales increased more than 23% and our new vehicle revenue was up 26.5% from the second quarter of 2009. We saw strength across the vast majority of markets and brands. In addition to the strong increase in new vehicle sales, we had even better results in our used retail sales, where our same-store unit sales increased 24.2% from the same period a year ago and our revenue was up 31.7%.

We indicated on our first quarter call that after 18 months of restructuring, we were shifting gears and our plan for 2010 was focused on growing our company again. Our results during the first six months of this year indicate that we have been successful in that effort. In addition to the strong growth in new and used vehicle sales this quarter, we also delivered the following on a same-store basis. 15% growth in gross profit from wholesale used vehicle sales, reported higher finance and insurance gross profit for retail unit, and saw F&I revenue increase 31.4%. Expanded parts and service gross profit by 7.6% on 4.8% higher revenues from the prior year period. To be noted, the Toyota recalls accounted for only 1 percentage point of the revenue increase in the quarter. Total same-store revenues up 25% in the quarter and up 21.4% for $445 million in the first six months as compared with the first half of 2009. Improved SG&A expense by 390 basis points sequentially to 77.3% of gross profit and achieved an operating margin of 3.2%.

During the quarter, we had some adjustments associated with dealership dispositions and severance charges for restructuring of two recurrently acquired UK dealerships. Excluding these adjustments, on a consolidated basis, SG&A as a percent of gross profit improved 340 basis points to 78% from the prior quarter, reflecting our ability to leverage our leaner cost structures. Our operating margin grew to 3% and earnings were up 70.5% to $0.75 per diluted share.

Turning now to additional details on our new vehicle business, our brand mix during the second quarter was comprised of 35% of unit sales from our Toyota Scion Lexus stores. We saw our Toyota unit sales increase 28% during the quarter, nearly doubling the national increase. Our next largest brand was Nissan Infiniti, which accounted for 14% of unit sales and where we saw a 41% sales increase in the quarter. Next up was Honda Acura at 12%, and BMW now represents 11.5% of our mix as we continue to expand with this profitable brand. Rounding out our lineup is Ford at 9%, with a 26% increase in unit sales, Mercedes-Benz at 6%, and GM and Chrysler representing 4% and 3% of the unit sales, respectively. In total, luxury and import sales comprised 85% of our new vehicle unit sales. Our new vehicle inventory stood at 57 day supply at quarter end.

Looking at the used vehicle business, as I mentioned earlier, our second quarter same-store used retail revenues grew 32% on 24% more unit sales from the prior year period. Gross profit for retail unit increased slightly to $1,862. Our certified pre-owned business grew to represent 35% of our used vehicle retail sales in the quarter. We will continue to focus on this higher revenue business, as it also helps retain business in our service strives. Used vehicle wholesale pricing remained relatively stable during the second quarter. Same-store gross profit was $150 per wholesale unit, and revenues were 53% higher on 31% more wholesale units. The end of the second quarter, Group 1's used vehicle inventory stood at a 29 day supply.

Turning now to our other business segments, our same-store finance and insurance revenues grew 31% on higher retail vehicle sales. Gross profit expanded to $1,028 per retail unit as a result of higher penetration rates in financing and extended warranty sales, as well as lower charge (inaudible). Our same-store parts and service gross profit grew 7.6% on 4.8% higher revenues, reflecting solid growth in all areas of the business. Excluding the Toyota recall warranty work, revenues increased 3.8%. It was encouraging that increases of 3.5% and customer pay work, 8.6% in parts wholesale and 3.9% in collision repair, all contributed to this growth. With that, I'll now ask John to go over our financial results in more detail. John?

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you, Earl, and good morning, everyone. For the second quarter of 2010, our adjusted net income increased to $17.8 million, or $0.75 per diluted share. This result excludes a $3.7 million net after-tax loss on the disposition of a Ford Lincoln-Mercury dealership and related real estate in Florida, $1 million dollar after-tax non-cash impairment charge on a non-operating real estate holding, and a $405,000 after-tax charge related to severance costs associated with the restructuring of our two recently acquired BMW/Mini dealerships in the United Kingdom.

On a comparable basis, adjusted net income increased $7.5 million, or 73%, from $10.3 million in the second quarter of 2009, which excluded the following. A $1.3 million non-cash after-tax impairment charge primarily related to our real estate holdings that are held for sale, a $331,000 after-tax mortgage debt refinance charge, a $902,000 after-tax gain on the dealership disposition, and a $475,000 after-tax gain on the redemption of a portion of our 2.25 convertible notes.

During the second quarter, on a consolidated basis, revenues increased $309.8 million, or 27.9%, to $1.4 billion compared to the same period a year ago, reflecting increases in each of our business segments. Our parts and service margins improved 150 basis points to 54.2% while new vehicle gross margins remain flat at 5.7%. Retail used vehicle margins declined 70 basis points from the prior year period, but increased 10 basis points sequentially to 9.6%. Wholesale margins declined 120 basis points to 2%. Our gross profit increased $35.5 million, or 18.6%, from the second quarter a year ago, outpacing the increase in absolute SG&A expenses.

Excluding the loss that we recognized on our dealership disposition in Florida and the severance charge in the UK from our 2010 results, our adjusted SG&A expense as a percent of gross profit improved 180 basis points to 78% in the comparable results in the second quarter of 2009. Floorplan interest expense increased $800,000, or 9.9%, in the second quarter of 2010 to $8.6 million as compared to the same period a year ago. This increase reflects $110 million increase in weighed average floorplan borrowings during the quarter. At June 30, 2010, our new vehicle inventory stood at 15,800 units with a value of $484.9 million compared to 12,500 units with a value of $374.4 million a year ago. Other interest expense decreased $1.3 million, or 17.3% ,to $6.3 million for the second quarter of 2010. Our consolidated interest expense includes non-cash discount amortization of $2 million related to our convertible notes. As a reminder, our covenant calculations exclude the impact of non-cash interest expense. Manufacturers interest assistance, which we record as a reduction of new vehicle cost of sales at the time the vehicles are sold, covered 70.5% of total floorplan interest expense, up from 60.1% in the second quarter a year ago, primarily as a result of faster inventory turns.

Now, turning to second quarter same-store results. In the second quarter, we had revenues of $1.4 billion, which is a 25% increase from the same period in 2009. Our new vehicle retail sales improved 26.5% to $753.7 million on 23.1% more units. We experienced increases in most of the brands that we represent. Our average new vehicle selling prices improved over $800, or 2.7%, to $31,358 per unit. While market-by-market retail data is difficult to get in a timely manner, we believe that our results this quarter outpaced the market. Clearly, our new retail unit sales growth of 23.1% in total was significantly better than the JD Power estimated national retail increase of 10%. The focus we have put on growth is delivering results. Retail used vehicle revenues increased 31.7% to $320.6 million on 24.2% more units.

On a per-unit basis, retail used vehicle revenues were up over $1,000, or 6.1% from 2009 levels, to $19,126. With the increase in new vehicle sales and resulting trade-in activity, we also experienced an increase in our wholesale used vehicle revenue of

$17.7 million, on 1,900 more units. As Earl mentioned, our parts and service revenues increased 4.8%, reflecting a 3.5% increase in our customer pay parts and service revenues, an 8.6% increase in our wholesale parts business, a 3.9% increase in our collision business and a 5% improvement in our warranty parts and service business.

Our F&I revenues were up $10 million, or 31.4%, compared to the same period a year ago. In addition to the positive impact from the 23.5% increase in new and used retail unit sales, our F&I revenues were bolstered by increased finance and vehicle service contract penetration rates of 3.7 percentage points and 2.7 percentage points, respectively. Overall, our F&I income for retail unit increased $61 to $1,028 from the same period a year ago. Along with the 2.7% improvement in average new vehicle selling prices, our new vehicle gross profit improved 2% on a per unit basis to $1,798.

Retail used vehicle gross profit was about flat with 2009 levels on a per unit basis. Coupled with the increase in retail used vehicle average selling prices, our retail used vehicle margin declined 60 basis points, compared to the second quarter of 2009, to 9.7%. However, our same-store retail used vehicle margins have increased 90 basis points sequentially compared to the fourth quarter of 2009 as we begin to get a better flow of trade-ins as new vehicle sales increase. Our same-store parts and service margin grew 140 basis points to 54.2%, primarily reflecting the impact of increased internal work, which was driven by improved new and used retail vehicle sales volumes. We also experienced margin improvement in our domestic brand customer pay business, as well as our warranty parts and service business, which continued to be positively impacted by the Toyota recalls that began in the first quarter of 2010.

In absolute dollars, SG&A increased 14.1% in the second quarter a year ago to $169.3 million, reflecting the vehicle sales volumes improvement. But with the 17.3% improvement in our gross profit, the leverage on our cost structure resulted in a 210 basis point improvement in SG&A's percent of gross profit, to 77.3%. Excluding the third quarter of last year, which benefited from the Cash for Clunkers program, this is the lowest that SG&A's percent of gross profit has been since the third quarter of 2007 when the industry SAAR was at a 16 million unit rate.

Now, turning to liquidity and capital structure. During the second quarter of 2010, we generated cash flow from operations on an adjusted basis of $8.4 million, had $32.2 million of cash on hand, and another $72 million invested on the floorplan offset account as of June 30, 2010, bringing immediately available funds to a total of $104.2 million. In addition, we had $170.8 million available on our acquisition line that can also be used for general corporate purposes. As such, our total liquidity at June 30, 2010 was $275 million.

During the quarter, we used $19.2 million to acquire 748,000 shares of our outstanding stock with an average price of $25.69 per share. This exhausted the $20 million board authorization issued in August 2008 and brought total outstanding shares down to 23.8 million as of June 30 from 24.5 million at March 31. In addition, as we announced earlier this morning, our board of directors authorized the repurchase of an additional 25 million in outstanding shares of common stock.

We continue to remain focused on strengthening our balance sheet by reducing our debt levels. Accordingly, we used $28 million of cash generated during the quarter to pay down our debt obligations. In total, over the past 2.5 years, we have reduced our non-floorplan debt by $172 million. We have updated the financial covenant calculations within each of our debt agreements and as of June 30, we're in compliance with all such covenants. Based on our industry outlook and projected earnings for 2010, we expect to remain compliant for the foreseeable future.

With regards to our real estate investment portfolio, we own $356.5 million of land and buildings at quarter end, which represents approximately one-third of our total real estate. To finance these holdings, we've utilized our mortgage facility and executed borrowings under other real estate-specific debt agreements. As of June 30, we had $163.5 million outstanding under our mortgage facility, with $71.5 million available for future borrowings.

With regards to our capital expenditures, we used $4.7 million for capital expenditures during the quarter to construct new facilities, purchase equipment and improve existing facilities. We will continue to critically evaluate all planned capital spending for 2010 and work with our manufacture partnerships to maximize the return on our investments. We anticipate that our full-year capital spending will be less than $35 million. For additional detail regarding our financial condition, please refer to the schedules of additional information attached to the news release as well as the investor presentation posted on our website. With that, I'll now turn it back over to Earl.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks, John. As John mentioned, our financial results were very positive. We're proud of the hard work and sacrifices of our team -- that our team has made over the past 18 months and are also very pleased to see the benefits of all that hard work being leveraged as we return to growing the Company. Speaking of growth, as previously announced during the second quarter, Group 1 purchased Toyota and Scion of Rock Hill and Audi of Columbia dealerships in South Carolina in April, and we were granted a mini franchise that was added to our existing BMW store in Clear Lake, just south of Houston, in June.

Looking forward for 2010, it now looks like the industry is travelling toward an $11.5 million full-year selling rate, which is the assumption we're using for our near-term planning purposes. We remain focused on growing our business with continued emphasis on achieving as much as we can organically from our existing stores. We're also continuing to look for attractive acquisitions that meet our return hurdles and fit our strategy. We believe that acquisitions that deliver on those elements are appropriate places to invest. But absent that, we continue to look for ways to return capital to our shareholders. Consistent with that, I am pleased we were able to complete our prior stock repurchase authorization during the quarter and that the board approved an additional $25 million authorization on July 26. That concludes our prepared remarks. I will now turn the call over to the operator to begin the question-and-answer session. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

Operator

(Operator Instructions) Our first question today will come from John Murphy with Bank of America.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Good morning, John.

John Murphy - *BofA Merrill Lynch - Analyst*

If we look at everything that you have achieved in the first quarter and the earnings that you posted, it's pretty impressive that it's a $1.19. I was just wondering as we look at this and look back at your historical seasonal patterns, that would represent about 46%, or about half of your earnings on a typical annual basis. If we don't see a real recovery in sales, which is a debatable point, but we'll see how things shake out, we kind of travel along in this low 11 million unit run rate. Is there anything that would be odd in seasonality that happened in the first half of the year that would shift that typical seasonal typical? And should we just assume that that holds for the course of the year? Is there anything quirky in the first half of the year that we should be adjusting for?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Not that I can think of, other than, obviously, the comps were quite low in the first half of last year. But I don't think there is anything atypical other than that.

John Rickel - *Group 1 Automotive - SVP, CFO*

John, this is John Rickel. As I think about it, the first quarter, obviously January and February had some pretty severe weather impacts, but a lot of that came back in March, so I really can't think of anything beyond that.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, so if we stayed at that low 11 million, it's safe to assume that second half earnings would probably be close to -- and I'm not trying to botch you into guidance, will be a little -- potentially a little bit better than the first half if we had typical seasonal patterns.

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes, I can't argue with that, John.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. Second question, what was the Toyota impact in the quarter for parts and service? Was there any benefit there?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

The benefit was in warranty.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

And as we mentioned, I think in total, it was 1 percentage point of revenue, but that was virtually all in warranty because the recall expense gets booked into warranty. So, John --

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John Rickel - *Group 1 Automotive - SVP, CFO*

Yes, correct. John, this is John Rickel. On a same-store basis, we were up 4.8 in total. Excluding the Toyota warranty work, we would have been up 3.8. Warranty was up 5% including Toyota, excluding Toyota was about flat. We were down about 30 basis points excluding Toyota on warranty.

John Murphy - *BofA Merrill Lynch - Analyst*

Got you. And then on share repos versus acquisitions. You were active in the market on acquisitions in the quarter which is encouraging, but you're also buying back shares and having the new authorization. How are you guys balancing that out? I am sure you're doing MVP calculations and return calcs there, but what is the thought process between those two right now? Because the stock is -- how do you balance the valuation in the stock, which appears pretty inexpensive, versus acquisitions which may not be quite as inexpensive right now?

John Rickel - *Group 1 Automotive - SVP, CFO*

John, this is John Rickel. Our first best use of cash, we continue to believe, is acquisitions. If we can find acquisitions that meet the return targets and fit the strategy. We continue to look at a lot of deals, but we remain very disciplined on achieving those targets. So, given the strong cash position we're in, we had the fortunate ability to do both. We saw a couple of good acquisitions which we were able to pick up. At the same time, the stock, we think is very attractively valued at the prices we've seen, and we're able to also execute on the repurchase acquisition we had in place.

John Murphy - *BofA Merrill Lynch - Analyst*

Then last, just one product question. You guys both have deep roots in Ford. What do you think of the new Explorer in general, and what do you think it means for your Ford stores?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I think the important thing is that they have invested in it and just because of the size of the vehicle and the power the Ford brand and the momentum Ford has. I think it's really positive for Ford dealers such as us because we make a lot more money selling those types of vehicles than we will off of compact cars and those sorts of things. So, with the market shifting away from the old full-size sport utilities, with the power of the Explorer brand name, it's great to see them update that with great fuel economy and powertrains and fresh stylings. I think it's a real plus for Ford retailers.

John Murphy - *BofA Merrill Lynch - Analyst*

Great. Thank you very much.

Operator

We'll now take our next question from Patrick Archambault with Goldman Sachs.

Patrick Archambault - *Goldman Sachs - Analyst*

Hello, good morning.

John Rickel - *Group 1 Automotive - SVP, CFO*

Good morning.

Patrick Archambault - *Goldman Sachs - Analyst*

Well first, congratulations on the quarter. Just a couple quick ones. On parts and service, that was obviously a pretty strong number, even if you take out the impacts of the Toyota recalls. What do you make of the, obviously at this point, well-publicized headwinds on warranty and potentially on customer pay based on that shrinking window of four to six year-old vehicles that we foresee in coming periods. Is that something that you can sort of sustain in positive territory for some time? What are some of the offsets that you think -- what are some of the offsets that have been working in your favor, obviously, this quarter, that you think will continue to help you there?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, the headwinds you mentioned are -- remain valid. We had an exceptional performance this quarter, and we've been pushing parts and service for a long time. I honestly wouldn't be confident that we could increase the business 4% or 5% in every quarter into the future. In fact, our goal is to keep that thing in positive territory this year.

But the strengths we've seen on customer pay have come from the domestic brands. It's -- I don't know if they had more pent-up demand from pulling back during the economic recession or what it is that is doing it, but the domestic customer pay business is quite strong. And then things like parts wholesale and body shops really constricted during the downturn. In fact, we pulled back our parts wholesale business because of credit concerns with small business, wholesale customers. And also during the toughest part of the downturn, I think there were customers who were putting the insurance check in their pocket rather than repairing their damaged vehicles. So, I think there is a lot of factors in our favor, but to keep parts and service with any significant growth rate, we're going to have to push in every area.

We can't really count on warranty growth. I think the trend, if you would take recalls out, although, bear in mind, I think every manufacturer is starting to have a little more recall activity. There appears to be a little more scrutiny there by everyone in the industry. But we certainly can't count on warranty growth, so we have to push in every other area, and we'll do well to keep that positive quarter after quarter.

Patrick Archambault - *Goldman Sachs - Analyst*

It sounds, though, like you're seeing some deferred maintenance come back in your favor now, though, right?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I believe that to be the case.

John Murphy - *BofA Merrill Lynch - Analyst*

Great. And second, I just wanted to get your thoughts on the overall role of credit as you're seeing it. There has been some comparatively strong SAAR estimates made for July versus June, which I guess is encouraging, and some people have said that credit might have been a factor. I wanted to just get your take, how is availability on prime and subprime? Has that changed over the past couple of months?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I don't know that it's changed appreciably the last month or two, but it was clearly a big factor last year. And as we moved into this year, credit became noticeably better in auto retail, and I think in particular, captives became more aggressive. The drag on credit has mostly been in recent months, I think, in -- still in Chrysler and GM, and you've seen GM try to address that. They still don't have some of the ability that brands with strong captive credit companies have and they appear to be recognizing that and moving to address it. But if you look at the overall picture, I don't think credit's a huge issue in the market now, but it's gotten continually better and it may get a little better yet. So, it's certainly a small tailwind, but the real issue remains consumer confidence in things like jobs and housing prices.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay, great. Thank you very much.

Operator

We'll now hear from Matt Nemer with Wells Fargo.

Matt Nemer - *Wells Fargo Securities - Analyst*

Good morning, everyone.

John Rickel - *Group 1 Automotive - SVP, CFO*

Good morning, Matt.

Matt Nemer - *Wells Fargo Securities - Analyst*

I just wanted to focus on the new car business for a minute. Do you have any sense for what your new unit volume was versus the market in some of your key states like Texas, Massachusetts and California?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, I can give you some ideas versus the entire market, not state-by-state. I don't have the state industry growth in my head. But I would say that we were on par with the industry growth or well above it in every area except, specifically, the Houston area is below average. So, Houston, if the industry is up in total, 17 or something like that, now that includes fleet, we're up more like 14. So that -- but our other markets, including the rest of Texas, we generally did more than 20% sales increases during the quarter.

Matt Nemer - *Wells Fargo Securities - Analyst*

And then on new vehicle margins, it seems like seasonally, they typically are equal to or take a little step back from Q1 to Q2. This quarter was a little bit more of a step backwards than typical. Should we, for modeling purposes, should we assume that 1,800 is the new level based on your push for revenue growth or how should we think about that for the back half?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes, I think that's a good assumption.

Matt Nemer - *Wells Fargo Securities - Analyst*

And then also on new vehicle inventory, could you comment on the mix that you have now between '09 and '10 and maybe how that compares, and are you seeing shortages? We've heard about some shortages in the luxury brands.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

There are some shortages in luxury brands and also every brand, and I don't know that this has been very well-publicized. Every brand is short in that pot, either small SUV or crossover category, whatever you call that. Things like Chevrolet Equinox, Toyota Rav-4, Honda CRV, Ford Escapes, those types of things, Toyota 4-Runners. Every brand and every dealer is missing some sales, or at least deferring some sales in that category. That category has not been well-supplied in the first six months of the year. So -- and I think that's somewhat healthy. I think that actually helps the grosses a little bit. That reduces the model year-end carry over issues. But that is the hot part of the market right now. That and full size trucks seemed to have picked up in recent months, particularly last month. And I couldn't explain that phenomenon to you, but the sales data will confirm that. So that seems to be where there is some shortage and so there probably are a few sales being missed. But I'd rather have it that way.

Matt Nemer - *Wells Fargo Securities - Analyst*

If full size truck picks up, that maybe would suggest that your unit margins could improve a little bit, or there are other factors?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes, that could be, but the counterpoint to that, the challenging part of the market, and you're seeing it for Toyota and Honda, continue to be some of the former bread and butter models such as Camry, Corolla, Accord, Civic. I don't know if there's just more competition there now these days, but those cars are very challenging to make margins on these days.

John Murphy - *BofA Merrill Lynch - Analyst*

And then turning --

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Those are fairly big volume, even when they're down year-over-year. That is still a pretty big piece of the total market, and that has become much more challenging the last year.

Matt Nemer - *Wells Fargo Securities - Analyst*

And then turning to SG&A, by my math, it looks like you capped about half of the incremental gross from 1Q to 2Q. In addition to the 30% that's directly variable, can you talk about what semi variable expenses are starting to come back into the model and how you're thinking about that?

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes, Matt, this is John. You're right, it was about a $0.50, $0.55 flow-through, so I think you've got that piece of it right. The semi-variable things, obviously, we started to put back a little of the advertising as we started to push there. And we've also restored some of the kind of temporary pay cuts that we asked our team to take. At this point, basically, all of those have been restored to the team.

Matt Nemer - *Wells Fargo Securities - Analyst*

What about staffing? Where you have gone from say two GMs to one or two, a new and a used manager down to one. Have any of those been reversed or you are holding the staffing count flat?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, we're holding the management staffing levels, which is putting up -- the little stress on that is the volume increases. But clearly, we have had to add some sales people to handle basically 25% volume increases. We're going to try to slow down on that as we see where the market plateaued a little bit in the last two months in particular. The retail SAAR actually retreated, as we all know. But we're very conscious of not adding further variable costs until we see the market headed up again. But we did have to add some people to handle that volume increase of business, but that's more the at a sales person level than at a management level.

Matt Nemer - *Wells Fargo Securities - Analyst*

And lastly, just one housekeeping item. John, do you have the operating cash flow adjusted for non-trade floorplan?

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes. Basically, the number I quoted in my script is the -- adjusted for taking floorplan out of it and that was $8.4 million, I believe, for the quarter. Yes, $8.4 million.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, thanks so much.

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you.

Operator

Our next question comes from Himanshu Patel with JP Morgan.

Himanshu Patel - *JPMorgan - Analyst*

Hello, good morning, guys.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Good morning, Himanshu.

Himanshu Patel - *JPMorgan - Analyst*

A couple of questions. First, you guys just referenced the retreating that we saw on the retail SAAR and perhaps we have a bit of a recovery in July. I'm curious if you could provide a little bit more color behind what is causing some of this near-term volatility. Do you think this is just noise around OEM incentive activity, or was there a genuine soft patch you that detected in the consumer in that sort of May to June timeframe and maybe is that sort of starting to recover now?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I think there was a genuine consumer psychology issue, some time in early May or even late April and that's when there was all of this talk about Greece, and there was a day when the stock market momentarily dropped almost 1,000 points. And then there was a BP oil spill, and then there was a jobs number that didn't add any jobs other than Census jobs. So I think there was really a little period there where consumer confidence again was severely shaken, and it does seem that maybe some of these things are getting behind us, and the stock market is settling down a little bit. So, I think it's much more a sentiment-driven -- consumer sentiment-driven market than it is incentives right now. Now the March/April activity that was pretty strong in the 9.5 million unit retail SAAR level. Clearly, Toyota triggered some of that with incentives and there was probably competitive responses, and then Memorial Day weekend, there was a little incentive-driven activity that Ford started and some others followed. But I believe the majority in the market at this moment is the consumer behaving as the consumer will behave.

Himanshu Patel - *JPMorgan - Analyst*

Okay. And then another kind of question, more relevant I guess for you guys. We're about three quarters or so into the whole Toyota recall since it first got announced. I'm curious, what is your perspective on the health of the brand right now? Maybe as outsiders, we don't appreciate the nuances so much because we get to see the volume figure. But do you sense now that there has been sort of enough of a change in the brand that Toyota has to play more aggressively on incentives, even being this far away from the recalls than maybe it would have had to originally?

Pete DeLongchamps - *Group 1 Automotive - VP, Manufacturing Relations and Public Affairs*

Himanshu, it's Pete DeLongchamps, let me take that one. The one thing about Toyota, they've always been very responsive to the marketplace, and when they trigger incentive activities, they have got a great finger on the pulse of the business. Our Toyota stores remain healthy. We have very positive showroom traffic, and we're still very bullish on the brand and think that they are still one of the premier manufacturers and retailers in the world.

Himanshu Patel - *JPMorgan - Analyst*

No evidence on Toyota used values?

Pete DeLongchamps - *Group 1 Automotive - VP, Manufacturing Relations and Public Affairs*

No, they remain strong, and good Toyota trades with the right mileage -- are an asset to every one of our Toyota dealerships.

Himanshu Patel - *JPMorgan - Analyst*

Okay. And then, I'm sorry, you gave these numbers earlier. Can you just give us the breakdown again for parts and service same store growth by segment?

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes. Himanshu, this is John. On a same-store basis, we were up 4.8% in total, customer pay was up 3.5%, warranty was up 5%, full sale was up 8.6% and collision was up 3.9%.

John Murphy - *BofA Merrill Lynch - Analyst*

Great, thank you, guys.

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you.

Operator

We'll now hear from Ravi Shanker with Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks so much, good morning, everybody. Can you give us a little more color on the geographic trends that you're seeing, especially in the Gulf states, if there has been any slowdown there related to the oil spill?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes, that is a question we have gotten frequently, and we have expected some real downward pressure on sales. We have dealerships from Houston to Beaumont, New Orleans, Gulfport, Mobile and Pensacola and quite frankly, our sales numbers did not bear out any weakness for the quarter. Now, that may be ahead, but the only -- Houston and Beaumont were a little bit below average but quite frankly, that is not in the oil spill area, although some of these deep water drilling companies are all supported by companies here in Houston. So, Houston may have a little bit of a headwind, but we have not yet seen any decline in our business across the Gulf Coast, but we did expect some.

Ravi Shanker - *Morgan Stanley - Analyst*

Any broader geographic trends in the other regions?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

No, nothing remarkable.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. Your pricing strength in this quarter was really impressive. How sustainable do you think that is on the new vehicle side, and are you seeing any particular OEMs that you think are getting more aggressive with pricing?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, I think some part of the ability for OEMs to price has been the used car market, and the used car market -- used car values have gone up so much. That combined with the fact that the manufacturers have tended to have right-sized either their capacity or their production plan, that inventories are under control. And with used-car values up, most of the manufacturers have been able to price. And I think in Ford's earnings this week, we saw how powerful pricing was to their overall strong profit performance, and we're following along with that, and it is a good situation. The thing that will destroy it the most quickly for retailers such as ourselves would be excessive inventory levels, and thus far, that seems to be in good shape, and I'm optimistic that this year's model sell down will be one of the best we have ever seen in terms of 2010 models being retailed out before they build up too much and the 2011s come in to stock.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. And how far below ideal do you think inventories are on the new and used site, both for yourself and for the industry?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I think in total, they're about as close to perfect as I have ever seen. Now, I mentioned there are some model issues, but I think when you have the ideal total level, you'll have some models with too much and some models with not enough, and we always say the difference between too many and too few cars in our business is one. So, I would be very happy if it would stay at this level for the foreseeable future, and for the moment, it appears that the manufacturers are committed to that type of balance and discipline. So, let's hope it sticks.

Ravi Shanker - *Morgan Stanley - Analyst*

And finally, can you give us a little more color about the Toyota litigation that happened in the quarter? What exactly happened there, and they dropped their suit, of course, but how do you see things going forward?

Pete DeLongchamps - *Group 1 Automotive - VP, Manufacturing Relations and Public Affairs*

Let me cover that in two different ways. It's Pete DeLongchamps. Much to our surprise and dismay, Toyota did file a lawsuit against us in late June to block our attempts to acquire the Toyota and Lexus dealership in Charleston, South Carolina. As you know, before we could answer the lawsuit and assert our own claims and defenses, the seller elected to terminate the purchase agreement and sell to a third party. So, it literally rendered the lawsuit moot and it was dismissed a couple of weeks after it was filed. But I think the important thing to remember is that in the past 4.5 years, we have acquired three dealerships and four franchises, including one earlier this year in the same state where that lawsuit was filed. Since then, we have had ongoing dialogue with Toyota and our business relationship is very solid. As a point of clarification, this deal was attractive to us because it enabled us to complete our Lexus portfolio as specified by the framework agreement. We're certainly cognizant of our high-level of Toyota exposure, so at the end of the day while we were disappointed, not doing this deal is okay. So, that's where we are on the Toyota lawsuit.

Ravi Shanker - *Morgan Stanley - Analyst*

But why do you think they chose to do that? Because I read in the press that apparently Toyota said that the retailer didn't meet performance criteria. I'm not really sure what that meant in terms of if it is for you guys or for the target acquisitions. But do you have -- did you get an understanding of why Toyota chose to do that?

Pete DeLongchamps - *Group 1 Automotive - VP, Manufacturing Relations and Public Affairs*

Well Ravi, it's interesting that -- we bought a Toyota dealership earlier this year and since then, our business is up nearly double of what their national totals are, so I think there's some back channel things that were out of our control. But our Toyota performance continues to be some of the best in the industry.

Ravi Shanker - *Morgan Stanley - Analyst*

And this does not influence your future growth plans with Toyota franchise, right?

Pete DeLongchamps - *Group 1 Automotive - VP, Manufacturing Relations and Public Affairs*

In the long-term, no.

Ravi Shanker - *Morgan Stanley - Analyst*

Okay. Thanks so much and good quarter.

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you.

Operator

Our next question will come from Rick Nelson with Stephens.

Rick Nelson - *Stephens, Inc. - Analyst*

Thank you, I would like to follow up on the acceleration that we saw in new and used car same store this quarter, much better than the industry and much better than the competitors that have reported. What do you think are the big drivers? Is it regional? Is it a mix issue? Is it strategies that you have in place to drive those sales? What do you think accounts for the outperformance?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Other than the low comps versus last year you mean, Rick? No, I was kidding, actually. But we did start the year with our top priority being aggressive in selling cars and trucks because we didn't know where we could cut a lot more expense. There's always more expense to cut, and we thought it was time to try to sell our way out of the economic doldrums, and we actually came out a little too aggressive in the first quarter in our advertising. We put a lot of advertising into the markets before the market was really there. In fact, our advertising increase was much bigger than our sales increase earlier this year. And it took time, I think, for the market to catch up and for us to get traction, but we came out to sell more cars and there is a couple of brands where we had a little margin tradeoff, in Toyota and Nissan in particular, to move metal. But that's what we wanted to do and that's what we were able to do. So those percentage increases aren't going to look so drastic as we move into the third quarter since we had the Cash for Clunkers and such last August and much bigger industry sales.

But my hope is we can at least continue to keep some sales momentum going to leverage some of the cost reductions we did in the previous 18 months. We did actually try to sell more cars and trucks than we did.

Rick Nelson - *Stephens, Inc. - Analyst*

Earlier you mentioned the comparisons. Do you think they were easier in the case of GPI compared to the others?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I don't see why they would be, but I don't know. I just know business was really bad in the first half of last year, and I don't know if we were different from anyone else or not.

Rick Nelson - *Stephens, Inc. - Analyst*

Right, right. Do you think that it's a mix of trucks, given your geography, that is a contributor?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I do think being Texas and Oklahoma-centric helps us some. But we did well in Boston and we did well along the Gulf Coast and we did well just about everywhere. So, I think we do -- we have moved our brand mix to a better brand mix for the Company and over the last couple years, we have strengthened our Company by disposing of some of the weaker stores. So, I think we overall have a stronger Company now in the dealerships we have. Certainly, we have much better management than we had years ago, we have a great field team that has been in place for awhile, and we had a little tailwind from the market recovery. So, I guess we had a lot of things work for us, and our job is to try to keep that momentum going.

Rick Nelson - *Stephens, Inc. - Analyst*

Great. And to that, July, we're hearing about a recovery in the industry. Is that something you're seeing there at GPI as well?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I couldn't confirm that yet. We track traffic weekly. It does appear to be up a bit, but I would never judge a month of sales until I have the final week, because the final week, there's so much to determine sales in any given month. But I read the channel checks such as JD Power like you do, and there certainly appears to be a consensus that the retail SAAR is moving back up more to the March/April level than the May/June. So, I am optimistic about that, but I can't confirm it with our numbers yet.

Rick Nelson - *Stephens, Inc. - Analyst*

Great. And just to follow up on the Toyota situation, the lawsuit. Do you now have the ability to acquire a Toyota should you desire?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

That will ultimately be up to them. I will tell you that we have acquired numerous dealerships for Toyota with performance below where we are today. So, at the end of the day, they make that decision on any given deal, and they will in the future as well, and we won't change our plans for anything that's happened in the past. Try not to get emotional about those things. We -- if every Toyota dealership in the country had increased their sales by 28% last quarter, Toyota would probably have a little different press coverage and image in the marketplace right now. And so we do a great job for them, and we're going to keep doing a great job for them, and I am sure things will work out just fine.

Rick Nelson - *Stephens, Inc. - Analyst*

Okay. Thanks a lot. Good luck.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks.

Operator

Ladies and gentlemen, that concludes today's question-and-answer session. I would now like to turn the call back over to Earl Hesterberg for additional or closing comments.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks to everyone for joining us today. We look forward to updating you on our 2010 third quarter earnings results in October.

Operator

Ladies and gentlemen, that concludes today's conference call, and we thank you for your participation.