

GROUP 1 AUTOMOTIVE INC

Form 10-K/A

September 01, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2005

Commission file number: 1-13461

Group 1 Automotive, Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

76-0506313

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

950 Echo Lane, Suite 100
Houston, Texas 77024
(Address of principal executive offices, including zip code)

(713) 647-5700
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which Registered
Common stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

Indicate by check mark whether the Registrant is a large accelerated filer, accelerated filer, or a non-accelerated filer. See definition of large accelerated filer and accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

The aggregate market value of common stock held by non-affiliates of the Registrant was approximately \$523.1 million based on the reported last sale price of common stock on June 30, 2005, which is the last business day of the Registrant's most recently completed second quarter.

As of July 31, 2006, there were 24,028,432 shares of our common stock, par value \$.01 per share, outstanding.

Amendment No. 1 Explanatory Note

This Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 2005 for Group 1 Automotive Inc. (the Annual Report) is filed solely for the purpose of revising page F-2 of Part IV, Item 15 Exhibits and Financial Statement Schedules, to include a revised Report of Independent Registered Public Accounting Firm. This report was revised to include an explanatory paragraph to refer to the Company's change in method of accounting for indefinite lived intangible assets. The attached revised Report of Independent Registered Public Accounting Firm and accompanying financial statements and notes is substituted for the form of report and financial statements filed on March 2, 2006. Except as described above, no other changes have been made to the Annual Report. Other unaffected Items of the Annual Report have not been included in this Amendment No. 1.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) Financial Statements

The financial statements listed in the accompanying Index to Financial Statements are filed as part of this amended Annual Report on Form 10-K/A.

(b) Other Information

None.

(c) Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
3.2	Certificate of Designation of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
3.3	Bylaws of the Company (Incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
4.1	Specimen Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
4.2	Subordinated Indenture dated as of August 13, 2003 among Group 1 Automotive, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, N.A., as Trustee (Incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-4 Registration No. 333-109080).
4.3	First Supplemental Indenture dated as of August 13, 2003 among Group 1 Automotive, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, N.A., as Trustee (Incorporated by reference to Exhibit 4.7 of the Company's Registration Statement on Form S-4 Registration No. 333-109080).
4.4	Form of Subordinated Debt Securities (included in Exhibit 4.3).
10.1*	Employment Agreement between the Company and B.B. Hollingsworth, Jr., effective March 1, 2002 (Incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2001).
10.2*	First Amendment to Employment Agreement between the Company and B.B. Hollingsworth, Jr., effective March 1, 2002 (Incorporated by reference to Exhibit 10.40 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.3*	

Employment Agreement between the Company and John T. Turner dated November 3, 1997 (Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1997).

10.4*

Employment Agreement between the Company and Earl J. Hesterberg, Jr. dated April 9, 2005 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-13461) dated April 9, 2005).

Exhibit Number	Description
10.5*	Compensation Arrangement between the Company and John C. Rickel (Incorporated by reference to the section titled "Executive Compensation" in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated December 19, 2005 and to the section titled "EPS Goals" in Item 1.01 of the Company's Current Report on Form 8-K/A (File No. 001-13461) dated December 19, 2005).
10.6*	Separation Agreement and General Release by and between the Company and B.B. Hollingsworth, Jr. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended June 30, 2005).
10.7*	Severance Agreement by and between the Company and Robert T. Ray dated December 5, 2005 (Incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2005).
10.8*	Annual Incentive Plan for Executive Officers of Group 1 Automotive, Inc. (Incorporated by reference to the section titled "Executive Officer Compensation Adoption of Bonus Plan" in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
10.9*	Group 1 Automotive, Inc. Director Compensation Plan (Incorporated by reference to the Company's Current Report on Form 8-K (File No. 001-13461) dated November 17, 2004, and to the section titled "Director Compensation Change in Director Compensation" in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
10.10*	Executive Compensation Arrangement of Group 1 Automotive, Inc. (Incorporated by reference to the section titled "Executive Compensation" in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated December 19, 2005 and to the section titled "EPS Goals" in Item 1.01 of the Company's Current Report on Form 8-K/A (File No. 001-13461) dated December 19, 2005).
10.11*	Split Dollar Life Insurance Agreement, dated as of January 23, 2002, between Group 1 Automotive, Inc., and Leslie Hollingsworth and Leigh Hollingsworth Copeland, as Trustees of the Hollingsworth 2000 Children's Trust (Incorporated by reference to Exhibit 10.36 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.12*	Group 1 Automotive, Inc. Deferred Compensation Plan, as Amended and Restated (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-83260).
10.13*	First Amendment to Group 1 Automotive, Inc. Deferred Compensation Plan, as Amended and Restated (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-115962).
10.14*	1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.15*	First Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.16*	Second Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 001-13461)

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- for the quarter ended March 31, 1999).
- 10.17* Third Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-75784).
- 10.18* Fourth Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-115961).
- 10.19* Fifth Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
- 10.20* Form of Incentive Stock Option Agreement for Employees (Incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004).
- 10.21* Form of Nonstatutory Stock Option Agreement for Employees (Incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004).
- 10.22* Form of Restricted Stock Agreement for Employees (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
- 10.23* Form of Phantom Stock Agreement for Employees (Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).

Exhibit Number	Description
10.24*	Form of Restricted Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
10.25*	Form of Phantom Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
10.26*	Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.27*	First Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998).
10.28*	Second Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-75754).
10.29*	Third Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-106486).
10.30*	Fourth Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-8 Registration No. 333-106486).
10.31*	Fifth Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 Registration No. 333-106486).
10.32*	Sixth Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004).
10.33	Rights Agreement between Group 1 Automotive, Inc. and ChaseMellon Shareholder Services, L.L.C., as rights agent, dated October 3, 1997 (Incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.34	Sixth Amended and Restated Revolving Credit Agreement, dated as of December 16, 2005 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-13461) dated December 19, 2005).
10.35	Form of Ford Motor Credit Company Automotive Wholesale Plan Application for Wholesale Financing and Security Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended June 30, 2003).
10.36	Form of Agreement between Toyota Motor Sales, U.S.A., and Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.37	Form of Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.13 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.38	

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- Supplemental Terms and Conditions between Ford Motor Company and Group 1 Automotive, Inc. dated September 4, 1997 (Incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
- 10.39 Toyota Dealer Agreement between Gulf States Toyota, Inc. and Southwest Toyota, Inc. dated April 5, 1993 (Incorporated by reference to Exhibit 10.17 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
- 10.40 Lexus Dealer Agreement between Toyota Motor Sales, U.S.A., Inc. and SMC Luxury Cars, Inc. dated August 21, 1995 (Incorporated by reference to Exhibit 10.18 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
- 10.41 Form of General Motors Corporation U.S.A. Sales and Service Agreement (Incorporated by reference to Exhibit 10.25 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
- 10.42 Form of Ford Motor Company Sales and Service Agreement (Incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998).

Exhibit Number	Description
10.43	Form of Chrysler Corporation Sales and Service Agreement (Incorporated by reference to Exhibit 10.39 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998).
10.44	Form of Nissan Division Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.45	Form of Infiniti Division Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.46	Lease Agreement between Howard Pontiac GMC, Inc. and Robert E. Howard II (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.47	Lease Agreement between Bob Howard Motors, Inc. and Robert E. Howard II (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.48	Lease Agreement between Bob Howard Chevrolet, Inc. and Robert E. Howard II (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.49	Lease Agreement between Bob Howard Automotive-East, Inc. and REHCO East, L.L.C. (Incorporated by reference to Exhibit 10.37 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.50	Lease Agreement between Howard-H, Inc. and REHCO, L.L.C. (Incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.51	Lease Agreement between Howard Pontiac-GMC, Inc. and North Broadway Real Estate Limited Liability Company (Incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.52	Lease Agreement between Howard-Ford, Inc. and REHCO EAST, L.L.C. (Incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.53	Amendment and Assignment of Lease between Howard Ford, Inc., Howard-FLM, Inc. and REHCO EAST, L.L.C. (Incorporated by reference to Exhibit 10.39 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.54	Lease Agreement between Bob Howard Motors, Inc. and REHCO, L.L.C., (Incorporated by reference to Exhibit 10.54 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2005).
11.1	Statement re: computation of earnings per share is included under Note 2 to the financial statements.
14.1	Code of Ethics for Specified Officers of Group 1 Automotive, Inc., dated December 20, 2005.
16.1	Letter from Crowe Chizek and Company LLC to the Securities and Exchange Commission, dated April 28, 2005, regarding change in certifying accountants (Incorporated by reference to Exhibit 16.1 of the Company's Current Report on

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	Form 8-K dated January 19, 2005).
21.1	Group 1 Automotive, Inc. Subsidiary List.
23.1**	Consent of Ernst & Young LLP.
31.1**	Certification of Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement

** Filed herewith

*** Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the city of Houston, Texas, on the 31st day of August, 2006.

Group 1 Automotive, Inc.
By: /s/ Earl J. Hesterberg

Earl J. Hesterberg
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on the 31st day of August, 2006.

Signature	Title
/s/ Earl J. Hesterberg	President and Chief Executive Officer and Director (Principal Executive Officer)
Earl J. Hesterberg	
/s/ John C. Rickel	Senior Vice President and Chief Financial Officer (Chief Financial and Accounting Officer)
John C. Rickel	
/s/ John L. Adams	Chairman and Director
John L. Adams	
/s/ Robert E. Howard II	Director
Robert E. Howard II	
/s/ Louis E. Lataif	Director
Louis E. Lataif	
/s/ Stephen D. Quinn	Director
Stephen D. Quinn	
/s/ J. Terry Strange	Director
J. Terry Strange	
/s/ Max P. Watson, Jr.	Director
Max P. Watson, Jr.	

**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS**

Group 1 Automotive, Inc. and Subsidiaries Consolidated Financial Statements

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Group 1 Automotive, Inc.

We have audited the accompanying consolidated balance sheets of Group 1 Automotive, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Group 1 Automotive, Inc. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2005 the Company changed its method of accounting for indefinite lived intangibles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Group 1 Automotive, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 20, 2006

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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2004
	(In thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 37,695	\$ 37,750
Contracts-in-transit and vehicle receivables, net	187,769	172,402
Accounts and notes receivable, net	81,463	76,687
Inventories	756,838	877,575
Deferred income taxes	18,780	14,755
Prepaid expenses and other current assets	23,283	26,046
Total current assets	1,105,828	1,205,215
PROPERTY AND EQUIPMENT, net	161,317	160,297
GOODWILL	372,844	366,673
INTANGIBLE FRANCHISE RIGHTS	164,210	187,135
DEFERRED COSTS RELATED TO INSURANCE POLICY AND VEHICLE SERVICE CONTRACT SALES	6,217	7,996
OTHER ASSETS	23,202	19,904
Total assets	\$ 1,833,618	\$ 1,947,220
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Floorplan notes payable credit facility	\$ 407,396	\$ 632,593
Floorplan notes payable manufacturer affiliates	316,189	215,667
Current maturities of long-term debt	786	1,054
Accounts payable	124,857	108,920
Accrued expenses	119,404	91,528
Total current liabilities	968,632	1,049,762
LONG-TERM DEBT, net of current maturities	158,074	156,747
ACQUISITION LINE credit facility		84,000
DEFERRED INCOME TAXES	28,862	33,197
OTHER LIABILITIES	25,356	24,288
Total liabilities before deferred revenues	1,180,924	1,347,994
DEFERRED REVENUES	25,901	32,052

STOCKHOLDERS EQUITY:

Preferred stock, 1,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 50,000 shares authorized; 24,588 and 23,916 issued, respectively	246	239
Additional paid-in capital	276,904	265,645
Retained earnings	373,162	318,931
Deferred stock-based compensation	(5,413)	
Accumulated other comprehensive loss	(706)	(173)
Treasury stock, at cost; 572 and 607 shares, respectively	(17,400)	(17,468)
Total stockholders equity	626,793	567,174
Total liabilities and stockholders equity	\$ 1,833,618	\$ 1,947,220

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

BASIC:

Income before cumulative effect of a change in accounting principle	\$	2.94	\$	1.22	\$	3.38
Cumulative effect of a change in accounting principle, net		(0.67)				
Net Income	\$	2.27	\$	1.22	\$	3.38

DILUTED:

Income before cumulative effect of a change in accounting principle	\$	2.90	\$	1.18	\$	3.26
Cumulative effect of a change in accounting principle, net		(0.66)				
Net Income	\$	2.24	\$	1.18	\$	3.26

WEIGHTED AVERAGE SHARES

OUTSTANDING:

Basic	23,866	22,808	22,524
Diluted	24,229	23,494	23,346

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Loss	Unrealized Losses on Interest Rate Swaps	Unrealized Losses on Marketable Securities	Treasury Stock	Total
	Shares	Amount	Capital	Earnings	Compensation	Loss	Swaps	Securities	Stock	Total
BALANCE, December 31, 2002	23,183	\$ 232	\$ 254,145	\$ 215,024		\$ (3,359)			\$ (22,625)	\$ 443,417
Comprehensive income:										
Net Income				76,126						76,126
Interest rate swap adjustment, net of taxes of \$1,288							2,074			2,074
Total comprehensive income										78,200
Proceeds from sales of common stock under employee benefit plans	674	7	8,984							8,991
Issuance of treasury stock to employee benefit plans	(403)	(4)	(9,678)						9,682	
Purchases of treasury stock									(14,404)	(14,404)
Tax benefit from options exercised			1,905							1,905
BALANCE, December 31, 2003	23,454	235	255,356	291,150		(1,285)			(27,347)	518,109
Comprehensive income:										
Net Income				27,781						27,781
Interest rate swap adjustment, net							1,285			1,285

of taxes of \$771								
Loss on investments, net of taxes of \$104						\$ (173)		(173)
Total comprehensive income								28,893
Proceeds from sales of common stock under employee benefit plans	659	6	11,788					11,794
Issuance of treasury stock to employee benefit plans	(591)	(6)	(16,892)				16,898	
Issuance of common stock in connection with acquisitions	394	4	12,892					12,896
Purchases of treasury stock							(7,019)	(7,019)
Tax benefit from options exercised			2,501					2,501
BALANCE, December 31, 2004	23,916	239	265,645	318,931		(173)	(17,468)	567,174
Comprehensive income:								
Net Income				54,231				54,231
Interest rate swap adjustment, net of taxes of \$230						(384)		(384)
Loss on investments, net of taxes of \$90						(149)		(149)
Total comprehensive income								53,698
Proceeds from sales of common stock under employee benefit plans	1,151	12	19,146					19,158
Issuance of Treasury stock to employee benefit plans	(670)	(7)	(19,318)				19,325	
	241	2	8,381			\$ (8,383)		

Issuance of restricted stock									
Forfeiture of restricted stock	(50)	(1,394)		1,394					
Restricted stock amortization				1,576					1,576
Purchases of treasury stock							(19,257)		(19,257)
Tax benefit from options exercised		4,444							4,444

BALANCE,

December 31, 2005 24,588 \$ 246 \$ 276,904 \$ 373,162 \$ (5,413) \$ (384) \$ (322) \$ (17,400) \$ 626,793

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

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

Year Ended December 31,

	2005	2004	2003
		(Revised)	(Revised)
		(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 54,231	\$ 27,781	\$ 76,126
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of a change in accounting principle, net of tax	16,038		
Asset impairments	7,607	44,711	
Depreciation and amortization	18,927	15,836	12,510
Amortization of debt discount and issue costs	1,949	1,834	1,871
Restricted share amortization	1,576		
Deferred income taxes	3,872	(4,701)	11,951
Tax benefit from options exercised	4,444	2,501	1,905
Provision for doubtful accounts and uncollectible notes	3,848	1,529	(631)
(Gain) loss on sale of assets and uninsured losses	772	142	(622)
Loss on redemption of senior subordinated notes		6,381	
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Contracts-in-transit and vehicle receivables	(16,113)	(28,902)	36,704
Accounts and notes receivable	(2,845)	(14,204)	(2,799)
Inventories	130,584	(64,294)	4,709
Prepaid expenses and other assets	4,961	(2,015)	(2,565)
Floorplan notes payable manufacturer affiliates	102,549	18,421	183,400
Accounts payable and accrued expenses	39,220	30,936	1,115
Deferred revenues	(6,241)	(8,703)	(10,665)
Net cash provided by operating activities	365,379	27,253	313,009
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in notes receivable			(2,958)
Collections on notes receivable		5,367	1,388
Purchases of property and equipment	(58,556)	(47,412)	(34,627)
Proceeds from sales of property and equipment	35,588	12,329	11,598
Proceeds from sales of dealership franchises	10,881		12,585
Purchases of restricted investments	(2,166)	(2,074)	(5,520)
Maturities of restricted investments	1,342	1,027	1,991
Decrease in restricted cash	(773)	2,095	1,967

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Escrow deposits for acquisitions of franchises	(500)		
Cash paid in acquisitions, net of cash received	(35,778)	(331,457)	(88,112)
Net cash used in investing activities	(49,962)	(360,125)	(101,688)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on credit facility Floorplan Line	3,260,946	3,645,162	2,531,629
Repayments on credit facility Floorplan Line	(3,486,144)	(3,308,891)	(2,878,009)
Borrowings on credit facility Acquisition Line	25,000	121,000	10,000
Repayments on credit facility Acquisition Line	(109,000)	(37,000)	(10,000)
Borrowings on other facilities for acquisitions			3,895
Repayments on other facilities for divestitures	(2,027)		
Principal payments of long-term debt	(1,276)	(1,219)	(1,253)
Proceeds from issuance of senior subordinated notes			144,131
Debt issue costs	(2,873)	(209)	(4,903)
Repurchase of senior subordinated notes		(79,479)	
Proceeds from issuance of common stock to benefit plans	19,158	11,794	8,991
Repurchase of common stock, amounts based on settlement date	(19,256)	(7,019)	(14,404)
Net cash provided by (used in) financing activities	(315,472)	344,139	(209,923)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55)	11,267	1,398
CASH AND CASH EQUIVALENTS, beginning of period	37,750	26,483	25,085
CASH AND CASH EQUIVALENTS, end of period	\$ 37,695	\$ 37,750	\$ 26,483

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

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

1. BUSINESS AND ORGANIZATION:

Group 1 Automotive, Inc., a Delaware corporation, through its subsidiaries, is a leading operator in the automotive retailing industry with operations in California, Colorado, Florida, Georgia, Louisiana, Massachusetts, New Hampshire, New Jersey, New Mexico, New York, Oklahoma, and Texas. Through their dealerships, these subsidiaries sell new and used cars and light trucks; arrange related financing, vehicle service and insurance contracts; provide maintenance and repair services; and sell replacement parts. Group 1 Automotive, Inc. and its subsidiaries are herein collectively referred to as the Company or Group 1.

Prior to January 1, 2006, our retail network was organized into 13 regional dealership groups, or platforms. Effective January 1, 2006, we reorganized our platforms into five regions: (i) the Northeast (comprising 21 dealerships in Massachusetts, New Hampshire, New Jersey and New York), (ii) the Southeast (comprising 16 dealerships in Florida, Georgia and Louisiana), (iii) the South Central (comprising 36 dealerships in Oklahoma and Central and Southeast Texas), (iv) the West Central (comprising 12 dealerships in Colorado, New Mexico and West Texas) and (v) the California (comprising 10 dealerships in California). Each region is managed by a regional vice president reporting directly to the Company's Chief Executive Officer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

All acquisitions of dealerships 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. All intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Revenues from vehicle sales, parts sales and vehicle service are recognized upon completion of the sale and delivery to the customer. Conditions to completing a sale include having an agreement with the customer, including pricing, and the sales price must be reasonably expected to be collected.

In accordance with Emerging Issues Task Force (EITF) No. 00-21, Revenue Arrangements with Multiple Deliverables, the Company defers revenues received for products and services to be delivered at a later date. This relates primarily to the sale of various maintenance services, to be provided in the future, at the time of the sale of a vehicle. The amount of revenues deferred is based on the then current retail price of the service to be provided. The revenues are recognized over the period during which the services are to be delivered. The remaining residual purchase price is attributed to the vehicle and recognized as revenue at the time of the sale.

In accordance with EITF No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, the Company records the profit it receives for arranging vehicle fleet transactions net in other finance and insurance revenues, net. Since all sales of new vehicles must occur through franchised new vehicle dealerships, the dealerships effectively act as agents for the automobile manufacturers in completing sales of vehicles to fleet customers. As these customers typically order the vehicles, the Company has no significant general inventory risk. Additionally, fleet customers generally receive special purchase incentives from the automobile manufacturers and the Company receives only a nominal fee for facilitating the transactions.

The Company arranges financing for customers through various institutions and receives financing fees based on the difference between the loan rates charged to customers and predetermined financing rates set by the financing institution. In addition, the Company receives fees from the sale of vehicle service contracts to

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

customers. The Company may be charged back a portion of the financing, insurance contract and vehicle service contract fees in the event of early termination of the contracts by customers. Revenues from these fees are recorded at the time of the sale of the vehicles and a reserve for future chargebacks is established based on the Company's historical operating results and the termination provisions of the applicable contracts.

The Company consolidates the operations of its reinsurance companies. The Company reinsures the credit life and accident and health insurance policies sold by its dealerships. All of the revenues and related direct costs from the sales of these policies are deferred and recognized over the life of the policies, in accordance with Statement of Financial Accounting Standards (SFAS) No. 60, Accounting and Reporting by Insurance Enterprises. Investment of the net assets of these companies are regulated by state insurance commissions and consist of permitted investments, in general, government-backed securities and obligations of government agencies. These investments are classified as available-for-sale and are carried at market value. These investments, along with restricted cash that is not invested, are classified as other long-term assets in the accompanying consolidated balance sheets.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and various other short-term investments with original maturities of three months or less at the date of purchase.

Contracts-in-Transit and Vehicle Receivables

Contracts-in-transit and vehicle receivables consist primarily of amounts due from financing institutions on retail finance contracts from vehicle sales. Also included are amounts receivable from vehicle wholesale sales.

Inventories

New, used and demonstrator vehicles are stated at the lower of specific cost or market. Vehicle inventory cost consists of the amount paid to acquire the inventory, plus reconditioning cost, cost of equipment added and transportation cost. Additionally, the Company receives interest assistance from some of the automobile manufacturers. The assistance is accounted for as a vehicle purchase price discount and is reflected as a reduction to the inventory cost on the balance sheet and as a reduction to cost of sales in the income statement as the vehicles are sold. At December 31, 2005 and 2004, inventory cost had been reduced by \$6.1 million and \$7.2 million, respectively, for interest assistance received from manufacturers. New vehicle cost of sales has been reduced by \$35.6 million, \$33.2 million and \$27.4 million for interest assistance received related to vehicles sold for the years ended December 31, 2005, 2004 and 2003, respectively.

Parts and accessories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Market adjustments are provided against the inventory balances based on the historical loss experience and management's considerations of current market trends.

Property and Equipment

Property and equipment are recorded at cost and depreciation is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for major additions or improvements, which extend the useful lives of assets, are capitalized. Minor replacements, maintenance and repairs, which do not improve or extend the lives of the assets, are charged to operations as incurred. Disposals are removed at cost less accumulated depreciation, and any resulting gain or loss is reflected in current operations.

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

Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price of businesses acquired over the fair value of the net tangible and intangible assets acquired. In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations. Prior to the adoption of SFAS No. 141 on January 1, 2002, the Company did not separately record intangible assets apart from goodwill as all were amortized over similar lives. In 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets, which changed the treatment of goodwill. SFAS No. 142 no longer permits the amortization of goodwill, but instead requires, at least annually, an assessment for impairment of goodwill by reporting unit, defined by the Company as of December 31, 2005, as each of its groups of dealerships formerly referred to as platforms, using a fair-value based, two-step test. The Company performs the annual impairment assessment at the end of each calendar year, and performs an impairment assessment more frequently if events or circumstances occur at a reporting unit between annual assessments that would more likely than not reduce the fair value of the reporting unit below its carrying value. See Note 5.

In evaluating goodwill for impairment, the Company compares the carrying value of the net assets of each reporting unit to its respective fair value. This represents the first step of the impairment test. If the fair value of a reporting unit is less than the carrying value of its net assets, the Company is then required to proceed to step two of the impairment test. The second step involves allocating the calculated fair value to all of the tangible and identifiable intangible assets of the reporting unit as if the calculated fair value was the purchase price of the business combination. This allocation could result in assigning value to intangible assets not previously recorded separately from goodwill prior to the adoption of SFAS No. 141, which could result in less implied residual value assigned to goodwill (see discussion regarding franchise rights acquired prior to July 1, 2001, in Intangible Franchise Rights below). The Company then compares the value of the implied goodwill resulting from this second step to the carrying value of the goodwill in the reporting unit. To the extent the carrying value of the goodwill exceeds the implied fair value, an impairment charge equal to the difference is recorded.

In completing step one of the impairment analysis, the Company uses a discounted cash flow approach to estimate the fair value of each reporting unit. Included in this analysis are assumptions regarding revenue growth rates, future gross margin estimates, future selling, general and administrative expense rates and the Company's weighted average cost of capital. The Company also estimates residual values at the end of the forecast period and future capital expenditure requirements. At December 31, 2005, 2004 and 2003, the fair value of each of the Company's reporting units exceeded the carrying value of its net assets (step one of the impairment test). As a result, the Company was not required to conduct the second step of the impairment test described above. However, if in future periods, the Company determines the carrying amount of its net assets exceed the respective fair value as a result of step one, the Company believes that the application of the second step of the impairment test could result in a material impairment charge to the goodwill associated with the reporting unit(s), especially with respect to those reporting units acquired prior to July 1, 2001.

Intangible Franchise Rights

The Company's only significant identifiable intangible assets, other than goodwill, are rights under franchise agreements with manufacturers, which are recorded at an individual dealership level. The Company expects these franchise agreements to continue for an indefinite period and, when these agreements do not have indefinite terms, the Company believes that renewal of these agreements can be obtained without substantial cost. As such, the Company believes that its franchise agreements will contribute to cash flows for an indefinite period and, therefore, the carrying amount of franchise rights are not amortized. Franchise rights acquired in acquisitions prior to July 1, 2001, were recorded and amortized as part of goodwill and remain as part of goodwill at December 31, 2005 and 2004 in the accompanying consolidated balance sheets. Since July 1, 2001, intangible franchise rights acquired in business combinations have been recorded as distinctly

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

separate intangible assets and, in accordance with SFAS No. 142, the Company evaluates these franchise rights for impairment annually, or more frequently if events or circumstances indicate possible impairment has occurred. See Note 5.

At the September 2004 meeting of the EITF, the SEC staff issued Staff Announcement No. D-108, Use of the Residual Method to Value Acquired Assets Other Than Goodwill (EITF D-108) which states that for business combinations after September 29, 2004, the residual method should no longer be used to value intangible assets other than goodwill. Rather, a direct value method should be used to determine the fair value of all intangible assets other than goodwill required to be recognized under SFAS No. 141, Business Combinations. Additionally, registrants who have applied a residual method to the valuation of intangible assets for purposes of impairment testing under SFAS No. 142, shall perform an impairment test using a direct value method on all intangible assets that were previously valued using a residual method by no later than the beginning of their first fiscal year beginning after December 15, 2004.

In performing this transitional impairment test as of January 1, 2005, the Company tested the carrying value of each individual franchise right that had been recorded for impairment by using a discounted cash flow model. Included in this direct analysis were assumptions, at a dealership level, regarding which cash flow streams were directly attributable to each dealership's franchise rights, revenue growth rates, future gross margins and future selling, general and administrative expenses. Using an estimated weighted average cost of capital, estimated residual values at the end of the forecast period and future capital expenditure requirements, the Company calculated the fair value of each dealership's franchise rights after considering estimated values for tangible assets, working capital and workforce. For some of the Company's dealerships, this transitional impairment test resulted in an estimated fair value that was less than the carrying value of their intangible franchise rights. As a result, a non-cash charge of \$16.0 million, net of deferred taxes of \$10.2 million, was recorded in the first quarter of 2005 as a cumulative effect of a change in accounting principle in accordance with the transitional rules of EITF D-108.

Long-Lived Assets

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that long-lived assets be reviewed for impairment whenever there is evidence that the carrying amount of such assets may not be recoverable. This consists of comparing the carrying amount of the asset with its expected future undiscounted cash flows without interest costs. If the asset carrying amount is less than such cash flow estimate, then it is required to be written down to its fair value. Estimates of expected future cash flows represent management's best estimate based on currently available information and reasonable and supportable assumptions.

Income Taxes

The Company follows the liability method of accounting for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are realized or liabilities are settled. A valuation allowance reduces deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

Self-Insured Medical and Property/ Casualty Plans

The Company is self-insured for a portion of the claims related to its employee medical benefits and property/casualty insurance programs. Employee medical and property physical damage claims not subject to stop-loss insurance are accrued based upon the Company's estimates of the aggregate liability for claims incurred using the Company's historical claims experience. Actuarial estimates for the portion of general

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

liability and workers' compensation claims not covered by insurance are based on the Company's historical claims experience adjusted for loss trending and loss development factors.

See Note 4 for a discussion of the effects of Hurricanes Katrina and Rita on the Company's 2005 results.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, investments in debt and equity securities, accounts payable, floorplan notes payable and long-term debt. The fair values of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, accounts payable and floorplan notes payable approximate their carrying values due to the short-term nature of these instruments or the existence of variable interest rates. The Company's investments in debt and equity securities are classified as available-for-sale securities and thus are carried at fair market value. As of December 31, 2005, the 8¹/₄% Senior Subordinated Notes due 2013 had a carrying value, net of applicable discount, of \$145.2 million and a fair value, based on quoted market prices, of \$141.8 million.

Derivative Financial Instruments

The Company's primary market risk exposure is increasing interest rates. Interest rate derivatives are used to adjust interest rate exposures when appropriate based on market conditions.

The Company follows the requirements of SFAS Nos. 133, 137, 138 and 149 (collectively "SFAS 133") pertaining to the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments on the balance sheet at fair value. The related gains or losses on these transactions 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 income. All of the Company's interest rate hedges are designated as cash flow hedges.

In December 2005, the Company entered into two interest rate swaps with total notional value of \$200.0 million. The hedge instruments are designed to convert floating rate vehicle floorplan payables under the Company's revolving credit facility to fixed rate debt. One swap, with \$100.0 million in notional value, effectively fixes a rate of 4.9% and the second swap, also with \$100.0 million in notional value, effectively fixes a rate of 4.8%. Both of these hedge instruments expire December 15, 2010. At December 31, 2005, net unrealized losses, net of income taxes, related to hedges included in Accumulated Other Comprehensive Loss totaled \$0.4 million. The Company had no derivative financial instruments outstanding at December 31, 2004. For the years ended December 31, 2004 and 2003, the income statement impact from interest rate hedges was an additional expense of \$2.1 million and \$4.3 million, respectively. At December 31, 2005, all of the Company's derivative contracts were determined to be highly effective, and no ineffective portion was recognized in income.

Factory Incentives

In addition to the interest assistance discussed above, the Company receives various incentive payments from certain of the automobile manufacturers. These incentive payments are typically received on parts purchases from the automobile manufacturers and on new vehicle retail sales. These incentives are reflected as reductions of cost of sales in the statement of operations.

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

Advertising

The Company expenses production and other costs of advertising as incurred. Advertising expense for the years ended December 31, 2005, 2004 and 2003, totaled \$64.4 million, \$67.6 million and \$60.5 million, respectively. Additionally, the Company receives advertising assistance from some of the automobile manufacturers. The assistance is accounted for as an advertising expense reimbursement and is reflected as a reduction of advertising expense in the income statement as the vehicles are sold, and in other accruals on the balance sheet for amounts related to vehicles still in inventory on that date. Advertising expense has been reduced by \$19.8 million, \$16.8 million and \$13.9 million for advertising assistance received related to vehicles sold for the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005 and 2004, accrued expenses included \$3.2 million and \$4.0 million, respectively, related to deferrals of advertising assistance received from the manufacturers.

Business and Credit Risk Concentrations

The Company owns and operates franchised automotive dealerships in the United States. Automotive dealerships operate pursuant to franchise agreements with vehicle manufacturers. Franchise agreements generally provide the manufacturers or distributors with considerable influence over the operations of the dealership and generally provide for termination of the franchise agreement for a variety of causes. The success of any franchised automotive dealership is dependent, to a large extent, on the financial condition, management, marketing, production and distribution capabilities of the vehicle manufacturers or distributors of which the Company holds franchises. The Company purchases substantially all of its new vehicles from various manufacturers or distributors at the prevailing prices to all franchised dealers. The Company's sales volume could be adversely impacted by the manufacturers' or distributors' inability to supply the dealerships with an adequate supply of vehicles. For the year ended December 31, 2005, Toyota (including Lexus, Scion and Toyota brands), Ford (including Ford, Lincoln, Mazda, Mercury, and Volvo brands), DaimlerChrysler (including Chrysler, Dodge, Jeep, Maybach and Mercedes-Benz brands), Nissan (including Infiniti and Nissan brands), General Motors (including Buick, Cadillac, Chevrolet, GMC, Hummer and Pontiac brands) and Honda (including Acura and Honda brands) accounted for 29.2%, 18.5%, 14.8%, 10.9%, 9.8% and 9.6% of the Company's new vehicle sales volume, respectively. No other manufacturer accounted for more than 5.0% of the Company's total new vehicle sales volume in 2005.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management in the accompanying consolidated financial statements relate to inventory market adjustments, reserves for future chargebacks on finance and vehicle service contract fees, self-insured property/ casualty insurance exposure, the fair value of assets acquired and liabilities assumed in business combinations and the valuation of goodwill and intangible franchise rights. Actual results could differ from those estimates.

Statements of Cash Flows

With respect to all new vehicle floorplan borrowings, the manufacturers of the vehicles draft the Company's credit facilities directly with no cash flow to or from the Company. With respect to borrowings for used vehicle financing, the Company chooses which vehicles to finance and the funds flow directly to the Company from the lender. All borrowings from, and repayments to, lenders affiliated with the vehicle manufacturers (excluding the cash flows from or to affiliated lenders participating in our syndicated lending

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

group) are presented within cash flows from operating activities on the Consolidated Statements of Cash Flows and all borrowings from, and repayments to, the syndicated lending group under the revolving credit facility (including the cash flows from or to affiliated lenders participating in the facility) are presented within cash flows from financing activities.

Upon entering into a new financing arrangement with Ford Motor Credit Company in June 2003, the Company repaid approximately \$218.5 million of floorplan borrowings under the revolving credit facility with funds provided by this new facility. Upon entering into a new financing arrangement with DaimlerChrysler Services North America LLC in December 2005, the Company repaid approximately \$157.0 million of floorplan borrowings under the revolving credit facility with funds provided by this new facility. These repayments are reflected as a source of cash within cash flows from operating activities and a use of cash within cash flows from financing activities for each respective period.

Correction of prior period classification error In connection with the preparation of the 2005 consolidated statement of cash flows, the Company's management determined that certain information in the 2004 and 2003 consolidated statements of cash flows should be revised to correct an error in the classification of certain cash flows related to acquisitions and dispositions to comply with SFAS No. 95, Statement of Cash Flows. As a result, the Company has revised its 2004 and 2003 consolidated statements of cash flows to recognize the payment of seller floorplan payable obligations as cash paid in acquisitions, net of cash received within cash flows from investing activities with a corresponding borrowing under either its revolving credit facility or other facilities within cash flows from financing activities. Likewise, when disposing of dealerships, the Company has revised the 2004 and 2003 consolidated statements of cash flows to reflect the purchaser's payment of the Company's floorplan payable obligation as additional proceeds from sales of dealership franchises within cash flows from investing activities with a corresponding repayment under either its revolving credit facility or other facilities within cash flows from financing activities. Previously, all such activity was presented as non-cash acquisition of inventory and floorplan payable and excluded from the 2004 and 2003 consolidated statements of cash flows. A summary of the effects of these revision to the 2004 and 2003 consolidated statements of cash flows are as follows:

Consolidated Statements of Cash Flows

	Year Ended December 31,			
	2004		2003	
	Reported	Revised	Reported	Revised
(In thousands)				
Cash flows from investing activities:				
Proceeds from sales of dealership franchises	\$	\$	\$ 7,414	\$ 12,585
Cash paid in acquisitions, net of cash received	(221,721)	(331,457)	(35,418)	(88,112)
Net cash used in investing activities	(250,389)	(360,125)	(54,165)	(101,688)
Cash flows from financing activities:				
Borrowings on credit facility	3,619,426		2,482,830	
Repayments on credit facility	(3,308,891)		(2,872,838)	
Borrowings on credit facility Floorplan Line		3,645,162		2,531,629

Repayments on credit facility				
Floorplan Line		(3,308,891)		(2,878,009)
Borrowings on other facilities for acquisitions				3,895
Net cash provided by (used in) financing activities	234,403	344,139	(257,446)	(209,923)

In addition, borrowings and repayments on the Company's floorplan and acquisition tranches of its revolving credit facility have been separately reported within cash flows from financing activities. These

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

amounts were previously presented combined as borrowings and repayments on credit facility within cash flows from financing activities.

Cash paid for interest was \$54.6 million, \$43.5 million and \$38.9 million in 2005, 2004 and 2003, respectively. Cash paid for income taxes was \$16.9 million, \$23.9 million and \$32.0 million in 2005, 2004 and 2003, respectively.

Related-Party Transactions

From time to time, the Company has entered into transactions with related parties. Related parties include officers, directors, five percent or greater stockholders and other management personnel of the Company.

At times, the Company has purchased its stock from related parties. These transactions were completed at then current market prices. See Note 13 for a summary of related party lease commitments. There are no other significant related party transactions.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25). Accordingly, compensation expense for stock-based awards is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the common stock. Typically, the Company grants options at prices equal to the market price of its common stock on the date of grant and therefore does not record compensation expense related to these grants. Additionally, no compensation expense is recorded for shares issued pursuant to the employee stock purchase plan as it is a noncompensatory plan, as that term is defined in APB No. 25.

SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123, requires companies that continue to account for stock-based compensation in accordance with APB No. 25 to disclose certain information using a tabular presentation. The table presented below illustrates the effect on net income and earnings per share as if the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, had been applied to the Company's stock-based employee compensation plans. Under the provisions of SFAS No. 123, compensation

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

cost for stock-based compensation is determined based on fair values as of the dates of grant and compensation cost is amortized over the applicable vesting period.

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except per share amounts)		
Net income, as reported	\$ 54,231	\$ 27,781	\$ 76,126
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	993		
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	3,532	4,015	3,576
Pro forma net income	\$ 51,692	\$ 23,766	\$ 72,550
Earnings per share:			
Basic as reported	\$ 2.27	\$ 1.22	\$ 3.38
Basic pro forma	\$ 2.17	\$ 1.04	\$ 3.22
Diluted as reported	\$ 2.24	\$ 1.18	\$ 3.26
Diluted pro forma	\$ 2.13	\$ 1.01	\$ 3.11

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model is not designed to measure not-for-sale options, but is the most widely used method for option valuation. The following table summarizes the weighted average assumptions used in determining the fair value of the Company's stock-based compensation during the years ended December 31, 2005, 2004 and 2003, and the resulting weighted average fair values:

	2005	2004	2003
Risk-free interest rate	5.9%	4.2%	3.8%
Expected life of options	6.0 yrs	7.1 yrs	8.0 yrs
Expected volatility	42.0%	47.7%	51.9%
Expected dividend yield			
Fair value	\$13.84	\$16.14	\$18.02

Business Segment Information

The Company, through its operating companies, operates in the automotive retailing industry. All of the operating companies sell new and used vehicles, arrange financing, vehicle service, and insurance contracts, provide maintenance and repair services and sell replacement parts. The operating companies are similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. Additionally, the Company's management evaluates performance and allocates resources based on the operating results of the individual operating companies. For the reasons discussed above, all of the operating companies represent one reportable segment under SFAS No. 131, Disclosures about Segments of an Enterprise and Related

Information. Accordingly, the accompanying consolidated financial statements reflect the operating results of the Company's reportable segment.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) requires that companies recognize compensation expense equal to the fair value of stock options and other

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

share-based payments. The standard was initially to be effective beginning in the third quarter of 2005, but on April 15, 2005, the SEC changed the required adoption period to be the first interim period of a registrant's fiscal year beginning after June 15, 2005. As a result, the Company must adopt the provisions of SFAS No. 123(R) effective January 1, 2006. The Company has elected the modified prospective application method and, therefore, the impact on the Company's net income will include the remaining amortization of the fair value of existing stock-based awards currently disclosed as pro forma expense above, plus the fair value of any future grants. The Company expects such expense to total approximately \$3.2 million for the twelve months ended December 31, 2006.

In October 2005, the FASB staff issued FASB Staff Position No. FAS 13-1, Accounting for Rental Costs Incurred During a Construction Period, which, starting in the first reporting period beginning after December 15, 2005, will require companies to expense, versus capitalizing into the carrying costs, rental costs associated with ground or building operating leases that are incurred during a construction period. During the years ended December 31, 2005, 2004 and 2003, the Company capitalized rental costs incurred during construction of approximately \$1.5 million, \$1.2 million and \$0.4 million, respectively.

Reclassifications

Certain reclassifications have been made in the 2004 and 2003 financial statements to conform to the current year presentation.

3. ACQUISITIONS:

During 2005, the Company acquired seven automobile dealership franchises located in New Hampshire, Oklahoma and Texas. Total cash consideration paid included \$20.6 million to the sellers and \$15.2 million to the sellers' financing sources to pay off outstanding floorplan borrowings. During 2004, the Company acquired 23 automobile dealership franchises located in California, Massachusetts, New Jersey, New York and Texas. Total cash consideration paid included \$221.7 million to the sellers and \$109.7 million to the sellers' financing sources to pay off outstanding floorplan borrowings. During 2003, the Company acquired eight automobile dealership franchises in Louisiana, Oklahoma, and Texas, and completed a market consolidation project in conjunction with DaimlerChrysler's Alpha Initiative in Dallas, Texas. Total cash consideration paid included \$35.4 million to the sellers and \$52.7 million to the sellers' financing sources to pay off outstanding floorplan borrowings. The accompanying consolidated balance sheets include preliminary allocations of the purchase price for all of the acquired assets and liabilities assumed based on their estimated fair market values at the dates of acquisition and, for the dealerships acquired during 2005, are subject to final adjustment.

4. HURRICANES KATRINA AND RITA:

On August 29, 2005, Hurricane Katrina struck the Gulf Coast of the United States, including New Orleans, Louisiana. At that time, the Company operated six dealerships in the New Orleans area, consisting of nine franchises. Two of the dealerships are located in the heavily flooded East Bank of New Orleans and nearby Metairie areas, while the other four are located on the West Bank of New Orleans, where flood-related damage was less severe. The East Bank stores suffered significant damage and loss of business and remain closed, although the Company's Dodge store in Metairie has resumed limited operations from a satellite location. The West Bank stores reopened approximately two weeks after the storm.

On September 24, 2005, Hurricane Rita came ashore along the Texas/ Louisiana border, near Houston and Beaumont, Texas. The Company operates two dealerships in Beaumont, Texas, consisting of eleven franchises and nine dealerships in the Houston area consisting of seven franchises. As a result of the evacuation by many residents in Houston, and the aftermath of the storm in Beaumont, all of these dealerships were closed several days before and after the storm. All of these dealerships have since resumed operations.

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The Company is self-insured for a portion of the claims related to its property and casualty insurance programs. As a result of insurable events that occurred earlier in 2005, the Company had exhausted most of its self-insurance exposure on its physical damage policies prior to the start of the third quarter. Therefore, the physical losses sustained as a result of Hurricanes Katrina and Rita were generally limited to deductibles required under the Company's various insurance policies. Based on preliminary estimates of the damage sustained to its New Orleans-area and Beaumont dealership facilities and its inventory of new and used vehicles at those locations, the Company has estimated its total loss for such damage to be approximately \$23.4 million. After the Company's application of the terms of its underlying property and casualty insurance policies, the Company recorded an insurance recovery receivable totaling \$19.2 million and reduced the above-noted estimated loss to \$4.2 million. This loss is included in selling, general and administrative expenses in the Consolidated Statements of Operations. The receivable was established based on the determination of management, given their experience with these type claims and discussions to date with its insurance carriers, that it is probable that recovery will occur for the amount of these losses and the cost to repair its leased facilities in excess of insurance policy deductibles. The Company made the determination of whether recovery was probable in accordance with the requirements of SFAS No. 5, Accounting for Contingencies, which defines probable as being likely to occur. During the fourth quarter, the Company received total payments on these receivables of approximately \$14.6 million.

The Company maintains business interruption insurance coverage under which its insurance providers have advanced a total of \$5.0 million; however, this amount is subject to final audit under the policies and also subject to settlement adjustments. During the fourth quarter of 2005, the Company recorded approximately \$2.1 million of these proceeds, related to covered payroll and fixed cost expenditures since August 29, 2005, as a reduction to the above-noted loss accrual. Although the Company believes it may be eligible for greater amounts of recovery for loss of operations at all of its New Orleans-area and Beaumont dealerships, it is at this time unable to determine either the amount of, or nature of, additional covered items with any certainty. The Company has, therefore, not recorded any additional portion of these proceeds as a reduction of its loss for the period. Any part of these proceeds that the Company retains, and any additional recoveries under this coverage, will be recognized in the period in which all contingencies have been resolved.

All of the amounts reflected to date are estimates based on information currently available to the Company. These estimates are preliminary and subject to change until the Company has finalized all amounts with its insurance carriers. Although the Company believes that any increase in the estimated loss would be offset by increases in estimated insurance recoveries, there can be no assurance that such offsetting occurs and any difference could be material to the Company's financial position, results of operations or cash flows.

5. ASSET IMPAIRMENTS:

During 2005, the Company recorded the following six impairment charges, excluding the cumulative effect of a change in accounting principle discussed in Note 2, all of which are reflected in asset impairments in the accompanying statement of operations:

In connection with the preparation and review of its third-quarter of 2005 interim financial statements, the Company determined that recent events and circumstances in New Orleans indicated that an impairment of goodwill and/or other long-lived assets may have occurred in the three months ended September 30, 2005. As a result, the Company performed interim impairment assessments of its intangible franchise rights and other long-lived assets in the New Orleans area, followed by an interim impairment assessment of goodwill associated with its New Orleans operations, in connection with the preparation of its financial statements for the quarter ended September 30, 2005.

As a result of these interim assessments, the Company recorded a pretax impairment charge of \$1.3 million during the third quarter of 2005 relating to the franchise value of its Dodge store located in Metairie, Louisiana, whose carrying value exceeded its estimated fair value. Based on the Company's

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

interim goodwill assessment, no impairment of the carrying value of the recorded goodwill associated with the Company's New Orleans operations was required. The Company's goodwill impairment analysis included an assumption that the Company's business interruption insurance proceeds would maintain a level cash flow rate consistent with past operating performance until those operations return to normal. The Company is unable to determine at this time, and therefore has made no assumption regarding, whether a permanent decline in the New Orleans business economy has occurred. Such a permanent decline could have a material adverse effect on the Company's operations and could result in the fair value of the Company's New Orleans operations not exceeding the carrying value of its respective net assets.

Due to the then pending disposal of two of the Company's California franchises, a Kia and a Nissan franchise, the Company tested the respective intangible franchise rights and other long-lived assets for impairment during the third quarter of 2005. These tests resulted in two impairments of long-lived assets totaling \$3.7 million.

As required by SFAS No. 142, the Company performed an annual review of the fair value of its goodwill and indefinite-lived intangible assets at December 31, 2005. As a result of this annual assessment, the Company determined that the fair value of indefinite-lived intangible franchise rights related to three of its franchises, primarily a Pontiac/GMC franchise in the South Central region, did not exceed their carrying value and an impairment charge was required. Accordingly, the Company recorded a \$2.6 million pretax impairment charge during the fourth quarter of 2005.

During 2004, the Company recorded the following three impairment charges, all of which are also reflected in asset impairments in the accompanying statement of operations:

During October 2004, in connection with the preparation and review of the third-quarter interim financial statements, the Company determined that recent events and circumstances at its Atlanta operations, including further deterioration of its financial results and recent changes in its management, indicated that an impairment of goodwill may have occurred in the three months ended September 30, 2004. As a result, the Company performed an interim impairment assessment of goodwill associated with its Atlanta operations in accordance with SFAS No. 142. After analyzing the long-term potential of the Atlanta market and the expected future operating results of its dealership franchises in Atlanta, the Company estimated the fair value of the reporting unit as of September 30, 2004. As a result of the required evaluation, the Company determined that the carrying amount of the reporting unit's goodwill exceeded its implied fair value as of September 30, 2004, and recorded a goodwill impairment charge of \$40.3 million.

In connection with the required Atlanta goodwill evaluation, the Company determined that impairment of certain long-lived assets of the Atlanta operations may have occurred requiring an impairment assessment of these assets in accordance with SFAS No. 144. As a result of this assessment, the Company recorded a \$1.1 million pretax impairment charge during the third quarter of 2004.

Finally, as a result of the Company's annual review of the fair value of its goodwill and indefinite-lived intangible assets at December 31, 2004, in accordance with SFAS No. 142, the Company determined that the fair value of indefinite-lived intangible franchise rights related to a Mitsubishi franchise in the California region did not exceed its carrying value and an impairment charge was required. Accordingly, the Company recorded a \$3.3 million pretax impairment charge during the fourth quarter of 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Accounts and notes receivable consist of the following:

	December 31,	
	2005	2004
	(In thousands)	
Amounts due from manufacturers	\$ 46,653	\$ 49,285
Parts and service receivables	18,884	16,483
Finance and insurance receivables	8,065	8,808
Other ⁽¹⁾	10,369	4,286
Total accounts and notes receivable	83,971	78,862
Less allowance for doubtful accounts	2,508	2,175
Accounts and notes receivable, net	\$ 81,463	\$ 76,687

(1) Included in the 2005 total Other accounts receivable of \$10.4 million is a \$4.6 million of insurance recovery receivable associated with the damages sustained as a result of Hurricanes Katrina and Rita. See Note 4.

Inventories consist of the following:

	December 31,	
	2005	2004
	(In thousands)	
New vehicles	\$ 580,044	\$ 699,238
Used vehicles	101,976	108,506
Rental vehicles	27,490	24,085
Parts, accessories and other	47,328	45,746
Inventories	\$ 756,838	\$ 877,575

Property and equipment consist of the following:

	Estimated Useful Lives in Years	December 31,	
		2005	2004
		(In thousands)	
Land		\$ 30,539	\$ 28,417
Buildings	30 to 40	37,628	35,297

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Leasehold improvements	7 to 15	49,455	49,303
Machinery and equipment	7 to 20	41,896	38,220
Furniture and fixtures	3 to 10	52,972	49,524
Company vehicles	3 to 5	9,336	7,318
Construction in progress		12,480	9,505
Total		234,306	217,584
Less accumulated depreciation and amortization		72,989	57,287
Property and equipment, net		\$ 161,317	\$ 160,297

Depreciation and amortization expense totaled approximately \$18.9 million, \$15.8 million, and \$12.5 million for the years ended December 31, 2005, 2004 and 2003, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL:

The following is a roll-forward of the Company's intangible franchise rights and goodwill accounts:

	Intangible Franchise Rights	Goodwill
	(In thousands)	
Balance, December 31, 2003	\$ 76,656	\$328,491
Additions through acquisitions	113,817	79,172
Impairments	(3,338)	(40,255)
Realization of tax benefits		(735)
Balance, December 31, 2004	187,135	366,673
Additions through acquisitions	12,492	7,552
Disposals	(2,313)	(722)
Impairments	(33,104)	
Realization of tax benefits		(659)
Balance, December 31, 2005	\$164,210	\$372,844

The reduction in goodwill related to the realization of certain tax benefits is due to differences between the book and tax bases of the goodwill. All of the goodwill added through acquisition in 2005, and \$75.2 million of the goodwill added in 2004, is expected to be deductible for tax purposes.

8. CREDIT FACILITIES:

The Company obtains its floorplan and acquisition financing through a \$950.0 million revolving credit arrangement (the Credit Facility) with a lending group comprised of 13 major financial institutions, plus three manufacturer captive finance companies. The Company also has a \$300.0 million floorplan financing arrangement with Ford Motor Credit Company (the FMCC Facility) and a \$300.0 million floorplan financing arrangement with DaimlerChrysler Services North America LLC (the DaimlerChrysler Facility), as well as arrangements with several other automobile manufacturers for financing of a portion of its rental vehicle inventory. Floorplan notes payable credit facility reflects amounts payable for the purchase of specific new, used and rental vehicle inventory (with the exception of new and rental vehicle purchases financed through lenders affiliated with the respective manufacturer) whereby financing is provided by the Credit Facility. Floorplan notes payable manufacturer affiliates reflects amounts payable for the purchase of specific new vehicles whereby financing is provided by the FMCC Facility and the DaimlerChrysler Facility and the financing of rental vehicle inventory with several other manufacturers. Payments on the floorplan notes payable are generally due as the vehicles are sold. As a result, these obligations are reflected on

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

the accompanying balance sheets as current liabilities. The outstanding balances under these financing arrangements are as follows:

	December 31,	
	2005	2004
	(In thousands)	
Floorplan notes payable – credit facility		
New vehicles	\$ 334,630	\$ 565,902
Used vehicles	64,880	63,053
Rental vehicles	7,886	3,638
Total	\$ 407,396	\$ 632,593
Floorplan notes payable – manufacturer affiliates		
FMCC Facility	\$ 156,640	\$ 195,498
DaimlerChrysler Facility	139,743	
Other – rental vehicles	19,806	20,169
Total	\$ 316,189	\$ 215,667
Acquisition Line	\$	\$ 84,000

The Credit Facility currently provides \$712.5 million of floorplan financing capacity (the Floorplan Line). After considering the above outstanding balances, the Company had \$305.1 million of available floorplan capacity under the Floorplan Line as of December 31, 2005. The Company pays a commitment fee of 0.20% per annum on the unused portion of its floorplan capacity. Floorplan borrowings under the Floorplan Line bear interest at the London Interbank Offer Rate (LIBOR) plus 100 basis points for new vehicle inventory and LIBOR plus 112.5 basis points for used vehicle inventory. As of December 31, 2005 and 2004, the weighted average interest rate on the Floorplan Line was 5.46% and 3.45%, respectively.

The Credit Facility also currently provides \$237.5 million of acquisition financing capacity (the Acquisition Line), which may be used to fund acquisitions, capital expenditures and/or other general corporate purposes. After considering the above outstanding balances, as well as \$11.9 million of outstanding letters of credit, there was \$225.6 million available under the Acquisition Line as of December 31, 2005. The Company pays a commitment fee on the unused portion of the Acquisition Line. The first \$37.5 million of available funds carry a 0.20% per annum commitment fee, while the balance of the available funds carry a commitment fee ranging from 0.35% to 0.50% per annum, depending on the Company's leverage ratio. Borrowings under the Acquisition Line bear interest based on LIBOR plus a margin that ranges from 150 to 225 basis points, also depending on the Company's leverage ratio. As of December 31, 2004, the weighted average interest rate on borrowings under the Acquisition Line was 5.27%. The Company had no Acquisition Line borrowings outstanding at December 31, 2005.

The Credit Facility contains various financial covenants that, among other things, require the Company to maintain certain financial ratios, including minimum equity, fixed-charge coverage, leverage and current ratios, as well as placing limitations on the Company's ability to incur other debt obligations, pay cash dividends, and repurchase shares of its common stock. As of December 31, 2005, the Company was in compliance with these covenants and was limited to a total of \$96.9 million for dividends or share repurchases, before consideration of additional amounts that

may become available in the future based on a percentage of net income and future equity issuances. The Company's obligations under the Credit Facility are collateralized by its entire inventory of new and used vehicles (other than its Ford and DaimlerChrysler new vehicle inventory detailed below), plus substantially all of its other non-real estate related assets. The Credit Facility matures on December 16, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The FMCC Facility provides for the financing of, and is collateralized by, the Company's entire Ford, Lincoln and Mercury new vehicle inventory. This arrangement provides for \$300.0 million of floorplan financing and matures on December 16, 2006. After considering the above outstanding balance, the Company had \$143.4 million of available floorplan capacity under the FMCC Facility as of December 31, 2005. This facility bears interest at a rate of Prime plus 100 basis points minus certain incentives. As of December 31, 2005 and 2004, the interest rate on the FMCC Facility was 8.25% and 4.15%, respectively, before considering the applicable incentives. After considering all incentives received during 2005, the total cost to the Company of borrowings under the FMCC Facility approximates what the cost would be under the floorplan portion of the Credit Facility. The Company is required to maintain a \$1.5 million balance in a restricted money market account as additional collateral under the FMCC Facility. This account is reflected in prepaid expenses and other current assets on the accompanying 2005 balance sheet and was reflected in other long-term assets at December 31, 2004.

During 2005, the Company entered into the DaimlerChrysler Facility for the financing of its entire Chrysler, Dodge, Jeep and Mercedes-Benz new vehicle inventory, which collateralize the facility. This arrangement provides for \$300.0 million of floorplan financing and matures on December 16, 2006. After considering the above outstanding balance, the Company had \$160.3 million of available floorplan capacity under the DaimlerChrysler Facility as of December 31, 2005. This facility bears interest at a rate of LIBOR plus 175 to 225 basis points minus certain incentives. As of December 31, 2005, the interest rate on the DaimlerChrysler Facility was 6.19% before considering the applicable incentives. After considering all incentives received during 2005, the total cost to the Company of borrowings under the DaimlerChrysler Facility also approximates what the cost would be under the floorplan portion of the Credit Facility. The Company will be required to maintain a \$1.5 million balance in a restricted money market account as additional collateral, although such collateral had not yet been put in place as of December 31, 2005.

Taken together, the Credit Facility, FMCC Facility and DaimlerChrysler Facility permit the Company to borrow up to \$1.3 billion for inventory purchases and the Credit Facility provides for an additional \$237.5 million for acquisitions, capital expenditures and/or other general corporate purposes.

Excluding rental vehicles financed through the Credit Facility, financing for rental vehicles is typically obtained directly from the automobile manufacturers. These financing arrangements generally require small monthly payments and mature in varying amounts between 2005 and 2007. The weighted average interest rate charged as of December 31, 2005 and 2004, was 5.6% and 4.1%, respectively. Rental vehicles are typically moved to used vehicle inventory when they are removed from rental service and repayment of the borrowing is required at that time.

As discussed more fully in Note 2, the Company receives interest assistance from certain automobile manufacturers. The assistance has ranged from approximately 80% to 160% of the Company's floorplan interest expense over the past three years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31,	
	2005	2004
	(In thousands)	
8 ¹ / ₄ % Senior Subordinated Notes due 2013	\$ 145,156	\$ 144,704
Various notes payable, maturing in varying amounts through August 2018 with a weighted average interest rate of 10.5% and 10.4%, respectively	13,704	13,097
	158,860	157,801
Less current maturities	786	1,054
	\$ 158,074	\$ 156,747

During August 2003, the Company issued 8¹/₄% Senior Subordinated Notes due 2013 (the Notes) with a face amount of \$150.0 million. The Notes pay interest semi-annually on February 15 and August 15 each year, beginning February 15, 2004. Including the effects of discount and issue cost amortization, the effective interest rate is approximately 8.9%. The Notes have the following redemption provisions:

The Company may, prior to August 15, 2006, redeem up to \$52.5 million of the Notes with the proceeds of certain public offerings of common stock at a redemption price of 108.250% of the principal amount plus accrued interest.

The Company may, prior to August 15, 2008, redeem all or a portion of the Notes at a redemption price equal to the principal amount plus a make-whole premium to be determined, plus accrued interest.

The Company may, during the twelve-month periods beginning August 15, 2008, 2009, 2010 and 2011, and thereafter, redeem all or a portion of the Notes at redemption prices of 104.125%, 102.750%, 101.375% and 100.000%, respectively, of the principal amount plus accrued interest.

Group 1 Automotive, Inc. (the parent company) has no independent assets or operations and the Notes are jointly, severally, fully, and unconditionally guaranteed, on an unsecured senior subordinated basis, by all subsidiaries of the Company, other than certain minor subsidiaries (the Subsidiary Guarantors). All of the Subsidiary Guarantors are wholly-owned subsidiaries of the Company. Additionally, the Notes are subject to various financial and other covenants, including restrictions on paying cash dividends and repurchasing shares of its common stock, which must be maintained by the Company. As of December 31, 2005, the Company was in compliance with these covenants and was limited to a total of \$78.2 million for dividends or share repurchases, before consideration of additional amounts that may become available in the future based on a percentage of net income and future equity issuances.

On March 1, 2004, the Company completed the redemption of all its then outstanding 10⁷/₈% senior subordinated notes at a redemption price of 105.438% of the principal amount of the notes. The Company incurred a \$6.4 million pretax charge in completing the redemption, consisting of a \$4.1 million redemption premium and a \$2.3 million non-cash write-off of unamortized bond discount and deferred costs. Total cash used in completing the redemption, excluding accrued interest of \$4.1 million, was \$79.5 million.

At the time of the issuance of the Notes, the Company incurred certain costs, which are included as deferred financing costs in long-term other assets on the accompanying balance sheets. Unamortized deferred financing costs at December 31, 2005 and 2004, totaled \$0.7 million and \$0.8 million, respectively. The Notes are recorded net of unamortized discount of \$4.8 million and \$5.3 million as of December 31, 2005 and 2004, respectively.

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Total interest expense on the Notes, and the previously outstanding 10⁷/₈% senior subordinated notes, for the years ended December 31, 2005, 2004 and 2003, was approximately \$12.9 million, \$14.4 million and \$13.5 million, respectively.

Total interest incurred on various other notes payable, which were included in long-term debt on the accompanying balance sheets, was approximately \$1.4 million, \$1.4 million and \$1.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The Company capitalized approximately \$1.3 million, \$0.6 million, and \$1.0 million of interest on construction projects in 2005, 2004 and 2003, respectively.

The aggregate annual maturities of long-term debt for the next five years are as follows (in thousands):

2006	\$ 786
2007	863
2008	962
2009	962
2010	1,031

10. STOCK-BASED COMPENSATION PLANS:

In 1996, Group 1 adopted the 1996 Stock Incentive Plan, as amended, (the Plan), which provides for the granting or awarding of stock options, stock appreciation rights and restricted stock to employees and directors. The number of shares authorized and reserved for issuance under the Plan is 5,500,000 shares, of which 1,246,821 are available for future issuance as of December 31, 2005. The terms of the option awards (including vesting schedules) are established by the Compensation Committee of the Company's Board of Directors. All outstanding options are exercisable over a period not to exceed 10 years and vest over periods ranging from three to eight years.

The following table summarizes the Company's outstanding stock options:

	Number	Weighted Average Exercise Price
Options outstanding, December 31, 2002	3,518,349	\$ 18.00
Grants (exercise prices between \$22.93 and \$34.85 per share)	176,000	29.78
Exercised	(482,509)	10.60
Forfeited	(374,205)	23.28
Options outstanding, December 31, 2003	2,837,635	19.29
Grants (exercise prices between \$28.20 and \$29.94 per share)	218,400	29.35
Exercised	(478,258)	14.52
Forfeited	(140,700)	26.52
Options outstanding, December 31, 2004	2,437,077	20.71
Grants (exercise price of \$27.83 per share)	17,000	27.83
Exercised	(961,032)	15.66
Forfeited	(178,485)	28.72
Options outstanding, December 31, 2005	1,314,560	\$ 23.43

At December 31, 2005, 2004 and 2003, 941,435, 1,707,950 and 1,767,339 options, respectively, were exercisable at weighted average exercise prices of \$20.77, \$17.77 and \$15.44, respectively.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
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The following table summarizes information regarding stock options outstanding as of December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/05	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/05	Weighted Average Exercise Price
\$9.38 to \$12.29	346,416	3.20	\$ 11.64	346,416	\$ 11.64
\$14.81 to \$22.93	277,925	3.96	17.68	238,175	17.37
\$24.38 to \$28.20	287,419	6.33	25.54	157,518	24.65
\$28.97 to \$34.84	243,100	7.37	30.19	99,266	29.99
\$44.96	159,700	6.39	44.96	100,060	44.96
Total	1,314,560	5.20	\$ 23.43	941,435	\$ 20.77

During 2005, the Company's directors and certain employees were granted, at no cost to the recipient, restricted stock awards or, at their election, phantom stock awards, pursuant to the Company's 1996 Stock Incentive Plan, as amended. During the year ended December 31, 2005, 190,902 shares of restricted stock were granted and remain outstanding as of December 31, 2005. These shares are considered outstanding at the date of grant, but are restricted from disposition for periods ranging from six months to five years. In the event the employee or 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. During the year ended December 31, 2005, 60,210 phantom stock awards were issued and remain outstanding at December 31, 2005. The phantom stock awards will settle in shares of common stock upon the termination of the grantees' employment or directorship and have vesting periods ranging from six months to five years. As all of these awards are fixed, total compensation cost of \$8.4 million was measured at each date of grant and recorded as a deferred charge to stockholders' equity. This deferred stock-based compensation, net of the effect of forfeited awards, will be amortized ratably to income over the vesting periods of the individual awards.

In September 1997, Group 1 adopted the Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan, as amended (the Purchase Plan). The Purchase Plan authorizes the issuance of up to 2.0 million shares of common stock and provides that no options to purchase shares may be granted under the Purchase Plan after June 30, 2007. As of December 31, 2005, there were 257,967 shares remaining in reserve for future issuance under the Purchase Plan. 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, the employee contributions are used to acquire shares of common stock 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. During 2005, 2004 and 2003, the Company issued 189,550, 153,791 and 173,114 shares, respectively, of common stock to employees participating in the Purchase Plan.

11. EMPLOYEE SAVINGS PLANS:

The Company has a deferred compensation plan to provide select employees and members of the Company's Board of Directors with the opportunity to accumulate additional savings for retirement on a tax-deferred basis. Participants in the plan are allowed to defer receipt of a portion of their salary and/or bonus compensation, or in the case of the Company's directors, annual retainer and meeting fees, earned. The participants can choose from various defined investment options to determine their earnings crediting rate; however, the Company has complete discretion over how the funds are utilized. Participants in the plan are unsecured creditors of the Company. The balances due to participants of the deferred compensation plan as of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004, were \$17.5 million and \$15.4 million, respectively, and are included in other liabilities in the accompanying balance sheets.

The Company offers a 401(k) plan to all of its employees and provides a matching contribution to those employees that participate. The matching contributions paid by the Company totaled \$4.1 million, \$3.7 million and \$3.2 million for the years ended December 31, 2005, 2004 and 2003, respectively.

12. EARNINGS PER SHARE:

Basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impact of all potentially dilutive securities. The following table sets forth the calculation of earnings per share for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Net income	\$ 54,231	\$ 27,781	\$ 76,126
Weighted average basic shares outstanding	23,866	22,808	22,524
Dilutive effect of stock options, net of assumed repurchase of treasury stock	337	686	822
Dilutive effect of restricted stock, net of assumed repurchase of treasury stock	26		
Weighted average diluted shares outstanding	24,229	23,494	23,346
Earnings per share:			
Basic	\$ 2.27	\$ 1.22	\$ 3.38
Diluted	\$ 2.24	\$ 1.18	\$ 3.26

Any options with an exercise price in excess of the average market price of the Company's common stock, during the periods presented, are not considered when calculating the dilutive effect of stock options for diluted earnings per share calculations. The weighted average number of options not included in the calculation of the dilutive effect of stock options was 0.3 million the year ended December 31, 2005 and 0.4 million for each of the years ended December 31, 2004 and 2003, respectively.

13. OPERATING LEASES:

The Company leases various facilities and equipment under long-term operating lease agreements. The facility leases typically have a minimum term of fifteen years with options that extend the term up to an additional fifteen years.

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

Future minimum lease payments for operating leases as of December 31, 2005, are as follows (in thousands):

Year Ended December 31,	Related Parties	Third Parties	Total
2006	\$ 16,913	\$ 47,871	\$ 64,784
2007	16,631	47,226	63,857
2008	14,452	43,560	58,012
2009	14,452	38,761	53,213
2010	14,374	34,168	48,542
Thereafter	98,641	162,085	260,726
Total	\$ 175,463	\$ 373,671	\$ 549,134

Total rent expense under all operating leases was approximately \$63.2 million, \$57.3 million and \$46.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. Rent expense on related party leases, which is included in the above total rent expense amounts, totaled approximately \$16.0 million, \$12.4 million and \$9.5 million for the years ended December 31, 2005, 2004 and 2003, respectively.

During 2005, the Company sold and leased back three facilities, under long-term operating leases to unrelated third parties, for an aggregate sales price of approximately \$21.2 million. One of the three leases expires in 2017 and the other two expire in 2020. The future minimum lease payments in aggregate for these three leases total approximately \$28.4 million. During 2004, the Company completed construction of two new facilities and subsequently sold and leased these facilities back, under long-term operating leases with unrelated third parties, for an aggregate sales price of approximately \$8.1 million. The resulting leases expire in 2019 and the future minimum lease payments total approximately \$18.7 million. All these transactions have been accounted for as sale-leasebacks and the future minimum rentals are included in the above table, with the exception of one of the leases entered into during 2004 which was associated with a dealership facility sold in 2005. The Company remains a guarantor on this lease and the future minimum rentals are excluded from the above table. See discussion of lease guarantees in Note 15.

During 2005 and 2004, the Company also entered into the following related-party real estate transactions with various entities, some of the partners of which are among the management of several of the Company's dealership operations, on terms comparable to those in recent transactions between the Company and unrelated third parties and that the Company believes represent fair market value:

During 2005:

In Milford, Massachusetts, the Company sold recently acquired real estate for approximately \$4.2 million and executed a 15-year lease, to begin upon the completion of construction of a new Toyota dealership facility for one of its existing franchises. The lease has three five-year renewal options, exercisable at the Company's sole discretion. Upon completion, the Company contemplates selling the facility to the landowner and amending the lease accordingly. Prior to completion of construction, the Company is reimbursing the lessor for approximately \$0.3 million per year of interest and other related land carrying costs.

In Stratham, New Hampshire, the Company assigned its right to buy dealership land and facilities associated with its acquisition of a BMW franchise. The assignee purchased the dealership facility and related real estate at appraised value and entered into a 15-year lease with the Company. The lease has three five-year renewal options, exercisable at the Company's sole discretion. Future minimum lease payments total approximately \$4.9 million over the initial lease term.

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

In Rockwall, Texas, the Company assigned its right to buy undeveloped land in connection with the acquisition of Chrysler and Jeep franchises. The assignee purchased the real estate at appraised value and entered into an intent-to lease agreement with the Company pursuant to which the Company was expected to lease the property and a dealership facility to be constructed by the Company and sold to the landowner upon completion. Subsequent to the assignee's purchase of the real estate, it was determined that construction of a new facility would not be required. The property is currently under contract and its sale is pending. In the event the current contract for sale does not close, the Company is obligated to purchase the real estate at the assignee's cost of \$1.9 million.

In Amarillo, Texas, the Company sold for \$2.2 million and leased back a dealership facility housing Lincoln and Mercury franchises. The lease has a 15-year initial term, three five-year renewal options, exercisable at the Company's sole discretion, and future minimum lease payments of approximately \$2.8 million over the initial lease term.

In Danvers, Massachusetts, the Company executed a 15-year lease, to begin upon the completion of construction by the Company of a new collision center, inventory storage and service facility for existing Audi and Toyota franchises. The lease has three five-year renewal options, exercisable at the Company's sole discretion. Upon completion, the Company contemplates selling the facility to the landowner and amending the lease accordingly. Prior to completion of construction, the Company is reimbursing the lessor for approximately \$0.5 million per year of interest and other related land carrying costs.

In Oklahoma City, Oklahoma, the Company entered into a lease for undeveloped land with an entity in which Robert E. Howard II, a director of the Company, is majority partner, upon which the Company intends to construct a new dealership facility for its Toyota franchise. The lease has a 15-year initial term, three five-year renewal options, exercisable at the Company's sole discretion, and future minimum lease payments of \$3.5 million (based solely on the value of the undeveloped land under lease). Upon completion, the Company contemplates selling the facility to the landowner and amending the lease accordingly.

In Freeport (Long Island), New York, the Company completed construction of a new stand-alone BMW service center. This facility was constructed on land already under lease. The lease has a 15-year term with three five-year renewal options exercisable at the Company's sole discretion. The lease term commenced upon the execution of the land lease in August 2004. Prior to completion of construction, the Company reimbursed the lessor approximately \$1.1 million of interest and other related land carrying costs. Upon completion of construction the facility was sold to, and leased back from, the landowner at the Company's cost of construction of approximately \$5.3 million. This sale was treated as a sale-leaseback for accounting purposes. The Company's future minimum lease payment obligation under this lease is approximately \$12.8 million.

During 2004:

In Woburn, Massachusetts, the Company completed construction of a new Nissan sales and service facility. This facility was constructed on land already under lease. The lease has a 15-year term with three five-year renewal options exercisable at the Company's sole discretion. The lease term commenced upon the completion of construction in October 2004. Prior to completion of construction, the Company reimbursed the lessor approximately \$0.3 million of interest and other related land carrying costs. Upon completion of construction the facility was sold to, and leased back from, the landowner at the Company's cost of construction of approximately \$3.9 million. This sale was treated as a sale-leaseback for accounting purposes. The Company's future minimum lease payment obligation under this lease is approximately \$10.4 million.

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

14. INCOME TAXES:

Federal and state income taxes are as follows:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Federal			
Current	\$ 32,143	\$ 22,967	\$ 22,837
Deferred	3,060	(3,850)	11,091
State			
Current	2,123	1,904	2,158
Deferred	812	(850)	860
Provision for income taxes	\$ 38,138	\$ 20,171	\$ 36,946

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 35% in 2005, 2004 and 2003 to income before income taxes as follows:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Provision at the statutory rate	\$ 37,943	\$ 16,783	\$ 39,575
Increase (decrease) resulting from			
State income tax, net of benefit for federal deduction	2,313	705	2,058
Non-deductible portion of goodwill impairment		3,253	
Resolution of tax contingencies			(5,423)
Revisions to prior estimates	(2,168)	(766)	204
Changes in valuation allowances	(221)	(166)	
Other	271	362	532
Provision for income taxes	\$ 38,138	\$ 20,171	\$ 36,946

During 2005, adjustments were made to deferred tax items for certain assets and liabilities. As a result of these items, and the impact of the items occurring in 2004 discussed below, the effective tax rate for 2005 decreased to 35.2%, as compared to 42.1% for 2004.

During 2004, certain portions of the goodwill impairment charge recorded in September 2004 related to the Atlanta platform were non-deductible for tax purposes. In addition, certain other adjustments were made to reconcile differences between the tax and book basis of the Company's assets and liabilities. As a result of these items, the effective tax rate for 2004 increased to 42.1%, as compared to 32.7% for 2003.

During 2003, the Company resolved certain tax contingencies as various state and federal tax audits were concluded providing certainty and resolution on various formation, financing, acquisition, and structural matters. In addition, various other tax exposures of acquired companies have been favorably resolved. As a result, the Company recorded a reduction in its tax contingency accrual, which reduced the effective tax rate for 2003 to 32.7%.

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

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets (liabilities) result principally from the following:

	December 31,	
	2005	2004
	(In thousands)	
Loss reserves and accruals	\$ 28,412	\$ 25,158
Goodwill and intangible franchise rights	(29,988)	(31,690)
Depreciation expense	(6,761)	(9,870)
State net operating loss (NOL) carryforwards	5,152	4,514
Reinsurance operations	(919)	(1,180)
Interest rate swaps	230	
Other	(1,444)	(1,027)
Deferred tax liability	(5,318)	(14,095)
Valuation allowance on state NOL s	(4,764)	(4,347)
Net deferred tax liability	\$ (10,082)	\$ (18,442)

As of December 31, 2005, the Company had state net operating loss carryforwards of \$79.0 million that will expire between 2006 and 2026; however, as the Company expects that net income will not be sufficient to realize these net operating losses in certain state jurisdictions, a valuation allowance has been established.

The net deferred tax assets (liabilities) are comprised of the following:

	December 31,	
	2005	2004
	(In thousands)	
Deferred tax assets		
Current	\$ 21,097	\$ 16,679
Long-term	18,633	11,464
Deferred tax liabilities		
Current	(2,317)	(1,924)
Long-term	(47,495)	(44,661)
Net deferred tax liability	\$ (10,082)	\$ (18,442)

The Company believes it is more likely than not, that the net deferred tax assets will be realized, based primarily on the assumption of future taxable income.

15. COMMITMENTS AND CONTINGENCIES:

Legal Proceedings

From time to time, the Company's dealerships are named in claims involving the manufacture of automobiles, contractual disputes and other matters arising in the ordinary course of business.

The Texas Automobile Dealers Association (TADA) and certain new vehicle dealerships in Texas that are members of the TADA, including a number of the Company's Texas dealership subsidiaries, have been named in two state court class action lawsuits and one federal court class action lawsuit. The three actions allege that since January 1994, Texas dealers have deceived customers with respect to a vehicle inventory tax and violated federal antitrust and other laws. In April 2002, the state court in which two of the

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

actions are pending certified classes of consumers on whose behalf the action would proceed. In October 2002, the Texas Court of Appeals affirmed the trial court's order of class certification in the state court actions. The defendants requested that the Texas Supreme Court review that decision, and the Court declined that request on March 26, 2004. The defendants petitioned the Texas Supreme Court to reconsider its denial, and that petition was denied on September 10, 2004. In the federal antitrust action, in March 2003, the federal district court also certified a class of consumers. Defendants appealed the district court's certification to the Fifth Circuit Court of Appeals, which on October 5, 2004, reversed the class certification order and remanded the case back to the federal district court for further proceedings. In February 2005, the plaintiffs in the federal action sought a writ of certiorari to the United States Supreme Court in order to obtain review of the Fifth Circuit's order, which request the Court denied. In June 2005, the Company's Texas dealerships and certain other defendants in the lawsuits entered settlements with the plaintiffs in each of the cases. The settlements are contingent upon and subject to court approval. The settlement of the state court actions was preliminarily approved by the state court in December 2005. As a result of that settlement, the state court certified a settlement class of certain Texas automobile purchasers. Dealers participating in the settlement, including a number of the Company's Texas dealership subsidiaries, are expected to issue certificates for discounts off future vehicle purchases, refund cash in some circumstances, pay attorneys' fees, and make certain disclosures regarding inventory tax charges when itemizing such charges on customer invoices. In addition, participating dealers have funded and will fund certain costs of the settlement, including costs associated with notice of the settlement to the class members. The federal action settlement does not involve the certification of any additional classes. The estimated expense of the proposed settlements of \$1.5 million has been included in accrued expenses in the accompanying consolidated financial statements. If the settlements are not approved, the Company will continue to vigorously assert available defenses in connection with these lawsuits. While the Company does not believe this litigation will have a material adverse effect on its financial position, results of operations or cash flows, no assurance can be given as to its ultimate outcome. A settlement on different terms or an adverse resolution of this matter in litigation could result in the payment of significant costs and damages.

On August 29, 2005, the Company's Dodge dealership in Metairie, Louisiana, suffered severe damage due to Hurricane Katrina and subsequent flooding. The dealership facility was leased. Pursuant to its terms, the Company terminated the lease based on damages suffered at the facility. The lessor has disputed the termination as wrongful and has instituted arbitration proceedings against the Company. The lessor has demanded damages for alleged wrongful termination and other items related to alleged breaches of the lease agreement. The Company has answered the arbitration demand and has denied liability. The Company intends to vigorously assert available defenses in connection with the arbitration. The Company is unable to estimate the total potential exposure at this time; however, an adverse resolution of this matter in arbitration, or any potential settlement of this matter, could result in the payment of significant costs and/or damages.

In addition to the foregoing cases, there are currently no legal proceedings pending against or involving the Company that, in management's opinion, based on current known facts and circumstances, are expected to have a material adverse effect on the Company's financial position or results of operations.

Insurance

Because of their vehicle inventory and nature of business, automobile dealerships generally require significant levels of insurance covering a broad variety of risks. The Company's insurance coverage includes umbrella policies, as well as insurance on its real property, comprehensive coverage for its vehicle inventory, general liability insurance, employee dishonesty coverage, employment practices liability insurance, pollution coverage and errors and omissions insurance in connection with its vehicle sales and financing activities. Additionally, the Company retains some risk of loss under its self-insured medical and property/casualty plans. See further discussion under Note 2. As of December 31, 2005, the Company has three letters of credit

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

outstanding totaling \$11.8 million, supporting its obligations with respect to its property/ casualty insurance program.

Split-Dollar Life Insurance

On January 23, 2002, the Company, with the approval of the Compensation Committee of the Board of Directors, entered into an agreement with a trust established by B.B. Hollingsworth, Jr., the Company's former Chairman, President and Chief Executive Officer, and his wife (the Split-Dollar Agreement). Under the Split-Dollar Agreement, the Company committed to make advances of a portion of the insurance premiums on a life insurance policy purchased by the trust on the joint lives of Mr. and Mrs. Hollingsworth. Under the terms of the Split-Dollar Agreement, the Company committed to pay the portion of the premium on the policies not related to term insurance each year for a minimum of seven years. The obligations of the Company under the Split-Dollar Agreement to pay premiums on the split-dollar insurance are not conditional, contingent or terminable under the express terms of the contract. Premiums to be paid by the Company are approximately \$300,000 per year. The face amount of the policy is \$7.8 million. The Company is entitled to reimbursement of the amounts paid, without interest, upon the first to occur of (a) the death of the survivor of Mr. and Mrs. Hollingsworth or (b) the termination of the Split-Dollar Agreement. In no event will the Company's reimbursement exceed the accumulated cash value of the insurance policy, which will be less than the premiums paid in the early years. The Split-Dollar Agreement terminates on January 23, 2017. The insurance policy has been assigned to the Company as security for repayment of the amounts which the Company contributes toward payments due on such policy.

The Company has recorded the cash surrender value of the policy as a long-term other asset in the accompanying balance sheets.

Vehicle Service Contract Obligations

While the Company is not an obligor under the vehicle service contracts it currently sells, it is an obligor under vehicle service contracts previously sold in two states. The contracts were sold to retail vehicle customers with terms, typically, ranging from two to seven years. The purchase price paid by the customer, net of the fee the Company received, was remitted to an administrator. The administrator set the pricing at a level adequate to fund expected future claims and their profit. Additionally, the administrator purchased insurance to further secure its ability to pay the claims under the contracts. The Company can become liable if the administrator and the insurance company are unable to fund future claims. Though the Company has never had to fund any claims related to these contracts, and reviews the credit worthiness of the administrator and the insurance company, it is unable to estimate the maximum potential claim exposure, but believes there will not be any future obligation to fund claims on the contracts. The Company's revenues related to these contracts were deferred at the time of sale and are being recognized over the life of the contracts. The amounts deferred are presented on the face of the balance sheets as deferred revenues.

Other Matters

The Company, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by the Company's subsidiaries of their respective dealership premises. Pursuant to these leases, the Company's subsidiaries generally agree to indemnify the lessor and other parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, the Company enters into agreements in connection with the sale of assets or businesses in which it agrees to indemnify the purchaser, or other parties, from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, the Company enters into agreements that may contain

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

indemnification provisions. In the event that an indemnification claim is asserted, liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries assign or sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such stores. In general, the Company's subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, the Company and its subsidiaries generally remain subject to the terms of any guarantees made by the Company and its subsidiaries in connection with such leases. Although the Company generally has indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, and the Company presently has no reason to believe that it or its subsidiaries will be called on to perform under any such assigned leases or subleases, the Company estimates that lessee rental payment obligations during the remaining terms of these leases are approximately \$22.1 million at December 31, 2005. The Company and its subsidiaries also may be called on to perform other obligations under these leases, such as environmental remediation of the leased premises or repair of the leased premises upon termination of the lease, although the Company presently has no reason to believe that it or its subsidiaries will be called on to so perform and such obligations cannot be quantified at this time. The Company's exposure under these leases is difficult to estimate and there can be no assurance that any performance of the Company or its subsidiaries required under these leases would not have a material adverse effect on the Company's business, financial condition and cash flows.

16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):

Year Ended December 31,	Quarter				
	First	Second	Third	Fourth	Full Year
(In thousands, except per share data)					
2005					
Total revenues	\$ 1,396,727	\$ 1,577,333	\$ 1,570,169	\$ 1,425,361	\$ 5,969,590
Gross profit	224,490	240,089	243,118	224,709	932,406
Income before cumulative effect of a change in accounting principle	14,400	18,089	21,626	16,154	70,269
Net income (loss)	(1,638)	18,089	21,626	16,154	54,231
Earnings (loss) per share:					
Basic:					
Income before cumulative effect of a change in accounting principle	0.61	0.76	0.89	0.67	2.94
Net income (loss)	(0.07)	0.76	0.89	0.67	2.27
Diluted:					
Income before cumulative effect of a change in accounting principle	0.60	0.75	0.88	0.66	2.90
Net income (loss)	(0.07)	0.75	0.88	0.66	2.24

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

Quarter

Year Ended December 31, **First** **Second** **Third** **Fourth** **Full Year**

(In thousands, except per share data)

2004					
Total revenues	\$ 1,147,027	\$ 1,314,901	\$ 1,532,407	\$ 1,440,698	\$ 5,435,033
Gross profit	183,428	198,510	229,884	219,944	831,766
Net income (loss)	10,487	15,714	(9,615)	11,195	27,781
Basic earnings (loss) per share	0.47	0.70	(0.42)	0.48	1.22
Diluted earnings (loss) per share	0.45	0.67	(0.42)	0.47	1.18

During the first quarter of 2005, the Company incurred a \$16.0 million loss, net of \$10.2 million of deferred taxes, from the impairment of certain intangible franchise rights upon adoption of EITF D-108, Use of the Residual Method to Value Acquired Assets Other Than Goodwill. This loss was recorded as a change in accounting principle. See Note 2.

During the third quarter of 2005, the Company sustained a loss of approximately \$4.1 million, net of expected insurance recoveries, due to the effects of Hurricanes Katrina and Rita. This loss was subsequently reduced during the fourth quarter of 2005 to \$2.1 million as a result of the recognition in income of business interruption insurance proceeds. See Note 4.

Also during the third quarter of 2005, the Company incurred charges totaling \$5.0 million due to the impairment of certain intangible franchise rights. See Note 5.

During the fourth quarter of 2005, the Company incurred charges totaling \$2.6 million due to the impairment of certain intangible franchise rights. See Note 5.

During the first quarter of 2004, the Company incurred a \$6.4 million loss on the redemption of its outstanding 10⁷/₈% senior subordinated notes. See Note 9.

During the third quarter of 2004, the Company incurred goodwill and long-lived asset impairment charges totaling \$41.4 million. See Note 5.

During the fourth quarter of 2004, the Company incurred an intangible franchise right impairment charge of \$3.3 million. See Note 5.

17. SUBSEQUENT EVENTS (UNAUDITED):

Dividend

On February 22, 2006, the Company's Board of Directors declared a dividend of \$0.13 per common share for the fourth quarter of 2005. The Company expects these dividend payments on its outstanding common stock and common stock equivalents to total approximately \$3.1 million in the first quarter of 2006.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
3.2	Certificate of Designation of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
3.3	Bylaws of the Company (Incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
4.1	Specimen Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
4.2	Subordinated Indenture dated as of August 13, 2003 among Group 1 Automotive, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, N.A., as Trustee (Incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-4 Registration No. 333-109080).
4.3	First Supplemental Indenture dated as of August 13, 2003 among Group 1 Automotive, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, N.A., as Trustee (Incorporated by reference to Exhibit 4.7 of the Company's Registration Statement on Form S-4 Registration No. 333-109080).
4.4	Form of Subordinated Debt Securities (included in Exhibit 4.3).
10.1*	Employment Agreement between the Company and B.B. Hollingsworth, Jr., effective March 1, 2002 (Incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2001).
10.2*	First Amendment to Employment Agreement between the Company and B.B. Hollingsworth, Jr., effective March 1, 2002 (Incorporated by reference to Exhibit 10.40 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.3*	Employment Agreement between the Company and John T. Turner dated November 3, 1997 (Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1997).
10.4*	Employment Agreement between the Company and Earl J. Hesterberg, Jr. dated April 9, 2005 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-13461) dated April 9, 2005).
10.5*	Compensation Arrangement between the Company and John C. Rickel (Incorporated by reference to the section titled "Executive Compensation" in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated December 19, 2005 and to the section titled "EPS Goals" in Item 1.01 of the Company's Current Report on Form 8-K/A (File No. 001-13461) dated December 19, 2005).
10.6*	Separation Agreement and General Release by and between the Company and B.B. Hollingsworth, Jr. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended June 30, 2005).
10.7*	Severance Agreement by and between the Company and Robert T. Ray dated December 5, 2005 (Incorporated by reference to Exhibit 10.7 of the Company's

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- Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2005).
- 10.8* Annual Incentive Plan for Executive Officers of Group 1 Automotive, Inc. (Incorporated by reference to the section titled Executive Officer Compensation Adoption of Bonus Plan in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
- 10.9* Group 1 Automotive, Inc. Director Compensation Plan (Incorporated by reference to the Company's Current Report on Form 8-K (File No. 001-13461) dated November 17, 2004, and to the section titled Director Compensation Change in Director Compensation in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
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Exhibit Number	Description
10.10*	Executive Compensation Arrangement of Group 1 Automotive, Inc. (Incorporated by reference to the section titled "Executive Compensation" in Item 1.01 of the Company's Current Report on Form 8-K (File No. 001-13461) dated December 19, 2005 and to the section titled "EPS Goals" in Item 1.01 of the Company's Current Report on Form 8-K/A (File No. 001-13461) dated December 19, 2005).
10.11*	Split Dollar Life Insurance Agreement, dated as of January 23, 2002, between Group 1 Automotive, Inc., and Leslie Hollingsworth and Leigh Hollingsworth Copeland, as Trustees of the Hollingsworth 2000 Children's Trust (Incorporated by reference to Exhibit 10.36 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.12*	Group 1 Automotive, Inc. Deferred Compensation Plan, as Amended and Restated (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-83260).
10.13*	First Amendment to Group 1 Automotive, Inc. Deferred Compensation Plan, as Amended and Restated (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-115962).
10.14*	1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.15*	First Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.16*	Second Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended March 31, 1999).
10.17*	Third Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-75784).
10.18*	Fourth Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-115961).
10.19*	Fifth Amendment to 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
10.20*	Form of Incentive Stock Option Agreement for Employees (Incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004).
10.21*	Form of Nonstatutory Stock Option Agreement for Employees (Incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004).
10.22*	Form of Restricted Stock Agreement for Employees (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
10.23*	Form of Phantom Stock Agreement for Employees (Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).

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- 10.24* Form of Restricted Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
- 10.25* Form of Phantom Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K (File No. 001-13461) dated March 9, 2005).
- 10.26* Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
- 10.27* First Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998).
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Exhibit Number	Description
10.28*	Second Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-75754).
10.29*	Third Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 Registration No. 333-106486).
10.30*	Fourth Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-8 Registration No. 333-106486).
10.31*	Fifth Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 Registration No. 333-106486).
10.32*	Sixth Amendment to Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004).
10.33	Rights Agreement between Group 1 Automotive, Inc. and ChaseMellon Shareholder Services, L.L.C., as rights agent, dated October 3, 1997 (Incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.34	Sixth Amended and Restated Revolving Credit Agreement, dated as of December 16, 2005 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-13461) dated December 19, 2005).
10.35	Form of Ford Motor Credit Company Automotive Wholesale Plan Application for Wholesale Financing and Security Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended June 30, 2003).
10.36	Form of Agreement between Toyota Motor Sales, U.S.A., and Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.37	Form of Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.13 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.38	Supplemental Terms and Conditions between Ford Motor Company and Group 1 Automotive, Inc. dated September 4, 1997 (Incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.39	Toyota Dealer Agreement between Gulf States Toyota, Inc. and Southwest Toyota, Inc. dated April 5, 1993 (Incorporated by reference to Exhibit 10.17 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.40	Lexus Dealer Agreement between Toyota Motor Sales, U.S.A., Inc. and SMC Luxury Cars, Inc. dated August 21, 1995 (Incorporated by reference to Exhibit 10.18 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.41	Form of General Motors Corporation U.S.A. Sales and Service Agreement (Incorporated by reference to Exhibit 10.25 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.42	

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- 10.43 Form of Ford Motor Company Sales and Service Agreement (Incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998).
- 10.44 Form of Chrysler Corporation Sales and Service Agreement (Incorporated by reference to Exhibit 10.39 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998).
- 10.44 Form of Nissan Division Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
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Exhibit Number	Description
10.45	Form of Infiniti Division Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.46	Lease Agreement between Howard Pontiac GMC, Inc. and Robert E. Howard II (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.47	Lease Agreement between Bob Howard Motors, Inc. and Robert E. Howard II (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.48	Lease Agreement between Bob Howard Chevrolet, Inc. and Robert E. Howard II (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 Registration No. 333-29893).
10.49	Lease Agreement between Bob Howard Automotive-East, Inc. and REHCO East, L.L.C. (Incorporated by reference to Exhibit 10.37 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.50	Lease Agreement between Howard-H, Inc. and REHCO, L.L.C. (Incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.51	Lease Agreement between Howard Pontiac-GMC, Inc. and North Broadway Real Estate Limited Liability Company (Incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002).
10.52	Lease Agreement between Howard-Ford, Inc. and REHCO EAST, L.L.C. (Incorporated by reference to Exhibit 10.38 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.53	Amendment and Assignment of Lease between Howard Ford, Inc., Howard-FLM, Inc. and REHCO EAST, L.L.C. (Incorporated by reference to Exhibit 10.39 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003).
10.54	Lease Agreement between Bob Howard Motors, Inc. and REHCO, L.L.C., (Incorporated by reference to Exhibit 10.54 of the Company's Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2005).
11.1	Statement re: computation of earnings per share is included under Note 2 to the financial statements.
14.1	Code of Ethics for Specified Officers of Group 1 Automotive, Inc., dated December 20, 2005.
16.1	Letter from Crowe Chizek and Company LLC to the Securities and Exchange Commission, dated April 28, 2005, regarding change in certifying accountants (Incorporated by reference to Exhibit 16.1 of the Company's Current Report on Form 8-K dated January 19, 2005).
21.1	Group 1 Automotive, Inc. Subsidiary List.
23.1**	Consent of Ernst & Young LLP.
31.1**	Certification of Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	

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	Certification of Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement

** Filed herewith

*** Furnished herewith