GROUP 1 AUTOMOTIVE INC
Form 10-K/A
January 31, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

[X] 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, 2004

COMMISSION FILE NUMBER: 1-13461

GROUP 1 AUTOMOTIVE, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	76-0506313
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
950 ECHO LANE, SUITE 100, HOUSTON, TEXAS	77024
(Address of principal executive offices)	(Zip code)

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

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 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 [X] 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

State the aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter: $666.5 million.

As of February 28, 2005, there were 23,499,805 shares of our common stock, par value $.01 per share, outstanding.

Documents incorporated by reference: Proxy Statement of Group 1 Automotive, Inc. for the Annual Meeting of Stockholders to be held on May 18, 2005, which is incorporated into Part III of this Form 10-K/A.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This amended annual report includes certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include statements regarding our plans, goals or current expectations with respect to, among other things:

- our future operating performance;

- our ability to improve our margins;

- operating cash flows and availability of capital;

- the completion of future acquisitions;

- the future revenues of acquired dealerships;

- future stock repurchases;

- capital expenditures;

- changes in sales volumes in the new and used vehicle and parts and service markets;

- business trends in the retail automotive industry, including the level of manufacturer incentives, new and used vehicle retail sales volume, customer demand, interest rates and changes in industrywide inventory levels; and

- availability of financing for inventory and working capital.

Any such forward-looking statements are not assurances of future performance and involve risks and uncertainties. Actual results may differ materially from anticipated results in the forward-looking statements for a number of reasons, including:

- the future economic environment, including consumer confidence, interest rates, the price of gasoline, the level of manufacturer incentives and the availability of consumer credit may affect the demand for new and used vehicles, replacement parts, maintenance and repair services and finance and insurance products;

- adverse international developments such as war, terrorism, political conflicts or other hostilities may adversely affect the demand for our products and services;

- the future regulatory environment, unexpected litigation or adverse legislation, including changes in state franchise laws, may impose additional costs on us or otherwise adversely affect us;

- our principal automobile manufacturers, especially Toyota/Lexus, Ford, DaimlerChrysler, General Motors, Honda/Acura and Nissan/Infiniti, may not continue to produce or make available to us vehicles that are in high demand by our customers;

- requirements imposed on us by our manufacturers may limit our acquisitions and require us to increase the level of capital expenditures related to our dealership facilities;

- our dealership operations may not perform at expected levels or achieve expected improvements;

- our failure to achieve expected future cost savings or future costs being higher than we expect;

- available capital resources and various debt agreements may limit our ability to complete acquisitions, complete construction of new or expanded facilities and repurchase shares;

- our cost of financing could increase significantly;

- new accounting standards could materially impact our reported earnings per share;

- our inability to complete additional acquisitions or changes in the pace of acquisitions;

- the inability to adjust our cost structure to offset any reduction in the demand for our products and services;

- our loss of key personnel;

- competition in our industry may impact our operations or our ability to complete acquisitions;

- the failure to achieve expected sales volumes from our new franchises;

- insurance costs could increase significantly and all of our losses may not be covered by insurance; and

- our inability to obtain inventory of new and used vehicles and parts, including imported inventory, at the cost, or in the volume, we expect.

The information contained in this amended annual report, including the information set forth under the headings "Business -- Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," identifies factors that could affect our operating results and performance. We urge you to carefully consider those factors.

All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. We undertake no responsibility to update our forward-looking statements.

AMENDMENT NO. 1 EXPLANATORY NOTE

We are filing Amendment No. 1 (this "Amendment") to the Group 1 Automotive, Inc. Annual Report on Form 10-K for the year ended December 31, 2004, to change the presentation of certain floorplan notes payable information. We finance substantially all of our new, and a portion of our used, vehicle inventories under revolving credit arrangements with a syndicated lending group (which includes both lenders affiliated with manufacturers of new vehicles and non-affiliated lenders) and, for certain new vehicle models, with lenders affiliated with the manufacturers of those vehicles. Consistent with industry practice, we previously reported all amounts outstanding under the caption "Floorplan notes payable" in our consolidated balance sheets and substantially all cash flows arising in connection with changes in floorplan notes payable as an item of cash flows from operating activities in our consolidated statements of cash flows.

In response to recent comments from the Staff of the Securities and Exchange Commission (the "Staff") in connection with a customary review of our 2004 Annual Report on Form 10-K, we reevaluated our presentation of this information. On January 30, 2006, our management and the Audit Committee of our Board of Directors concluded to amend and restate our 2004 Annual Report on Form 10-K and our September 30, 2005, Quarterly Report on Form 10-Q to reflect certain information in conformity with guidance under the Securities and Exchange Commission's rules and regulations and Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." This amendment revises our consolidated balance sheets to reflect floorplan notes payable to the syndicated lending group separately from floorplan notes payable to lenders affiliated with manufactures. It also revises our consolidated statements of cash flows to reflect borrowings and repayments from the syndicated lending group as an item of cash flows from financing activities with gross borrowings reflected separately from gross repayments.

The changes in presentation have no effect on previously reported consolidated net income, earnings per share, total assets or liabilities, stockholders' equity, total cash flows or our conclusion that our disclosure controls and procedures were effective as of December 31, 2004. This form 10-K/A contains changes to Part II-Item 7, Item 8 and Item 9A to reflect this restatement. There are no other significant changes to the original Form 10-K other than those outlined above. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update disclosures therein in any way other than as required to reflect the Amendment set forth below. Among other things, forward looking statements made in the original Form 10-K have not been revised to reflect events that occurred or facts that became known to us after the filing of the original Form 10-K (other than the restatement), and such forward looking statements should be read in their historical context. In addition, currently-dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this Amendment.

PART I

ITEM 1. BUSINESS

GENERAL

Group 1 Automotive, Inc. is a leading operator in the $1 trillion automotive retailing industry. We own and operate 142 dealership franchises and 32 collision centers primarily located in major metropolitan markets in California, Colorado, Florida, Georgia, Louisiana, Massachusetts, New Jersey, New Mexico, New York, Oklahoma and Texas. Through our dealerships and Internet sites, we:

- 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.

Geographic diversity is one of our strengths. The following table sets forth our platforms and the states in which they operate, the percentage of new vehicle retail units sold at each platform in the year ended December 31, 2004, and the number of dealerships and franchises in each platform as of February 28, 2005:

PLATFORM	STATE	PERCENTAGE OF OUR NEW VEHICLE RETAIL UNITS SOLD DURING THE TWELVE MONTHS ENDED DECEMBER 31, 2004	AS OF FEBRU NUMBER OF DEALERSHIPS
Ira Motor Group	Massachusetts	12.8%	11
Sterling McCall Automotive Group	Texas	12.1	9
Bob Howard Auto Group	Oklahoma	12.0	14
Miller Automotive Group	California	11.3	8
Gene Messer Auto Group	Texas	8.0	10
Maxwell Automotive Group	Texas	7.9	8
Bohn Automotive Group	Louisiana	6.4	7

Group 1 Florida	Florida	6.1	4
Group 1 Atlanta	Georgia	5.1	6
Peterson Automotive Group	California	4.2	4
Rocky Mountain Automotive Group	Colorado/New Mexico	4.0	4
Courtesy Auto Group	Texas	3.5	2
David Michael Motor Cars	New Jersey	2.9	3
Mike Smith Automotive Group	Texas	2.6	2
Hassel Auto Group	New York	1.1	4
Total		100.0%	96

OPERATING STRATEGY

We follow an operating strategy comprised of the following elements:

- decentralized management of locally-branded operations;
- expansion of higher margin activities;
- commitment to customer service;
- effective capital and asset management;
- development and retention of human capital;
- technology initiatives; and
- cost and revenue synergies.

DECENTRALIZED MANAGEMENT OF LOCALLY-BRANDED OPERATIONS. Our 142 franchises are organized into 15 platforms that are managed by local platform management teams and, at the dealership level, by general managers who report to the platform management. We believe our local management teams are in the best position to

understand their markets and how to operate effectively within them, including sales and marketing initiatives, inventory control and recruitment and retention of dealership personnel. By managing our dealerships on a decentralized basis, we seek to provide superior customer service and maintain a focused, market-specific responsiveness in all areas of dealership operations. Our market-specific approach to dealership management is especially important in light of the diverse markets in which we operate. Further, we believe cost savings are achieved in areas such as advertising and personnel utilization by coordinating these activities on a local basis.

EXPANSION OF HIGHER MARGIN ACTIVITIES. Certain sectors of our business generate higher margins than those generated by the retail sale of new vehicles. These activities include:

- retail sales of used vehicles;
- sales of replacement parts;
- sales of maintenance and repair services; and
- arrangement of financing, vehicle service and insurance contracts.

While each of our local operations conducts business in a manner consistent with its specific market's characteristics, they also pursue growth in these higher margin businesses to enhance profitability and stimulate internal growth. In conjunction with ongoing facility improvement and relocation initiatives, we generally increase both the square footage and stall capacity of our service departments in order to better service customers and to capture additional business in the marketplace.

COMMITMENT TO CUSTOMER SERVICE. Our dealerships strive to cultivate lasting relationships with their customers, which we believe is a key factor in gaining repeat and referral business. As one example of our commitment in this area, our dealerships regard their service and repair activities as essential elements of the customer service experience that create additional opportunities to foster ongoing relationships with customers and deepen customer loyalty. We emphasize the importance of customer satisfaction to our key platform and dealership personnel by basing a portion of their compensation, in most cases, on the quality of customer service they provide in connection with vehicle sales and service. In addition, our dealerships continually review their processes in an effort to better meet the needs of their customers by implementing best practices shared across our operations.

EFFECTIVE CAPITAL AND ASSET MANAGEMENT. We allocate discretionary capital among competing investment opportunities based on expected returns on investment. We also monitor our inventory and sales levels on a companywide basis. In addition, we monitor our investments in parts and receivables to maximize our financial results.

DEVELOPMENT AND RETENTION OF HUMAN CAPITAL. The success of our dealerships is highly dependent on dealership personnel. We believe that our decentralized operating approach, incentive compensation plans and training programs allow us to attract, develop and retain automotive retailing talent. Our platform presidents have worked in their platform's operations an average of 16 years.

TECHNOLOGY INITIATIVES. Our dealerships continue to find new ways to benefit our customers through the use of the Internet. The locally-branded Web sites of each of our platforms provide customers with a one-stop shopping experience in their local market, with access to an extensive inventory of multiple brands. New tools in use at our dealerships allow us to:

- display a distinctive look and feel to our customers that conveys the "attitude" of the dealership while conforming to manufacturer guidelines;
- display interactive new and used vehicle inventories with multiple photographs and advanced search options;
- offer interactive online appraisal tools;
- offer customers an online credit application process;
- display and sell parts online;
- highlight dealership specials on new and used vehicles and services;
- display current dealership-specific advertising; and

- offer customers the convenience of online service scheduling, progress monitoring, and completion notification.

In addition, we plan to use the Internet to enhance the interactive service capabilities we offer our customers. During 2004, we sold more than 20,000 vehicles as a result of leads generated by our dealerships' dedicated Internet sales departments. As franchised dealerships, we receive Internet leads from manufacturers' e-commerce programs. We also receive leads from several major portals through a contractual relationship with an e-commerce software company. We continue to work with our vendors to ensure our dealerships have access to current technology while remaining in compliance with manufacturer brand imaging requirements.

COST AND REVENUE SYNERGIES. Our size and consolidated purchasing power brings opportunities to benefit from cost and revenue synergies in some areas of our business. For example, due to our expended access to capital, we can generally obtain floorplan financing at rates significantly lower than those received by smaller private dealerships. In addition, we have benefited from the consolidation of administrative functions such as risk management, employee benefits and employee training, as well as the sharing of best practices across our operations. We have also enhanced revenues by benchmarking our dealerships and by establishing preferred providers for retail finance and vehicle service contracts.

DEALERSHIP OPERATIONS

Each of our local operations has a management structure that promotes and rewards entrepreneurial spirit and the achievement of team goals. The general manager of each dealership, with assistance from his managers of new vehicle sales, used vehicle sales, parts and service, and finance and insurance, is ultimately responsible for the operation, personnel and financial performance of the dealership. Our dealerships are operated as distinct profit centers, and our general managers have a high degree of autonomy within our organization. Our platform presidents are responsible for the overall performance of their platform and for overseeing the dealership general managers.

To capitalize on the combined experience of our dealership management, we have formed brand-specific groups of general managers who meet regularly to share best practices and identify incremental profit opportunities. The groups meet in person and via teleconference at regular intervals to discuss brand-specific trends and comparative rankings of operational results. We believe the discussion and sharing of best practices that takes place among these groups is a competitive advantage over smaller dealership groups that do not have the diverse operations that we do. Each of our dealerships is also compared to its operating forecast and our other dealerships on a monthly basis. We also analyze our dealerships based on key operating, financial and customer satisfaction measures.

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NEW VEHICLE SALES

In 2004, we sold or leased 117,971 new vehicles representing 33 brands in retail transactions at our dealerships. Our retail sales of new vehicles accounted for approximately 28.5% of our gross profit in 2004. The following table sets forth the brands we represented and the number and percentage of total new vehicles of each brand that we sold in 2004, and the number of franchises of each brand that we owned at February 28, 2005:

YEAR ENDED DECEMBER 31, 2004

	Number of New Vehicles Sold	Percentage of New Vehicles Sold	Franchises Owned as of February 28, 2005
Toyota / Scion	27,166	23.0%	11
Ford	20,410	17.3	14
Nissan	11,207	9.5	10
Honda	9,312	7.9	6
Chevrolet	8,832	7.5	7
Dodge	7,993	6.8	11
Lexus	5,552	4.7	2
Chrysler	3,278	2.8	9
Jeep	3,050	2.6	8
Mercedes-Benz	2,361	2.0	3
GMC	2,220	1.9	5
Acura	1,941	1.7	2
BMW	1,809	1.5	4
Infiniti	1,702	1.4	1
Mitsubishi	1,482	1.3	5
Lincoln	1,220	1.1	6
Mazda	1,088	0.9	2
Mercury	940	0.8	7
Subaru	860	0.7	2
Volkswagen	859	0.7	2
Kia	753	0.6	3
Pontiac	737	0.6	5
Hyundai	661	0.6	2
Audi	634	0.5	1
Volvo	527	0.4	2
Buick	439	0.4	4
Cadillac	302	0.3	2
Isuzu	212	0.2	2
Mini	169	0.1	1
Porsche	156	0.1	1
Hummer	94	0.1	1
Maybach	5	-	1
Total	117,971	100.0%	142

A typical new vehicle sale or lease transaction creates the following profit opportunities for a dealership:

- from the retail transaction itself;
- from the resale of any trade-in purchased by the dealership;
- from the sale of third-party finance, vehicle service and insurance contracts in connection with the retail sale; and
- from the service and repair of the vehicle both during and after the warranty period.

Some new vehicles we sell are purchased by customers under lease or lease-type financing arrangements with third-party lenders. These transactions are typically favorable from a dealership's perspective. New vehicle leases generally have shorter terms, bringing the customer back to the market, and our dealerships specifically, sooner than if the purchase was debt financed. In addition, leases provide our dealerships with a steady source of late-model, off-lease vehicles for sale as used vehicles. Generally, leased vehicles remain under factory warranty for the term of the lease, allowing the dealerships to provide repair services to the lessee throughout the lease term. We typically do not guarantee residual values on lease transactions.

Our dealerships finance their inventory purchases through the floorplan portion of our revolving credit facility. Subject to floorplan limitations imposed by us and our days' supply guidelines, inventory selection and management occurs at the platform level. From time to time, and consistently over the past several years, manufacturers have offered incentives to dealerships to achieve the manufacturers' new vehicle sales goals. Most manufacturers also offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases.

USED VEHICLE SALES

We sell used vehicles at each of our franchised dealerships. In 2004, we sold or leased 66,336 used vehicles at our dealerships, and sold 49,372 used vehicles in wholesale markets. Our retail sales of used vehicles accounted for approximately 14.5% of our gross profit in 2004, while losses from the sale of vehicles on wholesale markets reduced our gross profit by approximately 1.0%. Used vehicles sold at retail typically generate higher gross margins on a percentage basis than new vehicles because of their limited comparability and the subjective nature of their valuation, which is dependent on a vehicle's age, mileage and condition, among other things. Valuations also vary based on supply and demand factors, the level of new vehicle incentives, the availability of retail financing, and general economic conditions. We believe that recent downward trends in the used vehicle business are due both to the relative affordability of new vehicles, largely as a result of manufacturer incentive programs, and the general tightening of credit standards by lenders in the lower-tier and sub-prime segments of the credit market.

Profit from the sale of used vehicles depends primarily on a dealership's ability to obtain a high-quality supply of used vehicles at reasonable prices and to effectively manage that inventory. Our new vehicle operations provide our used vehicle operations with a large supply of high-quality trade-ins and off-lease vehicles, the best sources of high-quality used vehicles. Our dealerships supplement their used vehicle inventory from purchases at auctions, including manufacturer-sponsored auctions available only to franchised dealers, and from wholesalers. Each of our dealerships attempts to maintain no more than a 30 days' supply of used vehicles. We offer used vehicles not held for resale to other dealers and wholesalers. Sales to other dealers or wholesalers are frequently close to, or below, our cost and therefore negatively affect our gross margin on used vehicle sales. We may transfer vehicles among our dealerships, on a local basis, to provide balanced inventories of used vehicles at each of our dealerships.

In addition to active management of the quality and age of our used vehicle inventory, we have attempted to increase the profitability of our used vehicle operations by participating in manufacturer certification programs where available. Manufacturer certified pre-owned vehicles typically sell at a premium compared to other used vehicles and are available only from franchised new vehicle dealerships. Certified pre-owned vehicles are eligible for new vehicle benefits such as new vehicle finance rates and, in some cases, extension of the manufacturer warranty.

PARTS AND SERVICE SALES

We sell replacement parts and provide maintenance and repair services at each of our franchised dealerships and provide collision repair services at the 32 collision centers we own. Our parts and service business accounted for approximately 37.3% of our gross profit in 2004. We perform both warranty and non-warranty service work at our dealerships, primarily for the vehicle brand(s) sold at a particular dealership. We realize approximately the same gross margin on warranty repairs and customer-paid repairs. Warranty work accounted for approximately 20.0% of the revenues from our parts and service business in 2004. Our parts and service departments also perform used vehicle reconditioning and new vehicle preparation services for which they realize a profit when a vehicle is sold to a third party.

The automotive repair industry is highly fragmented, with a significant number of independent maintenance and repair facilities in addition to those of the franchised dealerships. We believe, however, that the increasing complexity of new vehicles has made it difficult for many independent repair shops to retain the expertise necessary to perform major or technical repairs. We have made investments in obtaining and training qualified technicians to work in our service and repair facilities. Additionally, manufacturers permit warranty work to be performed only at franchised dealerships, and there is a trend in the automobile industry towards longer new vehicle warranty periods. As a result, we believe an increasing percentage of all repair work will be performed at franchised dealerships that have the sophisticated equipment and skilled personnel necessary to perform repairs and warranty work on today's complex vehicles.

Our strategy to capture an increasing share of the parts and service work performed by franchised dealerships includes the following elements:

- FOCUS ON CUSTOMER RELATIONSHIPS; EMPHASIZE PREVENTATIVE MAINTENANCE. Our dealerships seek to retain new and used vehicle customers as customers of our parts and service departments. To accomplish this

goal, we use systems that track customers' maintenance records and notify owners of vehicles purchased or serviced at our dealerships when their vehicles are due for periodic service. Vehicle service contracts sold by our finance and insurance personnel also assist us in the retention of customers after the manufacturer's warranty expires. We believe our parts and service activities are an integral part of the customer service experience, allowing us to create ongoing relationships with our dealerships' customers thereby deepening customer loyalty to the dealership as a whole.

- VARIABLE RATE PRICING STRUCTURE. The rates our dealerships charge for their technicians' labor vary based on the difficulty and technical sophistication of the repairs being performed. Similarly, the percentage markups on parts are based on market conditions for different parts. We believe this variable pricing allows our dealerships to achieve parts and service gross margins superior to those of our competitors who rely on fixed labor rates and percentage markups. It also allows us to be competitive with independent repair shops that provide discounted pricing on select services.

- EFFICIENT MANAGEMENT OF PARTS INVENTORY. Our dealerships' parts departments support their sales and service departments, selling factory-approved parts for the vehicle makes and models sold by a particular dealership. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other franchised dealerships. Our dealerships employ parts managers who oversee parts inventories and sales. Our dealerships also frequently share parts with each other. In addition, we maintain a perpetual parts inventory program, counting a percentage of our parts on a daily basis. This allows us to monitor our parts inventories more closely and make necessary adjustments more frequently.

FINANCE AND INSURANCE SALES

Revenues from our finance and insurance operations consist primarily of fees for arranging financing, vehicle service and insurance contracts in connection with the retail purchase of a new or used vehicle. Our finance and insurance business accounted for approximately 20.7% of our gross profit in 2004. We offer a wide-variety of third-party finance and insurance products in a convenient manner and at competitive prices. To increase transparency to our customers, we offer all of our products on menus that display pricing and other information, allowing customers to choose the products that suit their needs.

FINANCING. We arrange third-party purchase and lease financing for our customers. In return, we receive a fee from the third-party lender upon completion of the financing. These third-party lenders include manufacturers' captive finance companies, selected commercial banks, and a variety of other third-party lenders, including credit unions and regional auto finance lenders. The fees we receive are subject to chargeback, or repayment to the lender, if a customer defaults or prepays the loan, typically during some limited time period at the beginning of the loan term. We have negotiated incentive programs with some lenders pursuant to which we receive additional fees upon reaching a certain volume of business. We do not own a finance company, and, generally, do not retain substantial credit risk after a customer has received financing, though we do retain limited credit risk in some circumstances.

EXTENDED WARRANTY, VEHICLE SERVICE AND INSURANCE PRODUCTS. We offer our customers a variety of vehicle warranty and extended protection products in connection with purchases of new and used vehicles, including:

- extended warranties;
- maintenance, or vehicle service, programs;
- guaranteed auto protection, or "GAP," insurance, which covers the shortfall between a customer's loan balance and insurance payoff in the event of a total vehicle loss;
- credit life and accident and disability insurance;
- lease "wear and tear" insurance; and
- theft protection.

The products our dealerships currently offer are generally underwritten and administered by independent third parties, including the vehicle manufacturers' captive finance subsidiaries. Under our arrangements with the providers of these products, we either sell these products on a straight commission basis, or we sell the product, recognize commission and participate in future underwriting profit, if any, pursuant to a retrospective commission arrangement. These commissions may be subject to chargeback, in full or in part, if the contract is terminated prior to its scheduled maturity. We own a company that reinsures the third-party credit life and accident and disability insurance policies we sell.

ACQUISITION PROGRAM

Since our inception, we have pursued an acquisition program focused on the following objectives:

- enhancing brand and geographic diversity;
- creating economies of scale;
- delivering a targeted return on investment; and
- enhancing stockholder value.

We have grown our business primarily through acquisitions. From January 1, 2000, through December 31, 2004, we:

- purchased 69 franchises with expected annual revenues, estimated at the time of acquisition, of approximately $2.8 billion;
- disposed of 20 franchises with annual revenues of approximately $267.2 million; and
- were granted nine new franchises by vehicle manufacturers.

These acquisitions included both "platform" acquisitions, which typically are acquisitions of groups of dealerships in market areas where we previously did not have a presence, and "tuck-in" acquisitions, which are acquisitions of single-point dealerships in our existing market areas.

PLATFORM ACQUISITIONS. We make platform acquisitions to expand into geographic markets we do not currently serve by acquiring large, profitable, well-established megadealers that are leaders in their regional markets. We typically pursue megadealers with superior operational and financial management personnel whom we seek to retain. By retaining existing management personnel who have experience and in-depth knowledge of their local market, we can more readily transition to our decentralized operating model while avoiding the risks involved with employing and training new and untested personnel.

TUCK-IN ACQUISITIONS. We make tuck-in acquisitions to expand our brand, product and service offerings and to capitalize on economies of scale by acquiring key single-point dealerships in our existing market areas. Tuck-in acquisitions allow us to increase operating efficiency and cost savings on a platform level in areas such as advertising, purchasing, data processing, personnel utilization, and the cost of floorplan financing.

RECENT ACQUISITIONS AND DISPOSITIONS. In 2004, we acquired 23 franchises with expected annual revenues of approximately $1.2 billion, exceeding our acquisition target of $1.0 billion for the year. Our 2004 acquisition program included the acquisition of new platforms in California, New Jersey and New York and seven tuck-in acquisitions added to our existing platforms in California, Massachusetts and Texas. We also opened two previously announced Nissan add-points in California and Massachusetts during 2004. The following table contains information regarding the platforms and dealerships we acquired in 2004, including the location of the operations and the franchises acquired:

Platform	Location	No. of Franchises	Franchises Included

David Michael Motor Cars(1)	New Jersey	3	Mercedes Benz, Honda, VW
Maxwell Automotive Group	Texas	3	Chevrolet, Pontiac, GMC
Ira Motor Group	Massachusetts	1	Toyota
Sterling McCall Automotive Group	Texas	1	BMW
Miller Automotive Group	California	2	Mercedes Benz and Maybach
Peterson Automotive Group(1)	California	9	Toyota, Kia (2), Chrysler, Dodge, Jeep, Hyundai, Subaru, Isuzu
Hassel Auto Group(1)	New York	4	BMW, Mini, Volvo (2)

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(1) Platform acquisition

As a result of our 2004 acquisition program, we expanded into three additional markets in which we previously had no presence, and shifted our brand mix to include a greater percentage of import and luxury vehicles. We paid approximately $221.7 million in cash, net of cash received, issued 394,313 shares of our common stock and assumed approximately $109.7 million of inventory financing in completing our 2004 acquisition program. We did not dispose of any dealerships in 2004.

OUTLOOK. Our acquisition target for 2005 is to complete acquisitions of dealerships that have approximately $300 million in annual revenues.

COMPETITION

We operate in a highly competitive industry. In each of our markets, consumers have a number of choices in deciding where to purchase a new or used vehicle or where to have a vehicle serviced. According to various industry sources, there are approximately 22,000 franchised automobile dealerships and approximately 54,000 independent used vehicle dealers in the retail automotive industry.

Our competitive success depends, in part, on national and regional automobile-buying trends, local and regional economic factors, and other regional competitive pressures. Conditions and competitive pressures affecting the markets in which we operate, or in any new markets we enter, could adversely affect us, although the retail automobile industry as a whole might not be affected. Some of our competitors may have greater financial, marketing and personnel resources, and lower overhead and sales costs than we do. We cannot guarantee that our strategy will be more effective than the strategies of our competitors.

NEW AND USED VEHICLES. In the new vehicle market, our dealerships compete with other franchised dealerships in their market areas, as well as auto brokers, leasing companies, and Internet companies that provide referrals to or broker vehicle sales with other dealerships or customers. We are subject to competition from dealers that sell the same brands of new vehicles that we sell and from dealers that sell other brands of new vehicles that we do not sell in a particular market. Our new vehicle dealer competitors also have franchise agreements with the various vehicle manufacturers and, as such, generally have access to new vehicles on the same terms as we do. We do not have any cost advantage in purchasing new vehicles from vehicle manufacturers, and our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. In the used vehicle market, our dealerships compete with other franchised dealers, large multi-location used vehicle retailers, local independent used vehicle dealers, automobile rental agencies and private parties for the supply and resale of used vehicles. We believe the principal competitive factors in the automotive retailing business are location, the suitability of a franchise to the market in which it is located, service, price and selection.

PARTS AND SERVICE. In the parts and service market, our dealerships compete with other franchised dealers to perform warranty repairs and with other automobile dealers, franchised and independent service center chains, and independent repair shops for non-warranty repair and maintenance business. We believe the principal competitive factors in the parts and service business are the quality of customer service, the use of factory-approved replacement parts, familiarity with a manufacturer's brands and models, convenience, the competence of technicians, location, and price. A number of regional or national chains offer selected parts and services at prices that may be lower than ours.

FINANCE AND INSURANCE. In addition to competition for vehicle sales and service, we face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. Many financial institutions now offer finance and insurance products over the Internet, which may reduce our profits from the sale of these products. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates and flexibility in contract length.

ACQUISITIONS. We compete with other national dealer groups and individual investors for acquisitions. Some of our competitors have greater financial resources and competition may increase acquisition pricing. We cannot guarantee that we will be able to complete acquisitions on terms acceptable to us.

RELATIONSHIPS AND AGREEMENTS WITH OUR MANUFACTURERS

Each of our dealerships operates under a franchise agreement with a vehicle manufacturer (or authorized distributor). The franchise agreements grant the franchised automobile dealership a non-exclusive right to sell the manufacturer's or distributor's brand of vehicles and offer related parts and service within a specified market area. These franchise agreements grant our dealerships the right to use the manufacturer's or distributor's trademarks in connection with their operations, and impose numerous operational requirements and restrictions relating to, among other things:

- inventory levels;
- working capital levels;
- the sales process;
- minimum sales performance requirements;
- customer satisfaction standards;
- marketing and branding;
- facilities and signage;
- personnel;

- changes in management; and

- monthly financial reporting.

Our dealerships' franchise agreements are for various terms, ranging from one year to indefinite, and in most cases manufacturers have renewed such franchises upon expiration so long as the dealership is in compliance with the terms of the agreement. We generally expect our franchise agreements to survive for the foreseeable future and, when the agreements do not have indefinite terms, anticipate routine renewals of the agreements without substantial cost or modification. Each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including unapproved changes of ownership or management and performance deficiencies in such areas as sales volume, sales effectiveness and customer satisfaction. However, in general, the states in which we operate have automotive dealership franchise laws that provide that, notwithstanding the terms of any franchise agreement, it is unlawful for a manufacturer to terminate or not renew a franchise unless "good cause" exists. It generally is difficult for a manufacturer to terminate, or not renew, a franchise under these laws, which were designed to protect dealers. In addition, in our experience and historically in the automotive retail industry, dealership franchise agreements are rarely involuntarily terminated or not renewed by the manufacturer. From time to time, certain manufacturers assert sales and customer satisfaction performance deficiencies under the terms of our framework and franchise agreements at a limited number of our dealerships. We generally work with these manufacturers to address the asserted performance issues.

In addition to the individual dealership franchise agreements discussed above, we have entered into framework agreements with most major vehicle manufacturers and distributors. These agreements impose a number of restrictions on our operations, including on our ability to make acquisitions and obtain financing, and on our management and the ownership of our common stock. For a discussion of these restrictions and the risks related to our relationships with vehicle manufacturers, please read "--Risk Factors."

The following table sets forth the percentage of our new vehicle retail unit sales attributable to the manufacturers we represented during 2004 that accounted for 10% or more of our new vehicle retail unit sales:

MANUFACTURER	PERCENTAGE OF NEW VEHICLE RETAIL UNITS SOLD DURING THE TWELVE MONTHS ENDED DECEMBER 31, 2004
Toyota / Lexus	27.7%
Ford...........................	20.5%
DaimlerChrysler.................	14.2%
Nissan / Infiniti..............	10.9%
General Motors.................	10.8%

GOVERNMENTAL REGULATIONS

AUTOMOTIVE AND OTHER LAWS AND REGULATIONS

We operate in a highly regulated industry. A number of state and federal laws and regulations affect our business. In every state in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales and finance and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our conduct of business, including those relating to our sales, operations, financing, insurance, advertising and employment practices. These laws and regulations include state franchise laws and regulations, consumer protection laws and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as a variety of other laws and regulations. These laws also include federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to federal truth-in-lending, consumer leasing and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws and regulations. Some states regulate finance fees and charges that may be paid as a result of vehicle sales. Claims arising out of actual or alleged violations of law may be asserted against us or our dealerships by individuals or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct dealership operations and fines.

Our operations are subject to the National Traffic and Motor Vehicle Safety Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and the rules and regulations of various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to United States customs duties and, in the ordinary course of our business we may, from time to time, be subject to claims for duties, penalties, liquidated damages or other charges.

Our operations are subject to consumer protection laws known as Lemon Laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require various written disclosures to be provided on new vehicles, including mileage and pricing information.

ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS

Our operations involve the use, handling, storage and contracting for recycling and/or disposal of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires and fuel. Consequently, our business is subject to a complex variety of federal, state and local requirements that regulate the environment and public health and safety.

Most of our dealerships utilize aboveground storage tanks, and to a lesser extent underground storage tanks, primarily for petroleum-based products. Storage tanks are subject to periodic testing, containment, upgrading and removal under the Resource Conservation and Recovery Act and its state law counterparts. Clean-up or other remedial action may be necessary in the event of leaks or other discharges from storage tanks or other sources. In addition, water quality protection programs under the federal Water Pollution Control Act (commonly known as the Clean Water Act), the Safe Drinking Water Act and comparable state and local programs govern certain discharges from some of our operations. Similarly, certain air emissions from operations such as auto body painting may be subject to the federal Clean Air Act and related state and local laws. Certain health and safety standards promulgated by the Occupational Safety and Health Administration of the United States Department of Labor and related state agencies also apply.

Some of our dealerships are parties to proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, typically in connection with materials that were sent to former recycling, treatment and/or disposal facilities owned and operated by independent businesses. The remediation or clean-up of facilities where the release of a regulated hazardous substance occurred is required under CERCLA and other laws.

We generally obtain environmental studies on dealerships to be acquired and, as necessary, implement environmental management or remedial activities to reduce the risk of noncompliance with environmental laws and regulations. Nevertheless, we currently own or lease, and in connection with our acquisition program will in the future own or lease, properties that in some instances have been used for auto retailing and servicing for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, it is possible that environmentally sensitive materials such as new and used motor oil, transmission fluids, antifreeze, lubricants, solvents and motor fuels may have been spilled or released on or under the properties owned or leased by us or on or under other locations where such materials were taken for disposal. Further, we believe that structures found on some of these properties may contain suspect asbestos-containing materials, albeit in an undisturbed condition. In addition, many of these properties have been operated by third parties whose use, handling and disposal of such environmentally sensitive materials were not under our control.

We incur significant costs to comply with applicable environmental, health and safety laws and regulations in the ordinary course of our business. We do not anticipate, however, that the costs of such compliance will have a material adverse effect on our business, results of operations, cash flows or financial condition, although such outcome is possible given the nature of our operations and the extensive environmental, public health and safety regulatory framework.

In January 2003, we, along with some 100 other parties, received a letter from a private party who is seeking all of our participation in a voluntary mediation with the EPA and the U.S. Department of Justice regarding the remedial liabilities of potentially responsible parties at the Double Eagle Refinery Superfund site in Oklahoma City, Oklahoma. During 2003, we joined some 42 other parties in a group that entered into negotiations with the EPA and DOJ regarding potential liability for costs of remediating contamination and natural resource damages at this Superfund site. Currently, negotiations between the parties are at an advanced stage, with both sides having agreed in principle to a settlement to resolve this matter. Based on the agreement in principle, we believe our pro rata share of any

settlement would be no higher than $50,000. However, because no agreement has yet been finalized between the parties, we cannot make any assurances at this time as to our potential liability with respect to this matter.

INSURANCE AND BONDING

Our operations expose us to the risk of various liabilities, including:

- claims by employees, customers or other third parties for personal injury or property damage resulting from our operations; and
- fines and civil and criminal penalties resulting from alleged violations of federal and state laws or regulatory requirements.

The automotive retailing business is also subject to substantial risk of property loss as a result of the significant concentration of property values at dealership locations. Under self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles and claims handling expenses as part of our various insurance programs, including property and casualty and employee medical benefits. In most cases, we insure costs in excess of our retained risk per claim under various contracts with third party insurance carriers. We estimate the costs of these retained insurance risks based on historical claims experience, adjusted for current trends and changes in claims-handling procedures. Risk retention levels may change in the future as a result of changes in the insurance market or other factors affecting the economics of our insurance programs. Although we have, subject to certain limitations and exclusions, substantial insurance, we cannot assure you that we will not be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We make provisions for retained losses and deductibles by reflecting charges to expense based upon periodic evaluations of the estimated ultimate liabilities on reported and unreported claims. The insurance companies that underwrite our insurance require that we secure certain of our obligations for self-insured exposures with collateral. Our collateral requirements are set by the insurance companies and, to date, have been satisfied by posting surety bonds, letters of credit and/or cash deposits. Our collateral requirements may change from time to time based on, among other things, our total insured exposure and the related self-insured retention assumed under the policies. We include additional details about our collateral requirements in the Notes to our Consolidated Financial Statements.

EMPLOYEES

As of December 31, 2004, we employed approximately 8,800 people, of whom approximately:

- 1,100 were employed in managerial positions;

- 2,600 were employed in non-managerial vehicle sales department positions;

- 4,100 were employed in non-managerial parts and service department positions; and

- 1,000 were employed in administrative support positions.

We believe our relationships with our employees are favorable. Sixty-six of our employees at one platform are represented by a labor union. Because of our dependence on vehicle manufacturers, we may be affected by labor strikes, work slowdowns and walkouts at vehicle manufacturing facilities. Additionally, labor strikes, work slowdowns and walkouts at businesses participating in the distribution of manufacturers' products may also affect us.

SEASONALITY

We generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the United States, vehicle purchases decline during the winter months. As a result, our revenues, cash flows and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. Other factors unrelated to seasonality, such as changes in economic condition and manufacturer incentive programs, may cause counter-seasonal fluctuations in our revenues and operating income.

RISK FACTORS

IF WE FAIL TO OBTAIN A DESIRABLE MIX OF POPULAR NEW VEHICLES FROM MANUFACTURERS OUR PROFITABILITY WILL BE NEGATIVELY AFFECTED.

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently difficult to obtain from the manufacturers. If we cannot obtain sufficient quantities of the most popular models, our profitability may be adversely affected. Sales of less desirable models may reduce our profit margins. Several manufacturers generally allocate their vehicles among their franchised dealerships based on the sales history of each dealership. If our dealerships experience prolonged sales slumps, these manufacturers may cut back their allotments of popular vehicles to our dealerships and new vehicle sales and profits may decline. Similarly, the delivery of vehicles, particularly newer, more popular vehicles, from manufacturers at a time later than scheduled could lead to reduced sales during those periods.

IF WE FAIL TO OBTAIN RENEWALS OF ONE OR MORE OF OUR FRANCHISE AGREEMENTS ON FAVORABLE TERMS OR SUBSTANTIAL FRANCHISES ARE TERMINATED, OUR OPERATIONS MAY BE SIGNIFICANTLY IMPAIRED.

Each of our dealerships operates under a franchise agreement with one of our manufacturers (or authorized distributors). Without a franchise agreement, we cannot obtain new vehicles from a manufacturer. As a result, we are significantly dependent on our relationships with these manufacturers, which exercise a great degree of influence over our operations through the franchise agreements. Each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including any unapproved changes of ownership or management and other material breaches of the franchise agreements. Manufacturers may also have a right of first refusal if we seek to sell dealerships. We cannot guarantee all of our franchise agreements will be renewed or that the terms of the renewals will be as favorable to us as our current agreements. In addition, actions taken by manufacturers to exploit their bargaining position in negotiating the terms of renewals of franchise agreements or otherwise could also have a material adverse effect on our revenues and profitability. Our results of operations may be materially and adversely affected to the extent that our franchise rights become compromised or our operations restricted due to the terms of our franchise agreements or if we lose substantial franchises.

Our franchise agreements do not give us the exclusive right to sell a manufacturer's product within a given geographic area. As a result, a manufacturer may grant another dealer a franchise to start a new dealership near one of our locations, or an existing dealership may move its dealership to a location that would directly compete against us. The location of new dealerships near our existing dealerships could materially adversely affect our operations and reduce the profitability of our existing dealerships.

MANUFACTURERS' RESTRICTIONS ON ACQUISITIONS MAY LIMIT OUR FUTURE GROWTH.

We must obtain the consent of the manufacturer prior to the acquisition of any of its dealership franchises. Delays in obtaining, or failing to obtain, manufacturer approvals for dealership acquisitions could adversely affect our acquisition program. Obtaining the consent of a manufacturer for the acquisition of a dealership could take a significant amount of time or might be rejected entirely. In determining whether to approve an acquisition, manufacturers may consider many factors, including the moral character and business experience of the dealership principals and the financial condition, ownership structure, customer satisfaction index scores and other performance measures of our dealerships.

Our manufacturers attempt to measure customers' satisfaction with automobile dealerships through systems generally known as the customer satisfaction index or CSI. Manufacturers may use these performance indicators, as well as sales performance numbers, as factors in evaluating applications for additional acquisitions. The manufacturers have modified the components of their CSI scores from time to time in the past, and they may replace them with different systems at any time. From time to time, we may not meet all of the manufacturers' requirements to make acquisitions. We cannot assure you that all of our proposed future acquisitions will be approved.

In addition, a manufacturer may limit the number of its dealerships that we may own or the number that we may own in a particular geographic area. If we reach a limitation imposed by a manufacturer for a particular geographic market, we will be unable to make additional tuck-in acquisitions in that market of that manufacturer's franchises, which could limit our ability to grow in that geographic area. In addition, geographic limitations imposed by manufacturers could restrict our ability to acquire platforms whose markets overlap with those already served by us. The following is a summary of the restrictions imposed by those manufacturers that accounted for 10% or more of our new vehicle retail unit sales in 2004:

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TOYOTA / LEXUS. Toyota restricts the number of dealerships that we may own and the time frame over which we may acquire them. Under Toyota's standard Multiple Ownership Agreement, we may acquire additional dealerships, over a minimum of seven semi-annual periods, up to a maximum number of dealerships equal to 5% of Toyota's aggregate national annual retail sales volume. In addition, Toyota restricts the number of Toyota dealerships that we may acquire in any Toyota-defined region and "Metro" market, as well as any contiguous market. We may acquire only four primary Lexus dealerships or six outlets nationally, including only two Lexus dealerships in any one of the four Lexus geographic areas. Our Lexus companion dealership located south of Houston is not considered by Lexus to be a primary Lexus dealership for purposes of the restriction on the number of Lexus dealerships we may acquire. Currently, we own 11 Toyota dealership franchises, representing approximately 1.5% of the national retail sales of Toyota for 2004, and two primary Lexus dealership franchises. Under the terms of our current agreement with Toyota, we own the maximum number of Toyota dealerships we are currently permitted to own in the Gulf states region, which is comprised of Texas, Oklahoma, Louisiana, Mississippi and Arkansas.

FORD. Ford currently limits the number of dealerships that we may own to the greater of (1) 15 Ford and 15 Lincoln and Mercury dealerships and (2) that number of Ford, Lincoln and Mercury dealerships accounting for 5% of the preceding year's total Ford, Lincoln and Mercury retail sales of those brands in the United States. Currently, we own a total of 27 Ford, Lincoln and Mercury dealership franchises, representing approximately 0.7% of the national retail sales of Ford, Lincoln and Mercury for 2004. In addition, Ford limits us to one Ford dealership in a Ford-defined market area having two or less authorized Ford dealerships and one-third of Ford dealerships in any Ford-defined market area having more than three authorized Ford dealerships. In many of its dealership franchise agreements Ford has the right of first refusal to acquire, subject to applicable state law, a Ford franchised dealership when its ownership changes. Currently, Ford is emphasizing increased sales performance from all of its franchised dealers, including our Ford dealerships. To this end, Ford has requested that we focus on the performance of owned dealerships as opposed to acquiring additional Ford dealerships. We intend to comply with this request.

DAIMLERCHRYSLER. Currently, we have no agreement with Chrysler restricting our ability to acquire Chrysler dealerships. Chrysler has advised us that in determining whether to approve an acquisition of a Chrysler dealership, Chrysler considers the number of Chrysler dealerships the acquiring company already owns. Chrysler currently carefully considers, on a case-by-case basis, any acquisition that would cause the acquiring company to own more than 10 Chrysler dealerships nationally, six in the same Chrysler-defined zone and two in the same market. Our agreement with Mercedes-Benz, in addition to limitations on the number of dealership franchises in particular metropolitan markets and regions, limits us to a maximum of the greater of four Mercedes-Benz dealership franchises or the number of dealership franchises that would account for up to 3% of the preceding year's total Mercedes-Benz retail sales. Currently, we own 28 Chrysler (including two acquired in January 2005), three Mercedes-Benz and one Maybach dealership franchise. Our three Mercedes-Benz dealership franchises represented approximately 1.1% of total Mercedes-Benz retail sales in 2004.

GENERAL MOTORS. General Motors, or GM, currently evaluates our acquisitions of GM dealerships on a case-by-case basis. GM, however, limits the maximum number of GM dealerships that we may acquire at any time to 50% of the GM dealerships, by franchise line, in a GM-defined geographic market area. Currently, we own 24 GM dealership franchises. Additionally, our current agreement with GM does not include Saturn dealerships and any future acquisition of a Saturn dealership will be subject to GM approval on a case-by-case basis.

NISSAN / INFINITI. Nissan currently limits the number of dealerships that we may own up to a maximum number of dealerships that would equal 5% of Nissan's (or Infiniti's, as applicable) aggregate national annual vehicle registrations. In addition, Nissan restricts the number of dealerships that we may own in any Nissan-defined region to 20% of the aggregate regional registrations for the applicable area. Currently we own 10 Nissan franchises and one Infiniti franchise, representing approximately 1.3% of the combined national vehicle registrations for Nissan and Infiniti.

MANUFACTURERS' RESTRICTIONS COULD NEGATIVELY IMPACT OUR ABILITY TO OBTAIN CERTAIN TYPES OF FINANCINGS.

Provisions in our agreements with our manufacturers may restrict, in the future, our ability to obtain certain types of financing. A number of our manufacturers prohibit pledging the stock of their franchised dealerships. For example, our agreement contains provisions prohibiting pledging the stock of our GM franchised dealerships. Our agreement with Ford permits pledging our Ford franchised dealerships' stock and assets, but only for Ford dealership-related debt. Moreover, our Ford agreement permits our Ford franchised dealerships to guarantee, and to use Ford franchised dealership assets to secure our debt, but only for Ford dealership-related debt. Ford waived that

requirement with respect to our March 1999 and August 2003 senior subordinated notes offerings and the subsidiary guarantees of those notes. Certain of our manufacturers require us to meet certain financial ratios, which, if we fail to meet these ratios the manufacturers may reject proposed acquisitions, and may give them the right to purchase their franchises for fair value.

CERTAIN RESTRICTIONS RELATING TO OUR MANAGEMENT AND OWNERSHIP OF OUR COMMON STOCK COULD DETER PROSPECTIVE ACQUIRERS FROM ACQUIRING CONTROL OF US AND ADVERSELY AFFECT OUR ABILITY TO ENGAGE IN EQUITY OFFERINGS.

As a condition to granting their consent to our previous acquisitions and our initial public offering, some of our manufacturers have imposed other restrictions on us. These restrictions prohibit, among other things:

- any one person, who in the opinion of the manufacturer is unqualified to own its franchised dealership or has interests incompatible with the manufacturer, from acquiring more than a specified percentage of our common stock (ranging from 20% to 50% depending on the particular manufacturer's restrictions) and this trigger level can fall to as low as 5% if another vehicle manufacturer is the entity acquiring the ownership interest or voting rights;

- certain material changes in our business or extraordinary corporate transactions such as a merger or sale of a material amount of our assets;

- the removal of a dealership general manager without the consent of the manufacturer; and

- a change in control of our Board of Directors or a change in management.

Our manufacturers may also impose additional similar restrictions on us in the future. Actions by our stockholders or prospective stockholders that would violate any of the above restrictions are generally outside our control. If we are unable to comply with or renegotiate these restrictions, we may be forced to terminate or sell one or more franchises, which could have a material adverse effect on us. These restrictions may prevent or deter prospective acquirers from acquiring control of us and, therefore, may adversely impact the value of our common stock. These restrictions also may impede our ability to acquire dealership groups, to raise required capital or to issue our stock as consideration for future acquisitions.

IF MANUFACTURERS DISCONTINUE SALES INCENTIVES, WARRANTIES AND OTHER PROMOTIONAL PROGRAMS, OUR RESULTS OF OPERATIONS MAY BE MATERIALLY ADVERSELY AFFECTED.

We depend on our manufacturers for sales incentives, warranties and other programs that are intended to promote dealership sales or support dealership profitability. Manufacturers historically have made many changes to their incentive programs during each year. Some of the key incentive programs include:

- customer rebates;

- dealer incentives on new vehicles;

- below market financing on new vehicles and special leasing terms;

- warranties on new and used vehicles; and

- sponsorship of used vehicle sales by authorized new vehicle dealers.

A discontinuation or change in our manufacturers' incentive programs could adversely affect our business. Moreover, some manufacturers use a dealership's CSI scores as a factor for participating in incentive programs. Failure to comply with the CSI standards could adversely affect our participation in dealership incentive programs, which could have a material adverse effect on us.

OUR MANUFACTURERS REQUIRE US TO MEET CERTAIN IMAGE AND FACILITY GUIDELINES AND TO MAINTAIN MINIMUM WORKING CAPITAL, WHICH MAY REQUIRE US TO DIVERT FINANCIAL RESOURCES FROM USES THAT MANAGEMENT BELIEVES MAY BE OF BETTER VALUE TO OUR STOCKHOLDERS.

Our franchise agreements specify that, in certain situations, we cannot operate a dealership franchised by another manufacturer in the same building as that manufacturer's franchised dealership. In addition, some manufacturers, like GM, are in the process of realigning their franchised dealerships along defined "channels," such as combining Pontiac, Buick and GMC in one dealership location. As a result, GM, as well as other manufacturers, may require us to move or sell some dealerships.

Our manufacturers generally require that the dealership premises meet defined image and facility standards and may direct us to implement costly capital improvements to dealerships as a condition for renewing certain franchise agreements. All of these requirements could impose significant capital expenditures on us in the future. We anticipate spending approximately $0.6 million in 2005 in connection with various manufacturers' required imaging projects and approximately $23.5 million to expand or relocate existing facilities as required by manufacturer facility guidelines.

Pursuant to our franchise agreements, our dealerships are required to maintain a certain minimum working capital, as determined by the manufacturers. This requirement could force us to utilize available capital to maintain manufacturer-required working capital levels at our dealerships thereby limiting our ability to apply profits generated from one subsidiary for use in other subsidiaries or, in some cases, at the parent company.

These factors, either alone or in combination, could cause us to divert our financial resources to capital projects from uses that management believes may be of higher long-term value to us.

OUR SUCCESS DEPENDS UPON THE CONTINUED VIABILITY AND OVERALL SUCCESS OF A LIMITED NUMBER OF MANUFACTURERS.

Toyota / Lexus, Ford, DaimlerChrysler, Nissan / Infiniti and GM dealerships represented approximately 84.1% of our total new vehicle retail sales in 2004. As a result, demand for these manufacturers' vehicles, as well as the financial condition, management, marketing, production and distribution capabilities, reputation and labor relations of these manufacturers may have a substantial affect our business. Events such as labor disputes and other production disruptions that adversely affect one of these manufacturers may also have a material adverse affect on us. Similarly, the late delivery of vehicles from manufacturers, which sometimes occurs during periods of new product introductions, can lead to reduced sales during those periods. Moreover, any event that causes adverse publicity involving any of our manufacturers may have an adverse effect on us regardless of whether such event involves any of our dealerships. Additionally, the inability of a manufacturer to continue operations will not only impact our vehicle sales and profitability, but could also result in the partial or complete impairment, and a corresponding write-down, of our recorded goodwill and/or intangible franchise rights.

GROWTH IN OUR REVENUES AND EARNINGS WILL BE IMPACTED BY OUR ABILITY TO ACQUIRE AND SUCCESSFULLY INTEGRATE AND OPERATE DEALERSHIPS.

Growth in our revenues and earnings depends substantially on our ability to acquire and successfully integrate and operate dealerships. We cannot guarantee that we will be able to identify and acquire dealerships in the future. In addition, we cannot guarantee that any acquisitions will be successful or on terms and conditions consistent with past acquisitions. Restrictions by our manufacturers, as well as covenants contained in our debt instruments, may directly or indirectly limit our ability to acquire additional dealerships. In addition, increased competition for acquisitions may develop, which could result in fewer acquisition opportunities available to us and/or higher acquisition prices. Some of our competitors may have greater financial resources than us.

We will continue to need substantial capital in order to acquire additional automobile dealerships. In the past, we have financed these acquisitions with a combination of cash flow from operations, proceeds from borrowings under our credit facility, bond issuances, stock offerings, and the issuance of our common stock to the sellers of the acquired dealerships.

We currently intend to finance future acquisitions by using cash and issuing shares of our common stock as partial consideration for acquired dealerships. The use of common stock as consideration for acquisitions will depend on three factors: (1) the market value of our common stock at the time of the acquisition, (2) the willingness of potential acquisition candidates to accept common stock as part of the consideration for the sale of their businesses, and (3) our determination of what is in our best interests. If potential acquisition candidates are unwilling to accept our common stock, we will rely solely on available cash or proceeds from debt or equity financings, which could adversely affect our acquisition program. Accordingly, our ability to make acquisitions could be adversely affected if the price of our common stock is depressed.

In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management's attention, delays, or other operational or financial problems. Acquisitions involve a number of special risks, including:

- incurring significantly higher capital expenditures and operating expenses;

- failing to integrate the operations and personnel of the acquired dealerships;

- entering new markets with which we are not familiar;

- incurring undiscovered liabilities at acquired dealerships;

- disrupting our ongoing business;

- failing to retain key personnel of the acquired dealerships;

- impairing relationships with employees, manufacturers and customers; and

- incorrectly valuing acquired entities,

some or all of which could have a material adverse effect on our business, financial condition, cash flows and results of operations. Although we conduct what we believe to be a prudent level of investigation regarding the operating

condition of the businesses we purchase in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses.

Acquired entities may subject us to unforeseen liabilities that we are unable to detect prior to completing the acquisition or liabilities that turn out to be greater than those we had expected. These liabilities may include liabilities that arise from non-compliance with environmental laws by prior owners for which we, as a successor owner, will be responsible. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.

IF STATE DEALER LAWS ARE REPEALED OR WEAKENED, OUR DEALERSHIPS WILL BE MORE SUSCEPTIBLE TO TERMINATION, NON-RENEWAL OR RENEGOTIATION OF THEIR FRANCHISE AGREEMENTS.

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or nonrenewal. Some state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or nonrenewal. Though unsuccessful to date, manufacturers' lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealers to renew their franchise agreements upon expiration.

In addition, these state dealer laws restrict the ability of automobile manufacturers to directly enter the retail market in the future. If manufacturers obtain the ability to directly retail vehicles and do so in our markets, such competition could have a material adverse effect on us.

IF WE LOSE KEY PERSONNEL OR ARE UNABLE TO ATTRACT ADDITIONAL QUALIFIED PERSONNEL, OUR BUSINESS COULD BE ADVERSELY AFFECTED BECAUSE WE RELY ON THE INDUSTRY KNOWLEDGE AND RELATIONSHIPS OF OUR KEY PERSONNEL.

We believe our success depends to a significant extent upon the efforts and abilities of our executive officers, senior management and key employees, including the principals of our dealerships. Additionally, our business is dependent upon our ability to continue to attract and retain qualified personnel, such as managers, as well as our ability to retain the senior management of acquired dealerships. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. We do not have employment agreements with most of our dealership general managers and other key dealership personnel.

The unexpected or unanticipated loss of the services of one or more members of our senior management team could have a material adverse effect on us and materially impair the efficiency and productivity of our operations. We do not have key man insurance for any of our executive officers or key personnel. In addition, the loss of any of our key employees or the failure to attract qualified managers could have a material adverse effect on our business and may materially impact the ability of our dealerships to conduct their operations in accordance with our national standards.

THE IMPAIRMENT OF OUR GOODWILL, OUR INDEFINITE-LIVED INTANGIBLES AND OUR OTHER LONG-LIVED ASSETS HAS HAD, AND MAY HAVE IN THE FUTURE, A MATERIAL ADVERSE EFFECT ON OUR REPORTED RESULTS OF OPERATIONS.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we assess goodwill and other indefinite-lived intangibles for impairment on an annual basis, or more frequently when events or circumstances indicate that an impairment may have occurred. We also assess the carrying value of our other long-lived assets, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," when events or circumstances indicate that an impairment may have occurred. Based on the organization and management of our business, we have determined that each of our platforms currently qualify as reporting units for the purpose of assessing goodwill for impairment. However, we are required to evaluate the carrying value of our indefinite-lived, intangible franchise rights at a dealership level.

To determine the fair value of our reporting units in assessing the carrying value of our goodwill for impairment, we use a discounted cash flow approach. Included in this analysis are assumptions regarding revenue growth rates, future gross margin estimates, future selling, general and administrative expense rates and our weighted average cost of capital. We also must estimate residual values at the end of the forecast period and future capital expenditure requirements. Each of these assumptions requires us to use our knowledge of (1) our industry, (2) our recent transactions, and (3) reasonable performance expectations for our operations. If any one of the above assumptions changes, in some cases insignificantly, or fails to materialize, the resulting decline in our estimated fair

value could result in a material impairment charge to the goodwill associated with the applicable platform(s), especially with respect to those platforms acquired prior to July 1, 2001.

To test the carrying value of each individual franchise right for impairment, we also use a discounted cash flow based approach. Included in this analysis are assumptions, at a dealership level, regarding revenue growth rates, future gross margin estimates and future selling, general and administrative expense rates. Using our weighted average cost of capital, estimated residual values at the end of the forecast period and future capital expenditure requirements, we calculate the fair value of each dealership's franchise rights after considering estimated values for tangible assets, working capital and workforce. If any one of the above assumptions changes, in some cases insignificantly, or fails to materialize, the resulting decline in our estimated fair value could result in a material impairment charge to the intangible franchise right associated with the applicable dealership.

CHANGES IN INTEREST RATES COULD ADVERSELY IMPACT OUR PROFITABILITY.

All of the borrowings under our various credit facilities bear interest based on a floating rate. Therefore, our interest expenses will rise with increases in interest rates. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because many of our customers finance their vehicle purchases. As a result, rising interest rates may have the effect of simultaneously increasing our costs and reducing our revenues. We receive credit assistance from certain automobile manufacturers, which is reflected as a reduction in cost of sales on our statements of operations. Please see "Quantitative and Qualitative Disclosures about Market Risk" for a discussion regarding our interest rate sensitivity.

A DECLINE OF AVAILABLE FINANCING IN THE SUB-PRIME LENDING MARKET HAS, AND MAY CONTINUE TO, ADVERSELY AFFECT OUR SALES OF USED VEHICLES.

A significant portion of vehicle buyers, particularly in the used car market, finance their purchases of automobiles. Sub-prime lenders have historically provided financing for consumers who, for a variety of reasons including poor credit histories and lack of a down payment, do not have access to more traditional finance sources. Our recent experience suggests that sub-prime lenders have tightened their credit standards and may continue to apply these higher standards in the future. This has adversely affected our used vehicle sales. If sub-prime lenders continue to apply these higher standards, if there is any further tightening of credit standards used by sub-prime lenders, or if there is any additional decline in the overall availability of credit in the sub-prime lending market, the ability of these consumers to purchase vehicles could be limited, which could have a material adverse effect on our used car business, revenues, cash flows and profitability.

OUR INSURANCE DOES NOT FULLY COVER ALL OF OUR OPERATIONAL RISKS, AND CHANGES IN THE COST OF INSURANCE OR THE AVAILABILITY OF INSURANCE COULD MATERIALLY INCREASE OUR INSURANCE COSTS OR RESULT IN A DECREASE IN OUR INSURANCE COVERAGE.

The operation of automobile dealerships is subject to compliance with a wide range of laws and regulations and is subject to a broad variety of risks. While we have insurance on our real property, comprehensive coverage for our vehicle inventory, general liability insurance, workers' compensation insurance, employee dishonesty coverage, employment practices liability insurance, pollution coverage and errors and omissions insurance in connection with vehicle sales and financing activities, we are self-insured for a portion of our potential liabilities. Additionally, changes in the cost of insurance or the availability of insurance in the future could substantially increase our costs to maintain our current level of coverage or could cause us to reduce our insurance coverage and increase the portion of our risks that we self-insure.

WE ARE SUBJECT TO A NUMBER OF RISKS ASSOCIATED WITH IMPORTING INVENTORY.

A portion of our new vehicle business involves the sale of vehicles, vehicle parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to customary risks associated with imported merchandise, including fluctuations in the value of currencies, import duties, exchange controls, differing tax structures, trade restrictions, transportation costs, work stoppages and general political and economic conditions in foreign countries.

The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs on imported merchandise. Any of those impositions or adjustments could affect our operations and our ability to purchase imported vehicles and parts at reasonable prices, which could have an adverse effect on our business.

THE SEASONALITY OF THE AUTOMOBILE RETAIL BUSINESS MAGNIFIES THE IMPORTANCE OF OUR SECOND AND THIRD QUARTER RESULTS.

The automobile industry experiences seasonal variations in revenues. Demand for automobiles is generally lower during the winter months than in other seasons, particularly in regions of the United States with harsh winters. A higher amount of vehicle sales generally occurs in the second and third fiscal quarters of each year due in part to weather-related factors, consumer buying patterns, the historical timing of major manufacturer incentive programs, and the introduction of new vehicle models. Therefore, if conditions surface in the second or third quarters that depress or affect automotive sales, such as major geopolitical events, high fuel costs, depressed economic conditions or similar adverse conditions, our revenues for the year will be disproportionately adversely affected. Our dealerships located in the northeastern states are affected by seasonality more than our dealerships in other regions.

OUR BUSINESS AND THE AUTOMOTIVE RETAIL INDUSTRY IN GENERAL ARE SUSCEPTIBLE TO ADVERSE ECONOMIC CONDITIONS, INCLUDING CHANGES IN CONSUMER CONFIDENCE, FUEL PRICES AND CREDIT AVAILABILITY, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, REVENUES AND PROFITABILITY.

We believe the automotive retail industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, interest rates, fuel prices, unemployment rates and credit availability. Historically, unit sales of motor vehicles, particularly new vehicles, have been cyclical, fluctuating with general economic cycles. During economic downturns, retail new vehicle sales typically experience periods of decline characterized by oversupply and weak demand. Although incentive programs initiated by manufacturers in late 2001 abated these historical trends, the automotive retail industry may experience sustained periods of decline in vehicle sales in the future. Any decline or change of this type could have a material adverse effect on our business, revenues, cash flows and profitability.

In addition, local economic, competitive and other conditions affect the performance of our dealerships. Our revenues, cash flows and profitability depend substantially on general economic conditions and spending habits in those regions of the United States where we maintain most of our operations.

SUBSTANTIAL COMPETITION IN AUTOMOTIVE SALES AND SERVICES MAY ADVERSELY AFFECT OUR PROFITABILITY DUE TO OUR NEED TO LOWER PRICES TO SUSTAIN SALES AND PROFITABILITY.

The automotive retail industry is highly competitive. Depending on the geographic market, we compete with:

- franchised automotive dealerships in our markets that sell the same or similar makes of new and used vehicles that we offer, occasionally at lower prices than we do;

- other national or regional affiliated groups of franchised dealerships;

- private market buyers and sellers of used vehicles;

- Internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;

- service center chain stores; and

- independent service and repair shops.

We also compete with regional and national vehicle rental companies that sell their used rental vehicles. In addition, automobile manufacturers may directly enter the retail market in the future, which could have a material adverse effect on us. As we seek to acquire dealerships in new markets, we may face significant competition as we strive to gain market share. Some of our competitors have greater financial, marketing and personnel resources and lower overhead and sales costs than we have. We do not have any cost advantage in purchasing new vehicles from vehicle manufacturers and typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles. Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues and profitability may be materially and adversely affected if competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply our dealerships.

In addition to competition for vehicle sales, our dealerships compete with franchised dealerships to perform warranty repairs and with other automotive dealers, franchised and independent service center chains and independent garages for non-warranty repair and routine maintenance business. Our dealerships compete with other automotive dealers, service stores and auto parts retailers in their parts operations. We believe that the principal competitive factors in service and parts sales are the quality of customer service, the use of factory-approved replacement parts, familiarity with a manufacturer's brands and models, convenience, the competence of technicians, location, and price. A number of regional or national chains offer selected parts and services at prices that may be lower than our dealerships' prices. We also compete with a broad range of financial institutions in arranging financing for our customers' vehicle purchases.

Some automobile manufacturers have in the past acquired and may in the future attempt to acquire automotive dealerships in certain states. Our revenues and profitability could be materially adversely affected by the efforts of manufacturers to enter the retail arena.

In addition, the Internet is becoming a significant part of the sales process in our industry. We believe that customers are using the Internet as part of the sales process to compare pricing for cars and related finance and insurance services, which may reduce gross profit margins for new and used cars and profits for related finance and insurance services. Some websites offer vehicles for sale over the Internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, or if dealerships are able to effectively use the Internet to sell outside of their markets, our business could be materially adversely affected. We would also be materially adversely affected to the extent that Internet companies acquire dealerships or align themselves with our competitors' dealerships.

Please see "Business -- Competition" for more discussion of competition in our industry.

DUE TO THE NATURE OF THE AUTOMOTIVE RETAILING BUSINESS, WE MAY BE INVOLVED IN LEGAL PROCEEDINGS OR SUFFER LOSSES THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

We will continue to be involved in legal proceedings in the ordinary course of business. A significant judgment against us, the loss of a significant license or permit or the imposition of a significant fine could have a material adverse effect on our business, financial condition and future prospects. In addition, it is possible that we could suffer losses at individual dealerships due to fraud or theft.

OUR AUTOMOTIVE DEALERSHIPS ARE SUBJECT TO SUBSTANTIAL REGULATION WHICH MAY ADVERSELY AFFECT OUR PROFITABILITY AND SIGNIFICANTLY INCREASE OUR COSTS IN THE FUTURE.

A number of state and federal laws and regulations affect our business. We are also subject to laws and regulations relating to business corporations generally. In every state in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales, finance and insurance-related licenses issued by state authorities. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include state franchise laws and regulations and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to federal truth-in-lending, consumer leasing and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws and regulations. Some states regulate finance fees and charges that may be paid as a result of vehicle sales. Claims arising out of actual or alleged violations of law may be asserted against us or our dealerships by individuals or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct dealership operations and fines.

Our operations are also subject to the National Traffic and Motor Vehicle Safety Act, the Magnusson-Moss Warranty Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to U.S. customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

Our operations are subject to consumer protection laws known as Lemon Laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require various written disclosures to be provided on new vehicles, including mileage and pricing information.

Possible penalties for violation of any of these laws or regulations include revocation or suspension of our licenses and civil or criminal fines and penalties. In addition, many laws may give customers a private cause of action. Violation of these laws, the cost of compliance with these laws, or changes in these laws could result in adverse financial consequences to us.

OUR AUTOMOTIVE DEALERSHIPS ARE SUBJECT TO FEDERAL, STATE AND LOCAL ENVIRONMENTAL REGULATIONS THAT MAY RESULT IN CLAIMS AND LIABILITIES, WHICH COULD BE MATERIAL.

We are subject to a wide range of federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the operation and removal of underground and aboveground storage tanks, the use, handling, storage and disposal of hazardous substances and other materials and the investigation and remediation of contamination. As with automotive dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous materials or wastes and other environmentally sensitive materials. Operations involving the management of hazardous and non-hazardous materials are subject to requirements of the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. Most of our dealerships utilize aboveground storage tanks, and to a lesser extent underground storage tanks, primarily for petroleum-based products. Storage tanks are subject to periodic testing, containment, upgrading and removal under RCRA and its state law counterparts. Clean-up or other remedial action may be necessary in the event of leaks or other discharges from storage tanks or other sources. We may also have liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the Comprehensive Environmental Response, Compensation and Liability Act, and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations.

Soil and groundwater contamination is known to exist at some of our current or former properties. Further, environmental laws and regulations are complex and subject to change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. In connection with our dispositions, or prior dispositions made by companies we acquire, we may retain exposure for environmental costs and liabilities, some of which may be material. We may be required to make material additional expenditures to comply with existing or future laws or regulations, or as a result of the future discovery of environmental conditions. Please see "Business -- Governmental Regulations -- Environmental, Health and Safety Laws and Regulations" for a discussion of the effect of such regulations on us.

CHANGES IN ACCOUNTING ESTIMATES COULD ADVERSELY IMPACT OUR PROFITABILITY.

We are required to make estimates and assumptions in the preparation of financial statements in conformity with accounting principles generally accepted in the United States. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Policies and Accounting Estimates" for a discussion of what we believe are our critical accounting policies and accounting estimates.

OUR SIGNIFICANT INDEBTEDNESS AND LEASE OBLIGATIONS COULD MATERIALLY ADVERSELY AFFECT OUR FINANCIAL HEALTH, LIMIT OUR ABILITY TO FINANCE FUTURE ACQUISITIONS AND CAPITAL EXPENDITURES, AND PREVENT US FROM FULFILLING OUR FINANCIAL OBLIGATIONS.

As of December 31, 2004, our total outstanding indebtedness and lease and other obligations were approximately $1,711.2 million, including the following:

- $632.6 million under the floorplan portion of our revolving credit facility;

- $562.3 million of future commitments under various operating leases;

- $195.5 million under our Ford Motor Credit floorplan facility;

- $144.7 million in 8-1/4% senior subordinated notes due 2013;

- $90.5 million under the acquisition portion of our revolving credit facility; and

- $85.6 million of other short- and long-term commitments.

As of December 31, 2004, we had approximately $136.7 million available for additional borrowings under the floorplan portion of our revolving credit facility, $72.3 million available for additional borrowings under the acquisition portion of our revolving credit facility, and $104.5 million available for additional borrowings under the Ford Motor Credit floorplan facility. In addition, the indenture relating to our senior subordinated notes and other debt instruments allow us to incur additional indebtedness and enter into additional operating leases.

Our significant amount of indebtedness and lease obligations could have important consequences to us, including the following:

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- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;

- a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness and the payment of lease obligations, thereby reducing the funds available to us for our operations and other purposes;

- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates; and

- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

In addition, our debt instruments contain numerous covenants that limit our discretion with respect to business matters, including mergers or acquisitions, paying dividends, incurring additional debt, making capital expenditures or disposing of assets. A breach of any of these covenants could result in a default under the applicable agreement or indenture. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures under the cross default provisions in those agreements or indentures. If a default or cross default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

OUR STOCKHOLDER RIGHTS PLAN AND OUR CERTIFICATE OF INCORPORATION AND BYLAWS CONTAIN PROVISIONS THAT MAKE A TAKEOVER OF GROUP 1 DIFFICULT.

Our stockholder rights plan and certain provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of Group 1, even if such change of control would be beneficial to our stockholders. These include provisions:

- providing for a board of directors with staggered, three-year terms, permitting the removal of a director from office only for cause;

- allowing only the board of directors to set the number of directors;

- requiring super-majority or class voting to affect certain amendments to our certificate of incorporation and bylaws;

- limiting the persons who may call special stockholders' meetings;

- limiting stockholder action by written consent;

- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholders' meetings; and

- allowing our board of directors to issue shares of preferred stock without stockholder approval.

Certain of our franchise agreements prohibit the acquisition of more than a specified percentage of our common stock without the consent of the relevant manufacturer. These terms of our franchise agreements could also make it more difficult for a third party to acquire control of Group 1.

INTERNET WEB SITE AND AVAILABILITY OF PUBLIC FILINGS

Our Internet address is www.group1auto.com. We make the following information available free of charge on our Internet Web site:

- Annual Report on Form 10-K;
- Quarterly Reports on Form 10-Q;
- Current Reports on Form 8-K;
- Amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
- Corporate Governance Guidelines;
- Charters for our Audit, Compensation and Nominating/Governance Committees;
- Code of Conduct for Directors, Officers and Employees; and
- Code of Ethics for our Chief Executive Officer, Chief Financial Officer, Controller, and all of our financial and accounting officers.

We make our SEC filings available on our Web site as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We make our SEC filings available via a link to our filings on the SEC Web site. The above information is available in print to anyone who requests it.

ITEM 2. PROPERTIES

We use a number of facilities to conduct our dealership operations. Each of our dealerships may include facilities for (1) new and used vehicle sales, (2) vehicle service operations, (3) retail and wholesale parts operations, (4) collision service operations, (5) storage, and (6) general office use. We try to structure our operations so as to avoid the ownership of real property. In connection with our acquisitions, we generally seek to lease rather than acquire the facilities on which the acquired dealerships are located. We generally enter into lease agreements with respect to such facilities that have 30-year total terms with 15-year initial terms and three five-year option periods, at our option. As a result, we lease the majority of our facilities under long-term operating leases.

ITEM 3. LEGAL PROCEEDINGS

From time to time, our dealerships are named as defendants in claims involving the manufacture or sale of automobiles, contractual disputes, and other matters arising in the ordinary course of business.

The Texas Automobile Dealers Association, or TADA, and certain new vehicle dealerships in Texas that are members of TADA, including a number of our Texas dealership subsidiaries, have been named as defendants 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 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 action. 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. The defendants notified the U.S Supreme Court that they would not respond to the writ unless requested to do so by the Court. Also in February 2005, settlement discussions with the plaintiffs in the three cases culminated in formal settlement offers pursuant to which we could settle the state and federal cases. We have not entered into the settlements at this time, and, if we do, the settlements will be contingent upon court approval. The proposed settlements contemplate our dealerships issuing certificates for discounts off future vehicle purchases, refunding cash in some circumstances, and paying attorneys' fees and certain costs. Dealers participating in the settlements would agree to certain disclosures regarding inventory tax charges when itemizing such charges on customer invoices. If we do not enter into the settlements, or if the settlements are not approved, we will continue to vigorously assert available defenses in connection with these lawsuits. While we do not believe this litigation will have a material adverse effect on our financial condition or results of operations, 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.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock is listed on the New York Stock Exchange under the symbol "GPI." There were 104 holders of record of our common stock as of February 28, 2005.

The following table presents the quarterly high and low sales prices for our common stock for 2003 and 2004, as reported on the New York Stock Exchange Composite Tape under the symbol "GPI."

	HIGH	LOW
2003:		
First Quarter..............	$ 27.35	$ 19.91
Second Quarter.............	33.94	20.80

Third Quarter..............	40.19	32.17
Fourth Quarter.............	39.04	31.60
2004:		
First Quarter..............	$ 38.74	$ 34.30
Second Quarter.............	37.83	29.18
Third Quarter..............	33.27	26.32
Fourth Quarter.............	31.70	26.49

We have never declared or paid dividends on our common stock. Generally, we have retained earnings to finance the development and expansion of our business. Any decision to pay dividends will be made by our Board of Directors after considering our results of operations, financial condition, cash flows, capital requirements, outlook for our business, general business conditions and other factors.

Provisions of our credit facilities and our senior subordinated notes require us to maintain certain financial ratios and limit the amount of disbursements we may make outside the ordinary course of business. These include limitations on the payment of cash dividends and on stock repurchases, which are limited to a percentage of cumulative net income.

EQUITY COMPENSATION PLANS

We disclose information regarding our equity compensation plans as of December 31, 2004, in Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical financial data as of December 31, 2004, 2003, 2002, 2001 and 2000, and for the five years in the period ended December 31, 2004 have been derived from our audited financial statements, subject to certain reclassifications to make prior years' conform to the current year presentation. This selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K/A.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date we acquired them. As a result of the effects of our acquisitions and other potential factors in the future, the historical financial information described in the selected financial data is not necessarily indicative of the results of operations and financial position of Group 1 in the future or the results of operations and financial position that would have resulted had such acquisitions occurred at the beginning of the periods presented in the selected financial data.

YEAR ENDED DECEMBER 31,			
2004	2003	2002	2001
(dollars in thousands, except per share amou			

INCOME STATEMENT DATA:				
Revenues	$ 5,435,033	$ 4,518,560	$ 4,214,364	$ 3,996,37
Cost of sales	4,603,267	3,795,149	3,562,069	3,389,12
Gross profit	831,766	723,411	652,295	607,25
Selling, general and administrative expenses	672,068	561,698	503,066	