

GROUP 1 AUTOMOTIVE INC

Form 10-K/A

March 13, 2009

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**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  
For the fiscal year ended December 31, 2008**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-13461**

**Group 1 Automotive, Inc.**

*(Exact name of registrant as specified in its charter)*

**DELAWARE**

*(State or other jurisdiction of incorporation or organization)*

**76-0506313**

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

**800 Gessner, Suite 500  
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 \$0.01 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

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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 or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$452.7 million based on the reported last sale price of common stock on June 30, 2008, which is the last business day of the registrant's most recently completed second quarter.

As of February 24, 2009, there were 23,991,099 shares of our common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2009 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2008, are incorporated by reference into Part III of this Form 10-K.

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**EXPLANATORY NOTE**

Group 1 Automotive, Inc. (referred to as the Company or Registrant ) is filing this Amendment No. 1 on Form 10-K/A ( Amendment No. 1 ) to amend Item 9A and Item 15 of its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, originally filed with the Securities and Exchange Commission on February 25, 2009 (the Original Annual Report ). The Company is filing Amendment No. 1 for the sole purpose of correcting a clerical error in the Original Annual Report. The Company inadvertently omitted the electronic signature of Ernst & Young LLP from the Report of Independent Registered Public Accounting Firm, included in Item 9A and from the Report of Independent Registered Public Accounting Firm included in Item 15 in the Original Annual Report.

As required by Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, the Company is also filing as exhibits to Amendment No. 1 the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

Except for the foregoing, Amendment No. 1 neither alters the Original Annual Report nor updates the Original Annual Report to reflect events or developments since February 25, 2009.

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**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2008, to ensure that information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

**Changes in Internal Control over Financial Reporting**

During the three months ended December 31, 2008, there were no changes in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed by management, under the supervision of our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States, and includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the

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policies and procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that, as of December 31, 2008, our internal control over financial reporting was effective.

Ernst & Young LLP, the independent registered accounting firm who audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on our internal control over financial reporting. This report, dated February 24, 2009, appears on page 70.

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**Report of Independent Registered Public Accounting Firm**

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

We have audited Group 1 Automotive, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Group 1 Automotive, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Group 1 Automotive, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Group 1 Automotive, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Group 1 Automotive, Inc. and our report dated February 24, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas



February 24, 2009

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(a) List of documents filed as part of this Annual Report on Form 10-K:

(1) Financial Statements

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

(2) Financial Statement Schedules

All schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(3) Index to Exhibits

<b>Exhibit Number</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 of Group 1 Automotive, Inc.'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 Group 1's Quarterly Report on Form 10-Q (File No. 001-13461) for the period ended March 31, 2007)
3.3	Amended and Restated Bylaws of Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 3.1 of Group 1 Automotive, Inc.'s Current Report on Form 8-K (File No. 001-13461) filed November 13, 2007)
4.1	Specimen Common Stock Certificate (Incorporated by reference to Exhibit 4.1 of Group 1 Automotive, Inc.'s Registration Statement on Form S-1 Registration No. 333-29893)
4.2	Subordinated Indenture dated 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 Group 1 Automotive, Inc.'s Registration Statement on Form S-4 Registration No. 333-109080)

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<b>Exhibit Number</b>	<b>Description</b>
4.3	First Supplemental Indenture dated 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 Group 1 Automotive, Inc. s Registration Statement on Form S-4 Registration No. 333-109080)
4.4	Form of Subordinated Debt Securities (included in Exhibit 4.3)
4.5	Purchase Agreement dated June 20, 2006 among Group 1 Automotive, Inc., J.P. Morgan Securities Inc., Banc of America Securities LLC, Comerica Securities Inc., Morgan Stanley & Co. Incorporated, Wachovia Capital Markets, LLC, and U.S. Bancorp Investments, Inc. (Incorporated by reference to Exhibit 4.1 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.6	Indenture related to the Convertible Senior Notes Due 2036 dated June 26, 2006 between Group 1 Automotive Inc. and Wells Fargo Bank, National Association, as trustee (including Form of 2.25% Convertible Senior Note Due 2036) (Incorporated by reference to Exhibit 4.2 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.7	Registration Rights Agreement dated June 26, 2006 among Group 1 Automotive, Inc., J.P. Morgan Securities Inc., Banc of America Securities LLC, Comerica Securities Inc., Morgan Stanley & Co. Incorporated, Wachovia Capital Markets, LLC, and U.S. Bancorp Investments, Inc. (Incorporated by reference to Exhibit 4.3 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.8	Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and JPMorgan Chase Bank, National Association, London Branch (Incorporated by reference to Exhibit 4.4 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.9	Amendment dated June 23, 2006 to Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and JPMorgan Chase Bank, National Association, London Branch (Incorporated by reference to Exhibit 4.8 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.10	Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 4.5 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.11	Amendment dated June 23, 2006 to Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 4.9 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.12	Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and JPMorgan Chase Bank, National Association, London Branch (Incorporated by reference to Exhibit 4.6 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.13	Amendment dated June 23, 2006 to Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and JPMorgan Chase Bank, National Association, London Branch (Incorporated by reference to Exhibit 4.10 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.14	Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 4.7 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)
4.15	Amendment dated June 23, 2006 to Letter Agreement dated June 20, 2006 between Group 1 Automotive, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 4.11 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 26, 2006)

- 10.1 Seventh Amended and Restated Revolving Credit Agreement effective March 19, 2007 among Group 1 Automotive, Inc., the Subsidiary Borrowers listed therein, the Lenders listed therein, JPMorgan Chase Bank, N.A., as Administrative Agent, Comerica Bank, as Floor Plan Agent, and Bank of America, N.A., as Syndication Agent (Incorporated by reference to Exhibit 10.1 of Group 1 Automotive, Inc.'s Current Report on Form 8-K (File No. 001-13461) filed March 21, 2007)
- 10.2 First Amendment to Revolving Credit Agreement dated effective January 16, 2008, among Group 1 Automotive, Inc., the Subsidiary Borrowers listed therein, the Lenders listed therein, JPMorgan Chase Bank, N.A., as Administrative Agent, Comerica Bank, as Floor Plan Agent, and Bank of America, N.A., as Syndication Agent (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc.'s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2007)

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<b>Exhibit Number</b>	<b>Description</b>
10.3	Credit Agreement dated as of March 29, 2007 among Group 1 Realty, Inc., Group 1 Automotive, Inc., Bank of America, N.A., and the other Lenders Party Hereto (Confidential Treatment requested for portions of this document) (Incorporated by reference to Exhibit 10.2 of Group 1 s Quarterly Report on Form 10-Q (File No. 001-13461) for the period ended March 31, 2007
10.4	Amendment No. 1 to Credit Agreement and Joinder Agreement dated as of April 27, 2007 by and among Group 1 Realty, Inc., Group 1 Automotive, Inc., Bank of America, N.A. and the Joining Lenders (Incorporated by reference to Exhibit 10.3 of Group 1 Automotive, Inc. s Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended March 31, 2007)
10.5	Amendment No. 2 to Credit Agreement and Joinder Agreement dated as of December 20, 2007 by and among Group 1 Realty, Inc., Group 1 Automotive, Inc., Bank of America, N.A. and the Joining Lenders (Incorporated by reference to Exhibit 10.5 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2007)
10.6	Amendment No. 3 to Credit Agreement dated as of January 16, 2008 by and among Group 1 Realty, Inc., Group 1 Automotive, Inc., Bank of America, N.A. and the Joining Lenders (Incorporated by reference to Exhibit 10.6 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2007)
10.7	Amendment No. 4 to Credit Agreement dated as of September 10, 2008 by and among Group 1 Realty, Inc., Group 1 Automotive, Inc., Bank of America, N.A. and the Joining Lenders (Incorporated by reference to Exhibit 10.1 of Group 1 Automotive, Inc. s Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended September 30, 2008)
10.8	Loan Facility dated as of October 3, 2008 by and between Chandlers Garage Holdings Limited and BMW Financial Services (GB) Limited. (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc. s Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended September 30, 2008)
10.9	Form of Ford Motor Credit Company Automotive Wholesale Plan Application for Wholesale Financing and Security Agreement (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc. s Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended June 30, 2003)
10.10	Supplemental Terms and Conditions dated September 4, 1997 between Ford Motor Company and Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 10.16 of Group 1 Automotive, Inc. s Registration Statement on Form S-1 Registration No. 333-29893)
10.11	Form of Agreement between Toyota Motor Sales, U.S.A., Inc. and Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 10.12 of Group 1 Automotive, Inc. s Registration Statement on Form S-1 Registration No. 333-29893)
10.12	Toyota Dealer Agreement effective April 5, 1993 between Gulf States Toyota, Inc. and Southwest Toyota, Inc. (Incorporated by reference to Exhibit 10.17 of Group 1 Automotive, Inc. s Registration Statement on Form S-1 Registration No. 333-29893)
10.13	Lexus Dealer Agreement effective August 21, 1995 between Lexus, a division of Toyota Motor Sales, U.S.A., Inc. and SMC Luxury Cars, Inc. (Incorporated by reference to Exhibit 10.18 of Group 1 Automotive, Inc. s Registration Statement on Form S-1 Registration No. 333-29893)
10.14	Form of General Motors Corporation U.S.A. Sales and Service Agreement (Incorporated by reference to Exhibit 10.25 of Group 1 Automotive, Inc. s Registration Statement on Form S-1 Registration No. 333-29893)
10.15	Form of Ford Motor Company Sales and Service Agreement (Incorporated by reference to Exhibit 10.38 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998)

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- 10.16 Form of Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.13 of Group 1 Automotive, Inc. s Registration Statement on Form S-1 Registration No. 333-29893)
- 10.17 Form of Chrysler Corporation Sales and Service Agreement (Incorporated by reference to Exhibit 10.39 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 1998)
- 10.18 Form of Nissan Division of Nissan North America, Inc. Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.25 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003)

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<b>Exhibit Number</b>	<b>Description</b>
10.19	Form of Infiniti Division of Nissan North America, Inc. Dealer Sales and Service Agreement (Incorporated by reference to Exhibit 10.26 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2003)
10.20*	Form of Indemnification Agreement of Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 10.1 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed on November 13, 2007)
10.21*	Description of Annual Incentive Plan for Executive Officers of Group 1 Automotive, Inc. (Incorporated by reference to Exhibit 10.22 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2006)
10.22*	Description of Group 1 Automotive, Inc. Non-Employee Director Compensation Plan for 2008 (Incorporated by reference to Exhibit 10.27 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2007)
10.23*	Description of Group 1 Automotive, Inc. Non-Employee Director Compensation Plan for 2009
10.24*	Group 1 Automotive, Inc. Deferred Compensation Plan, as Amended and Restated, effective January 1, 2008 (Incorporated by reference to Exhibit 10.28 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)
10.25*	First Amendment to Group 1 Automotive, Inc. Deferred Compensation Plan, as Amended and Restated, effective January 1, 2008
10.26*	Group 1 Automotive, Inc. 2007 Long Term Incentive Plan, as Amended and Restated, effective March 8, 2007 (Incorporated by reference to Exhibit A of the Group 1 Automotive, Inc. Proxy Statement (File No. 001-13461) filed on April 16, 2007)
10.27*	Form of Incentive Stock Option Agreement for Employees (Incorporated by reference to Exhibit 10.49 to Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004)
10.28*	Form of Nonstatutory Stock Option Agreement for Employees (Incorporated by reference to Exhibit 10.50 to Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2004)
10.29*	Form of Restricted Stock Agreement for Employees (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed March 16, 2005)
10.30*	Form of Phantom Stock Agreement for Employees (Incorporated by reference to Exhibit 10.3 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed March 16, 2005)
10.31*	Form of Restricted Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.4 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed March 16, 2005)
10.32*	Form of Phantom Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.5 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed March 16, 2005)
10.33*	Form of Performance-Based Restricted Stock Agreement (Incorporated by reference to Exhibit 10.3 of Group 1 Automotive, Inc. s Quarterly Report on Form 10-Q (File No. 001-13461) for the quarter ended June 30, 2007)
10.34*	Performance-Based Restricted Stock Agreement Vesting Schedule (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed on November 13, 2007)
10.35*	Employment Agreement dated April 9, 2005 between Group 1 Automotive, Inc. and Earl J. Hesterberg, Jr. (Incorporated by reference to Exhibit 10.1 of Group 1 Automotive, Inc. s Current

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Report on Form 8-K (File No. 001-13461) filed April 14, 2005)

- 10.36\* First Amendment to the Employment Agreement dated effective as of April 9, 2005 between Group 1 Automotive, Inc. and Earl J. Hesterberg, effective as of November 8, 2007 (Incorporated by reference to Exhibit 10.39 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)
- 10.37\* First Amendment to Restricted Stock Agreement dated as of November 8, 2007 by and between Group 1 Automotive, Inc. and Earl J. Hesterberg (Incorporated by reference to Exhibit 10.40 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)



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<b>Exhibit Number</b>	<b>Description</b>
10.38*	Employment Agreement dated June 2, 2006 between Group 1 Automotive, Inc. and John C. Rickel (Incorporated by reference to Exhibit 10.1 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 7, 2006)
10.39*	Incentive Compensation and Non-Compete Agreement dated June 2, 2006 between Group 1 Automotive, Inc. and John C. Rickel (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc. s Current Report on Form 8-K (File No. 001-13461) filed June 7, 2006)
10.40*	First Amendment to the Employment Agreement dated effective as of June 2, 2006 between Group 1 Automotive, Inc. and John C. Rickel, effective as of November 8, 2007 (Incorporated by reference to Exhibit 10.43 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)
10.41*	Employment Agreement dated December 1, 2006 between Group 1 Automotive, Inc. and Darryl M. Burman (Incorporated by reference to Exhibit 10.1 of Group 1 Automotive, Inc. s Current Report on Form 8-K/A (File No. 001-13461) filed December 1, 2006)
10.42*	Incentive Compensation and Non-Compete Agreement dated December 1, 2006 between Group 1 Automotive, Inc. and Darryl M. Burman (Incorporated by reference to Exhibit 10.2 of Group 1 Automotive, Inc. s Current Report on Form 8-K/A (File No. 001-13461) filed December 1, 2006)
10.43*	First Amendment to the Employment Agreement dated effective as of December 1, 2006 between Group 1 Automotive, Inc. and Darryl M. Burman, effective as of November 8, 2007 (Incorporated by reference to Exhibit 10.46 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)
10.44*	Incentive Compensation, Confidentiality, Non-Disclosure and Non-Compete Agreement dated December 31, 2006, between Group 1 Automotive, Inc. and Randy L. Callison (Incorporated by reference to Exhibit 10.47 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)
10.45*	First Amendment to the Incentive Compensation, Confidentiality, Non-Disclosure and Non-Compete Agreement dated effective as of December 31, 2006 between Group 1 Automotive, Inc. and Randy L. Callison, effective as of November 8, 2007 (Incorporated by reference to Exhibit 10.48 of Group 1 Automotive, Inc. s Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2007)
10.46*	Letter Agreement by and between the Company and Randy L. Callison, effective December 31, 2008
10.47*	Split Dollar Life Insurance Agreement dated 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 Group 1 Automotive, Inc. s Annual Report on Form 10-K (File No. 001-13461) for the year ended December 31, 2002)
11.1	Statement re Computation of Per Share Earnings (Incorporated by reference to Note 12 to the financial statements)
12.1	Statement re Computation of Ratios
14.1	Code of Ethics for Specified Officers of Group 1 Automotive, Inc. dated November 6, 2006
21.1	Group 1 Automotive, Inc. 2008 Subsidiary List
23.1	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Filed as an exhibit to Group 1 Automotive, Inc. s Original Annual Report on Form 10-K (file No. 001-13461) for the year ended December 31, 2008, as filed with the SEC on February 25, 2009.

\* Management contract or compensatory plan or arrangement

\*\* Furnished herewith

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**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 on the 12th day of March 2009.

Group 1 Automotive, Inc.

By: /s/ Earl J. Hesterberg

Earl J. Hesterberg  
President and Chief Executive Officer

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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**

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**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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Group 1 Automotive, Inc.'s internal control over financial reporting as of December 31, 2008, 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 24, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas  
February 24, 2009

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

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands,</b>	
	<b>except per share amounts)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 23,144	\$ 34,248
Contracts-in-transit and vehicle receivables, net	102,834	189,400
Accounts and notes receivable, net	67,350	82,698
Inventories	845,944	878,168
Assets related to discontinued operations		30,531
Deferred income taxes	18,474	18,287
Prepaid expenses and other current assets	38,878	29,651
<b>Total current assets</b>	<b>1,096,624</b>	<b>1,262,983</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>514,891</b>	<b>427,223</b>
<b>GOODWILL</b>	<b>501,187</b>	<b>486,775</b>
<b>INTANGIBLE FRANCHISE RIGHTS</b>	<b>154,597</b>	<b>300,470</b>
<b>OTHER ASSETS</b>	<b>42,786</b>	<b>28,730</b>
<b>Total assets</b>	<b>\$ 2,310,085</b>	<b>\$ 2,506,181</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Floorplan notes payable credit facility	\$ 693,692	\$ 648,469
Floorplan notes payable manufacturer affiliates	128,580	170,911
Current maturities of long-term debt	13,594	12,260
Accounts payable	74,235	111,458
Liabilities related to discontinued operations		35,180
Accrued expenses	94,395	100,000
<b>Total current liabilities</b>	<b>1,004,496</b>	<b>1,078,278</b>
<b>LONG-TERM DEBT, net of current maturities</b>	<b>512,154</b>	<b>641,821</b>
<b>OTHER REAL ESTATE RELATED AND LONG-TERM DEBT, net of current maturities</b>	<b>50,444</b>	<b>6,104</b>
<b>CAPITAL LEASE OBLIGATIONS RELATED TO REAL ESTATE, net of current maturities</b>	<b>39,401</b>	<b>26,913</b>
<b>DEFERRED INCOME TAXES</b>	<b>227</b>	<b>6,849</b>
<b>LIABILITIES FROM INTEREST RATE RISK MANAGEMENT ACTIVITIES</b>	<b>44,655</b>	<b>16,188</b>
<b>OTHER LIABILITIES</b>	<b>27,135</b>	<b>29,016</b>

Total liabilities before deferred revenues	1,678,512	1,805,169
DEFERRED REVENUES	10,220	16,531
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value, 1,000 shares authorized; none issued or outstanding		
Common stock, \$0.01 par value, 50,000 shares authorized; 26,052 and 25,532 issued, respectively	261	255
Additional paid-in capital	287,393	293,675
Retained earnings	460,335	502,783
Accumulated other comprehensive income (loss)	(38,109)	(9,560)
Treasury stock, at cost; 2,106 and 2,427 shares, respectively	(88,527)	(102,672)
Total stockholders' equity	621,353	684,481
Total liabilities and stockholders' equity	\$ 2,310,085	\$ 2,506,181

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

**Table of Contents****GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except per share amounts)</b>		
<b>REVENUES:</b>			
New vehicle retail sales	\$ 3,392,888	\$ 3,914,650	\$ 3,713,266
Used vehicle retail sales	1,090,559	1,132,413	1,068,307
Used vehicle wholesale sales	233,262	310,173	322,735
Parts and service sales	750,823	699,906	649,778
Finance, insurance and other, net	186,555	203,075	186,643
<b>Total revenues</b>	<b>5,654,087</b>	<b>6,260,217</b>	<b>5,940,729</b>
<b>COST OF SALES:</b>			
New vehicle retail sales	3,178,132	3,652,328	3,446,922
Used vehicle retail sales	975,716	1,001,179	930,978
Used vehicle wholesale sales	237,604	313,768	325,156
Parts and service sales	346,974	318,475	298,366
<b>Total cost of sales</b>	<b>4,738,426</b>	<b>5,285,750</b>	<b>5,001,422</b>
<b>GROSS PROFIT</b>	<b>915,661</b>	<b>974,467</b>	<b>939,307</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>739,430</b>	<b>758,877</b>	<b>717,786</b>
<b>DEPRECIATION AND AMORTIZATION EXPENSE</b>	<b>25,652</b>	<b>20,438</b>	<b>17,694</b>
<b>ASSET IMPAIRMENTS</b>	<b>163,023</b>	<b>16,784</b>	<b>2,241</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(12,444)</b>	<b>178,368</b>	<b>201,586</b>
<b>OTHER INCOME AND (EXPENSES):</b>			
Floorplan interest expense	(46,377)	(46,822)	(45,308)
Other interest expense, net	(28,916)	(22,771)	(15,708)
Gain (loss) on redemption of senior subordinated and convertible notes	36,629	(1,598)	(488)
Other income (expense), net	302	560	629
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(50,806)</b>	<b>107,737</b>	<b>140,711</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAXES</b>	<b>(21,316)</b>	<b>38,653</b>	<b>51,427</b>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>\$ (29,490)</b>	<b>\$ 69,084</b>	<b>\$ 89,284</b>
<b>DISCONTINUED OPERATIONS</b>			
Loss related to discontinued operations	(3,481)	(1,714)	(1,363)
Income tax benefit related to losses on discontinued operations	1,478	582	469
<b>Loss from discontinued operations</b>	<b>(2,003)</b>	<b>(1,132)</b>	<b>(894)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (31,493)</b>	<b>\$ 67,952</b>	<b>\$ 88,390</b>



**BASIC EARNINGS (LOSS) PER SHARE:**

Earnings (loss) per share from continuing operations	\$	(1.31)	\$	2.97	\$	3.70
Loss per share from discontinued operations		(0.09)		(0.05)		(0.04)

Earnings (loss) per share	\$	(1.40)	\$	2.92	\$	3.66
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Weighted average common shares outstanding		22,513		23,270		24,146
--------------------------------------------	--	--------	--	--------	--	--------

**DILUTED EARNINGS (LOSS) PER SHARE:**

Earnings (loss) per share from continuing operations	\$	(1.30)	\$	2.95	\$	3.65
Loss per share from discontinued operations		(0.09)		(0.05)		(0.03)

Earnings (loss) per share	\$	(1.39)	\$	2.90	\$	3.62
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Weighted average common shares outstanding		22,671		23,406		24,446
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CASH DIVIDENDS PER COMMON SHARE	\$	0.47	\$	0.56	\$	0.55
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Deferred Stock-Based Compensation (In thousands)	Accumulated Other Comprehensive Income (Loss)			Treasury Stock	Total
	Amount					Unrealized Gains (Losses) on Interest Rate Swaps	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Currency Translation		
December 31,	24,588	246	276,904	373,162	(5,413)	(384)	(322)	(17,400)	620,000	
ive income:				88,390					88,390	
swap										
net of tax										
\$709						1,181				
stments, net of										
of \$70							116			
prehensive										
ion resulting									89,000	
on of										
on January 1,			(5,413)		5,413					
treasury stock								(54,964)	(54,964)	
common and										
es to										
enefit plans	346	3	(279)					23,968	23,968	
restricted stock	303	3	(3)							
restricted										
	(72)									
compensation			5,086						5,086	
from options										
d the vesting										
shares			8,089						8,089	
equity calls			(116,251)						(116,251)	
y warrants			80,551						80,551	
ome tax										
iated with										
equity calls			43,594						43,594	

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nds				(13,437)					(13,437)
December 31,									
	25,165	252	292,278	448,115	797	(206)		(48,396)	692
ive income:				67,952					67,952
swap									
net of tax									
\$6,549					(10,915)				(10,915)
stments, net of									
of \$78						130			
ain on									
nslation							634		
prehensive									
treasury stock								(63,039)	(63,039)
common and									
es to									
enefit plans	(232)	(2)	(8,761)					8,763	
m sales of									
ck under									
enefit plans	214	2	5,036						
restricted stock	414	4	(4)						
restricted									
	(29)	(1)	1						
compensation			4,954						
rom options									
d the vesting									
shares			171						
nds				(13,284)					(13,284)
December 31,									
	25,532	255	293,675	502,783	(10,118)	(76)	634	(102,672)	684
ive income:				(31,493)					(31,493)
swap									
net of tax									
\$10,675					(17,791)				(17,791)
stments, net of									
of \$125						(209)			
oss on									
nslation							(10,549)		(10,549)
prehensive loss									
treasury stock								(776)	(776)
common and									
es to									
enefit plans	(358)	(2)	(14,913)					14,625	
m sales of	223	2	3,193					296	
ck under									

benefit plans									
restricted stock	736	7	(7)						
restricted									
	(81)	(1)	1						
compensation			6,523						
from options									
and the vesting									
shares			(1,079)						
held				(10,955)					
December 31,									
	26,052	261	287,393	460,335	(27,909)	(285)	(9,915)	(88,527)	62

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

**Table of Contents****GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ (31,493)	\$ 67,952	\$ 88,390
Net loss from discontinued operations	\$ 2,003	\$ 1,132	\$ 894
Adjustments to reconcile net income to net cash provided by operating activities:			
Asset impairments	163,023	16,784	2,241
(Gain) loss on repurchase of long-term debt	(36,629)	1,598	488
Depreciation and amortization	25,652	20,438	17,694
Deferred income taxes	(18,509)	16,372	19,011
Stock based compensation	6,523	4,954	5,086
Amortization of debt discount and issue costs	2,362	2,278	1,601
Provision for doubtful accounts and uncollectible notes	1,192	2,442	1,609
Excess tax benefits from stock-based compensation	1,099	(150)	(3,657)
Tax benefit (liability) from options exercised and the vesting of restricted shares	(1,079)	171	8,089
(Gains) losses on sales of assets	(718)	(1,180)	(5,849)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Contracts-in-transit and vehicle receivables	87,386	(4,394)	(3,370)
Inventories	57,374	12,597	(29,781)
Floorplan notes payable manufacturer affiliates	(41,083)	(106,312)	(25,076)
Accounts payable and accrued expenses	(38,847)	(10,155)	(23,933)
Accounts and notes receivable	10,106	(7,046)	3,021
Deferred revenues	(6,311)	(4,374)	(4,996)
Prepaid expenses and other assets	1,695	(2,110)	1,605
Net cash provided by operating activities, from continuing operations	183,746	10,997	53,067
Net cash used in operating activities, from discontinued operations	(13,373)	(3,431)	(4,173)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(142,834)	(146,498)	(71,281)
Cash paid in acquisitions, net of cash received	(48,602)	(281,834)	(246,322)
Proceeds from sales of property and equipment	18,712	22,516	13,289
Proceeds from sales of franchises	6,522	10,192	38,024
Other	1,490	2,658	(2,699)
Net cash used in investing activities, from continuing operations	(164,712)	(392,966)	(268,989)

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Net cash provided by (used in) investing activities, from discontinued operations	23,051	(199)	(266)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings on credit facility Floorplan Line	5,118,757	5,493,645	3,851,025
Repayments on credit facility Floorplan Line	(5,074,782)	(5,268,183)	(3,821,477)
Repayments on credit facility Acquisition Line	(245,000)	(35,000)	(15,000)
Borrowings on credit facility Acquisition Line	160,000	170,000	15,000
Borrowings on mortgage facility	54,625	133,684	
Repurchase of long-term debt	(52,761)	(36,865)	(10,827)
Borrowings of long-term debt related to real estate purchases	50,171		
Dividends paid	(10,955)	(13,284)	(13,437)
Principal payments on mortgage facility	(7,944)	(2,367)	
Principal payments of long-term debt	(7,449)	(1,861)	(787)
Proceeds from issuance of common stock to benefit plans	3,201	5,038	23,692
Borrowings on other facilities for acquisitions	1,490		
Excess tax benefits from stock-based compensation	(1,099)	150	3,657
Repurchases of common stock, amounts based on settlement date	(776)	(63,039)	(54,964)
Debt issue costs	(365)	(3,630)	(6,726)
Repayments on other facilities for divestitures		(2,498)	(4,880)
Proceeds from issuance of 2.25% Convertible Notes			287,500
Purchase of equity calls			(116,251)
Sale of equity warrants			80,551
Net cash provided by (used in) financing activities, from continuing operations	(12,887)	375,790	217,076
Net cash provided by (used in) financing activities, from discontinued operations	(21,103)	4,750	3,666
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,826)	(33)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,104)	(5,092)	381
CASH AND CASH EQUIVALENTS, beginning of period	34,248	39,340	38,959
CASH AND CASH EQUIVALENTS, end of period	\$ 23,144	\$ 34,248	\$ 39,340

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

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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. 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 the states of Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina, and Texas in the United States of America and in the towns of Brighton, Hailsham and Worthing in the United Kingdom (the U.K. ). Through their dealerships, these subsidiaries sell new and used cars and light trucks; arrange related financing, and sell 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 . In 2006 and 2007, the Company reorganized its operations and as of December 31, 2008, the retail network consisted of the following three regions (with the number of dealerships they comprised): (i) the Eastern (40 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York and South Carolina ), (ii) the Central (46 dealerships in Kansas, Oklahoma, and Texas), (iii) the Western (11 dealerships in California). Each region is managed by a regional vice president reporting directly to the Company s Chief Executive Officer. In addition, our international operations consist of three dealerships in the U.K. also managed locally with direct reporting responsibilities to the Company s corporate management team.

**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 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. Taxes collected from customers and remitted to governmental agencies are not included in total revenues.

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 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.

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**GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 ( SFAS 60 ). During 2008, the Company terminated its offerings of credit life and accident and health insurance policies. 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. Included in other assets is approximately \$2.3 million of cash restricted for specific purposes. As of December 31, 2008 and 2007, cash and cash equivalents excludes \$44.9 million and \$64.5 million, respectively, of immediately available funds used to pay down the Floorplan Line of the Revolving Credit Facility, which is the Company's primary vehicle for the short-term investment of excess cash.

***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. Such 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, 2008 and 2007, inventory cost had been reduced by \$6.0 million and \$6.4 million, respectively, for interest assistance received from manufacturers. New vehicle cost of sales has been reduced by \$28.3 million, \$37.2 million and \$36.9 million for interest assistance received related to vehicles sold for the years ended December 31, 2008, 2007 and 2006, 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.

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**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. The Company performs the annual impairment assessment of goodwill by reporting unit at the end of each calendar year using a fair-value based, two-step test. The Company also 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. As of December 31, 2008, the Company defined its reporting units as each of its three regions and the U.K. See Note 10 for additional details regarding the Company's goodwill.