

October 15, 2007



LETTER OF COMMENT NO. 72

Mr. Russell G. Golden  
Director of Technical Applications and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference: Proposed FSP APB 14-a

Dear Mr. Golden:

Group 1 Automotive (“Group 1” or “the Company”) is a leading operator in the automotive retailing industry, marketing and selling an extensive range of automotive products and services including new and used vehicles and related financing, vehicle maintenance and repair services, replacement parts, and warranty, insurance and extended service contracts. In June 2006, Group 1 issued \$287.5 million aggregate principal amount of convertible senior notes. The notes bear interest at a rate of 2.25% per year until June 2016, and at a rate of 2.00% per year thereafter. The notes mature in June 2036, unless earlier converted, redeemed or repurchased. The debt is structured such that upon conversion, holders of the notes are entitled to cash payments equal to the face amount of the note and at the discretion of Group 1, cash and/or shares for the conversion spread, if any. We have positioned ourselves, with the purchase and sale of calls and warrants, respectively, to issue shares for the conversion spread with a minimal earnings per share effect to the Company.

As a company whose historical and future financial statements and accounting practices will be impacted by the implementation of the proposed FSP, we appreciate this opportunity to comment on the recently issued proposed FASB Staff Position No. APB 14-a, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (the “proposed FSP”). Group 1 supports the Financial Accounting Standards Board’s (the “Board”) efforts to improve financial reporting while promoting a consistent accounting treatment among the various forms of convertible debt on the market today. However, we have conceptual and practical concerns with the proposed accounting and are not supportive of the proposed FSP in its current form.

### **Conceptual Concerns with the Proposal**

Generally, we do not support this and many other actions by the Board in its movement to fair value accounting. We believe that fair value accounting allows more subjectivity than historical cost accounting concepts and is more vulnerable to manipulation as companies are required to fair value assets and liabilities. We generally prefer the historical cost basis of assets and liabilities and true economics of a transaction when reporting our financial position, results of operations and cash flows, as we believe such accounting to be more simplistic and understandable by the producers and users of financial statements. Further, we believe that such

fair value accounting concepts have the potential to produce inconsistent accounting results between the parties of a transaction.

However, if we are required to fair value this liability and its equity component, we respectfully disagree with the required valuation approach prescribed by the Board. Paragraph 10 of the proposed FSP states that issuers should *determine the carrying amount of the equity component represented by the embedded conversion option by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole*. As the basis for this conclusion, paragraph B7 explains that this “separation approach” is less difficult to apply than other alternative approaches. While we appreciate the Board’s effort to simplify the application of the proposed standard, we consider this residual value method a less desirable way of measuring fair value. FASB Statement No. 157 defines fair value as the *price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*. We agree with this “arms-length transaction” concept and, as such, believe that our convertible debt is appropriately valued since the purchasers of our bonds were “market participants.”

Further, paragraph B6 of the proposed FSP states that *the fundamental principle underlying the separation approach in this proposed FSP is that an issuer of a convertible debt instrument that requires or permits partial cash settlement upon conversion should recognize the same interest cost it would have incurred had it issued a comparable debt instrument without the embedded conversion option*. We respectfully disagree with this notion, based upon the economic reality of these transactions. Issuers of these convertible debt instruments have agreed to pay a rate and the purchasers of the bonds were willing to accept this rate, as well as the risk of receiving no additional benefit associated with the conversion spread. As such, we feel that the interest expense recognized on these convertible notes should be based upon the issued and agreed upon interest rate.

Currently, Group 1 makes annual interest payments of \$6.5 million on these convertible notes and correspondingly records these payments as interest expense on our income statement. If we were to be required to account for these notes using the guidance of the proposed FSP, the interest expense that we would be required to recognize associated with these convertible notes would increase to approximately \$20.1 million, assuming an interest rate of 7%. This is a \$13.6 million reduction in the Company’s income based solely on “phantom” interest expense, never to be paid to the purchaser of the convertible debt instruments.

### **Practical Concerns with the Proposal**

We believe that the proposed FSP requires accounting that will confuse the users of the affected companies’ respective financial statements. Further, we consider the timing and method of application required by the proposed FSP are unfairly onerous. In addition, the implementation of the proposed FSP will likely result in unintended consequences that should be considered in the Board’s requisite timing and method of application.

### *Impact on Investors, Rating Agencies and Other Analysts*

FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, (“Concept No. 1”) states that financial reporting should provide information that is useful in

making business and economic decisions. We feel that the accounting promulgated by the proposed FSP of recognizing phantom interest expense is not in alignment with this objective. The proposed accounting would distort the true financial performance of affected companies and penalize these companies for an expense that will never be incurred. Many of the financial institutions, rating agencies and analyst groups that are tracking the progress of this proposed FSP have already issued bulletins to their clients stating that these accounting changes will have no economic impact on affected companies, and will only affect reported income and EPS on a generally accepted accounting principles (“GAAP”) basis. As a result, such analyzing groups are prepared to discount the effects of this proposed FSP and reconcile the reported GAAP results of the affected companies with the economic reality of the subject transactions. Further, we note that, because of similar decisions by the Board that have generally complicated the accounting and reporting for transactions, many investor, rating agency and analyst groups have shifted their modeling and analysis away from the income statement to the cash flow statement, which is generally not impacted by the accounting complications. Therefore, we question whether the Board’s proposed accounting change will accomplish its stated objective, in Concept No. 1, of providing useful information for economic decisions.

If, after consider the comments from all respondents, the Board continues to believe that the fair value information promulgated by the proposed FSP is useful for making business and economic decisions, we recommend that the Board consider requiring disclosure of this information in the notes to the financial statements instead of requiring the revaluation of the subject debt and the retrospective restatement of financial statements.

#### *Onerous Effective Date and Transition*

At the time we issued these convertible notes, we applied generally accepted accounting principles (or “GAAP”) that were available, principally EITF Issue No. 90-19, as did many other issuers of these instruments. If the proposed FSP had been in place prior to issuance of these convertible instruments, we feel that many companies, like Group 1, would have structured the instruments differently or entered into a different type of financing. As such, we believe that the Board should reconsider the proposed effective date and transition. We suggest that the Board give a one-year grace period for retroactive application of the proposed FSP to all current issuers of these subject convertible instruments, allowing companies, like ours, to modify or settle the convertible notes and avoid retroactive application of the standard.

We recognize that FASB Statement No. 154 (“FAS 154”) established retrospective application as the required method for reporting a change in accounting principle. However, we note that the FASB qualified this retrospective application requirement for impracticality. Further, we observe that the Board has issued other accounting pronouncements and staff positions subsequent to the issuance of FAS 154 that do not require or permit retrospective restatement, including FAS 158, FAS 159, FAS 126-1, FIN 39-1 and EITF 00-19-2. And in the case of EITF 00-19-2, we note a recent example of the Board allowing companies to apply an accounting pronouncement to only those arrangements outstanding at the time of adoption.

Further, given that the proposed FSP is not expected to be finalized until sometime in December 2007 and that the standard would require retroactive restatement, we consider the timing and method of application promulgated in the proposed FSP to be extremely onerous, especially for a

public company with a calendar year-end. This proposed effective date would require companies to complete their final evaluations of the standard and its implications to current and prior periods during one of the busiest times of the year from both a professional and personal perspective. In our opinion, this proposed effective date will not allow ample time to completely evaluate the standard and will likely result in cases of misapplication of the standard that could otherwise be avoided.

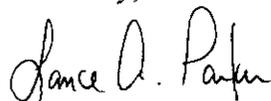
*Unintended Consequences*

We also believe that there are unintended consequences of this proposed FSP that the Board may not have fully considered and, as such, reiterate our suggestion for a delay in the effective date of the proposed FSP to allow companies to cure such outcomes. As we understand the proposed FSP, upon implementation, effected companies will decrease the reported value of the convertible notes with a corresponding increase to equity. This change will impact financial ratios and other covenant computations required to be computed on a GAAP basis. For some companies, like Group 1, these ratios and computations have been structured and agreed to subsequent to the issuance of the convertible debt and, as such, will need to be restructured with the respective financial institutions to reflect this change in GAAP.

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Thank you for this opportunity to present our views on this matter. Please feel free to contact me directly if you would like to discuss this letter in more detail.

Sincerely,



Lance A. Parker  
Vice President and Corporate Controller