

GROUP 1 AUTOMOTIVE INC

Form DEF 14A

April 20, 2005

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**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

**GROUP 1 AUTOMOTIVE, INC.**

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(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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April 22, 2005

Dear Fellow Stockholder:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders of Group 1 Automotive, Inc. to be held at 10:00 a.m., central time, on Wednesday, May 18, 2005, at JPMorgan Chase, Mezzanine Level, 707 Travis Street, Houston, Texas.

The matters to be acted on at the meeting are set forth in the accompanying Notice of Annual Meeting and Proxy Statement. Additionally, we will report on the business and financial performance of Group 1.

It is important that your shares are represented at the meeting, whether or not you plan to attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to submit a proxy containing your voting instructions, as soon as possible, by telephone, through the Internet, or by signing, dating and mailing your proxy card, each in the manner described in the accompanying Proxy Statement. Our Board of Directors recommends that stockholders vote FOR each of the matters described in the proxy statement to be presented at the meeting.

We look forward to seeing you on May 18<sup>th</sup> at our Annual Meeting in Houston.

Sincerely,

John L. Adams  
Chairman of the Board

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Houston, Texas

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**Wednesday, May 18, 2005**

To the Stockholders of Group 1 Automotive, Inc.:

The Annual Meeting of Stockholders of Group 1 Automotive, Inc. will be held on Wednesday, May 18, 2005, at 10:00 a.m., central time, at JPMorgan Chase, Mezzanine Level, 707 Travis Street, Houston, Texas. At the meeting, we will consider and vote upon the following matters:

- (1) The election of two directors to serve until the 2008 Annual Meeting of Stockholders;
- (2) The ratification of the appointment by the Audit Committee of Ernst & Young LLP as independent auditors of Group 1 for the year ended December 31, 2005; and
- (3) The consideration of any other business that is properly presented at the meeting or any adjournments or postponements of the meeting.

If you were a stockholder at the close of business on March 21, 2005, you are entitled to vote at the meeting. A list of stockholders is available and may be inspected during normal business hours prior to the annual meeting at the offices of Group 1, 950 Echo Lane, Suite 100, Houston, Texas 77024. The list of stockholders will also be available for your review at the annual meeting. In the event there are not sufficient votes for a quorum or to approve the forgoing proposals at the time of the annual meeting, the annual meeting may be adjourned in order to permit further solicitation of proxies.

We cordially invite you to attend the annual meeting in person. **Even if you plan to attend the meeting, we ask that you cast your vote as soon as possible.** You may vote your shares in person at the meeting, by telephone, through the Internet or by mailing in a proxy card, each in the manner described in the accompanying proxy statement. You may revoke your proxy at any time prior to its exercise.

By Order of the Board of Directors,

Jeffrey M. Cameron  
*Secretary*

Houston, Texas  
April 22, 2005

**IMPORTANT**

**Please VOTE by proxy card, telephone or Internet  
whether or not you plan to attend the meeting.**

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950 Echo Lane, Suite 100  
Houston, TX 77024

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**PROXY STATEMENT**

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These proxy materials are furnished to you in connection with the solicitation of proxies by the Board of Directors of Group 1 Automotive, Inc. for use at our 2005 Annual Meeting of Stockholders and at any adjournment of that meeting. The meeting will be held at JPMorgan Chase, Mezzanine Level, 707 Travis Street, Houston, Texas, on Wednesday, May 18, 2005, at 10:00 a.m., central time. This proxy statement and the enclosed proxy card are being mailed to stockholders beginning on or about April 22, 2005. Because many stockholders are unable to attend the meeting, our Board of Directors solicits proxies from our stockholders to ensure that each stockholder has an opportunity to vote on all matters scheduled to come before the meeting. We urge you to read carefully the material in this proxy statement.

**ABOUT THE ANNUAL MEETING**

**What is the purpose of the meeting?**

At our annual meeting, stockholders will act upon the matters outlined in the notice of meeting, including the election of directors, the ratification of Ernst & Young LLP as our independent auditors and consideration of any other matters properly presented at the meeting. In addition, senior management will report on our business and financial performance during fiscal 2004 and respond to your questions.

**Who is entitled to vote at the meeting?**

Only our stockholders as of 5:00 p.m., central time, on March 21, 2005, the record date, are entitled to receive notice of the annual meeting and to vote at the meeting. On March 21, 2005, there were 23,521,169 shares of Group 1 common stock issued and outstanding and entitled to vote at the meeting.

**How many votes can I cast?**

You are entitled to one vote for each share of Group 1 common stock you owned at 5:00 p.m., central time, on March 21, 2005 on all matters presented at the meeting.

**How do I vote my shares?**

If you hold your shares as a stockholder of record, you can vote in person at the annual meeting or you can provide a proxy to be voted at the meeting by:

calling 1-866-540-5760;

using the Internet, at [www.proxyvoting.com/gpi](http://www.proxyvoting.com/gpi); or

mailing the enclosed proxy card.

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If you are a stockholder of record and you would like to vote by telephone or by using the Internet, please refer to the specific instructions set forth on the enclosed proxy card. Voting by telephone or by the Internet is expressly permitted in Delaware, our state of incorporation. The telephone and Internet voting procedures have been set up for your convenience and have been designed to authenticate your identity, allow you to give voting instructions and confirm that those instructions have been recorded properly. If you wish to vote using a paper format and you return your signed proxy to us before the annual meeting, we will vote your shares as you direct.

If you choose to submit your proxy with voting instructions by telephone or through the Internet, you will be required to provide your assigned control number located on the enclosed proxy card before your proxy will be accepted. In addition to the instructions that appear on the enclosed proxy card and information sheet, step-by-step instructions will be provided by recorded telephone message or at the designated Web site on the Internet. Once you have voted in accordance with those instructions, you will receive confirmation that your proxy has been successfully submitted.

If you hold your shares in street name, you will receive instructions from your broker or other nominee describing how to vote your shares. If you do not instruct your broker or nominee how to vote such shares, they may vote your shares as they decide as to each matter for which they have discretionary authority under the rules of the New York Stock Exchange.

If you vote by granting a proxy, Earl J. Hesterberg, Jr., our President and Chief Executive Officer or Robert T. Ray, our Senior Vice President, Chief Financial Officer and Treasurer, will vote the shares of which you are the stockholder of record in accordance with your instructions. If you submit a proxy card without giving specific voting instructions, Messrs. Hesterberg or Ray will vote those shares as recommended by our Board of Directors.

## **What is the difference between a stockholder of record and a street name holder?**

If your shares are registered directly in your name with Mellon Investor Services, LLC, our stock transfer agent, you are considered the stockholder of record with respect to those shares. If your shares are held in a stock brokerage account or by another nominee, you are considered the beneficial owner of those shares, and your shares are held in street name.

## **How do I vote my shares in person at the meeting?**

If you are a stockholder of record, you may vote your shares by completing a ballot at the meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification. Even if you currently plan to attend the annual meeting in person, we recommend that you also submit your proxy as described above so that your vote will be counted if you later decide not to attend the meeting. If you hold your shares in street name, you may only vote those shares in person if you obtain a signed proxy from your broker or other nominee giving you the right to vote the shares.

## **Can I revoke my proxy?**

Yes. You can revoke your proxy at any time before it is exercised by:

submitting written notice of revocation to Jeffrey M. Cameron, Group 1 Automotive, Inc., 950 Echo Lane, Suite 100, Houston, Texas 77024;

submitting another proxy by telephone, via the Internet or by mail that is later dated and, if by mail, that is properly signed; or



attending our meeting and voting your shares in person.

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**What vote is required to approve the election of directors?**

In the election of directors, you may either vote **FOR** the nominees or **WITHHOLD** your vote for the nominees. Abstentions and broker non-votes will have no effect on the outcome of the election of the directors. If a nominee receives a plurality of the votes cast, he will be elected to our Board of Directors.

Abstentions occur when stockholders are present at the annual meeting but choose to withhold their vote for any of the matters upon which the stockholders are voting. Broker non-votes occur when nominees (such as banks and brokers) that hold shares on behalf of beneficial owners do not receive voting instructions from the beneficial owners before the meeting and do not have discretionary authority to vote those shares under the applicable rules of the New York Stock Exchange.

**What vote is required to approve the ratification of the appointment of Ernst & Young LLP as Group 1 s independent auditors?**

In voting on the ratification of the appointment of Ernst & Young LLP as our independent auditors, you may vote **FOR** the ratification, **AGAINST** the ratification or **ABSTAIN** from voting on the ratification. Holders of a majority of the shares of our common stock cast with respect to the proposal must vote **FOR** the ratification of the appointment of Ernst & Young LLP as our independent auditors in order for such ratification to be approved at the annual meeting. Abstentions and broker non-votes are not counted as votes cast with respect to the proposal.

**How does the Board of Directors recommend I vote on the proposals?**

The Board of Directors recommends that you vote:

**FOR** each of the nominees for director set forth on pages 4 and 5; and

**FOR** the ratification of the appointment by the Audit Committee of Ernst & Young LLP as our independent auditors.

**What is a quorum?**

A quorum is the presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock as of the record date. There must be a quorum for the meeting to be held. If you submit a valid proxy card, vote by Internet or phone, or attend the meeting, your shares will be counted to determine whether there is a quorum. Abstentions and broker non-votes will be counted toward the quorum.

**May I propose actions for consideration at next year s annual meeting of stockholders or nominate individuals to serve as directors?**

You may submit proposals for consideration at future stockholder meetings, including director nominations. In order for a stockholder proposal, including a director nomination, to be considered for inclusion in our proxy statement for next year s annual meeting, the written proposal must be received by us no later than December 23, 2005. In addition, for a stockholder proposal, including a director nomination, to be considered at next year s annual meeting, the written proposal must be received by us no earlier than February 17, 2006 and no later than March 9, 2006. Please read *Stockholder Proposals for 2006 Annual Meeting* on page 34 for a more detailed discussion of the requirements for submitting a stockholder proposal for consideration at next year s annual meeting.

**Table of Contents****ITEM 1 - ELECTION OF DIRECTORS**

Our Restated Certificate of Incorporation provides for a classified Board of Directors. The directors are divided into three classes, with each class serving for a period of three years. As a result, the stockholders elect approximately one-third of the members of our Board of Directors annually. You are being asked to elect two Class III directors at this annual meeting to serve until the 2008 annual meeting, until his successor is elected and qualified or until the earlier of his death, resignation or removal. The term for our Class I directors expires in 2006, and the term for our Class II directors expires in 2007.

In accordance with our bylaws, the two nominees who receive the greatest number of votes cast for election by our stockholders will be elected as directors. As a result, abstentions, votes **WITHHELD**, and broker non-votes will have no effect on the outcome of the election of directors, assuming a quorum is present or represented by proxy at the annual meeting. Stockholders may not cumulate their votes in the election of our directors.

Unless otherwise instructed or unless authority to vote is withheld, the enclosed proxy will be voted for the election of the nominees listed in this proxy statement. We have no reason to believe that the nominees will be unable or unwilling to serve if elected. However, if a nominee should become unable or unwilling to serve for any reason, proxies may be voted for another person nominated as a substitute by our Board of Directors, or the Board of Directors may reduce the number of directors.

The following table sets forth certain information, as of the date of this proxy statement, regarding the nominees and the other directors of Group 1.

	<b>Position and Offices with Group 1</b>	<b>Director Since</b>	<b>Age</b>
<b>Class III Nominees</b>			
Louis E. Lataif	Director	2002	66
Stephen D. Quinn	Director	2002	49
<b>Class I Directors</b>			
Earl J. Hesterberg, Jr.	Director, President and Chief Executive Officer	2005	51
B.B. Hollingsworth, Jr. (1)	Director	1996	62
Robert E. Howard II	Director	1997	58
<b>Class II Directors</b>			
John L. Adams	Director, Chairman of the Board	1999	60
J. Terry Strange	Director	2003	61
Max P. Watson, Jr.	Director	2001	59

(1) Mr. Hollingsworth resigned as Chairman of the Board, President and Chief Executive Officer on April 9, 2005.

**BOARD OF DIRECTORS****Nominees for Election to Term Expiring 2008 (Class III Directors)**

*Louis E. Lataif*

Mr. Lataif has served as one of our directors since August 2002. He has served as Dean of the School of Management at Boston University since 1991 following a distinguished 27-year career with Ford Motor Company. While at Ford, he was named General Manager of Ford Division and elected a corporate Vice President, then Ford's youngest officer, and served as President, Ford of Europe from 1988 to 1991. Mr. Lataif serves on the Boards of

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Directors of Sanyo Electric Company, Ltd., an electronic and consumer products manufacturer, and Magna Entertainment Corp., an owner and operator of thoroughbred racetracks. He is also a member of the Boards of Directors of Inter Audi Bank and Great Lakes Chemical Corporation, a producer of specialty and performance chemicals, where he is Chairman of the Audit Committee. Mr. Lataif is a member of the Board of Trustees of the Iacocca Foundation.

### ***Stephen D. Quinn***

Mr. Quinn has served as one of our directors since May 2002. Mr. Quinn joined Goldman, Sachs & Co. in August 1981 where he specialized in Corporate Finance. From 1990 until his retirement in 2001, Mr. Quinn served as a General Partner and Managing Director of Goldman, Sachs & Co. Mr. Quinn also serves on the Board of Directors, the Audit Committee and the Nominating and Governance Committee of Zions Bancorporation and on the Board of Directors and the Audit Committee of American Express Bank, Ltd., a wholly-owned subsidiary of American Express Company.

## **Class I Directors**

### ***Earl J. Hesterberg, Jr.***

Mr. Hesterberg has served as President and Chief Executive Officer of Group 1 since April 9, 2005. Prior to joining Group 1, Mr. Hesterberg served as Group Vice President, North America Marketing, Sales and Service for Ford Motor Company since October 2004. From July 1999 to September 2004, he served as Vice President, Marketing, Sales and Service for Ford of Europe. Mr. Hesterberg has also served as President and Chief Executive Officer of Gulf States Toyota, as well as held various senior sales, marketing, general management, and parts and service positions with Nissan Motor Corporation in U.S.A. and Nissan Europe.

### ***B.B. Hollingsworth, Jr.***

Mr. Hollingsworth, a co-founder of Group 1, has served as one of our directors since August 1996. Mr. Hollingsworth served as our President and Chief Executive Officer from August 1996, and as Chairman of the Board from March 1997, until his resignation from those positions on April 9, 2005. Prior to joining Group 1, Mr. Hollingsworth spent 19 years in various positions with Service Corporation International ( SCI ), which he helped establish as the leading funeral service company in North America. He served as a director and President of SCI from 1975 until his retirement in 1986. Prior to November 1997, Mr. Hollingsworth was a stockholder and director of Foyt Motors, Inc., a Group 1 subsidiary acquired in November 1997. He also serves on The Council of Overseers of Rice University's Jesse H. Jones Graduate School of Management, as a Director on the JPMorgan Chase Houston Regional Advisory Board and on the Board of Directors of the Greater Houston Partnership.

### ***Robert E. Howard II***

Mr. Howard, a co-founder of Group 1, has served as one of our directors since April 1997, and served as President of the Bob Howard Auto Group from November 1997 through November 2002. Mr. Howard has more than 32 years of experience in the automotive retailing industry. In January 2003, Mr. Howard purchased Mercedes-Benz of Oklahoma from us and now serves as a director and President of the dealership, which is unaffiliated with Group 1. From 1969 to 1977, he served in various management positions at franchised dealerships, many of which were acquired by Group 1. He was a recipient of the 1997 Time Magazine Quality Dealer Award and presently serves as a Commissioner of the Oklahoma Motor Vehicle Commission.

## **Class II Directors**

***John L. Adams***

Mr. Adams has served as Chairman of the Board since April 9, 2005 and as one of our directors since November 1999. Mr. Adams has served as Executive Vice President of Trinity Industries, Inc., one of North America's largest manufacturers of transportation, construction and industrial products, since January 1999. He has been elected Vice Chairman effective July 1, 2005. Before joining Trinity Industries, Mr. Adams spent 25 years in various positions

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with Texas Commerce Bank N.A. and its successor, Chase Bank of Texas, National Association. From 1997 to 1998, Mr. Adams was Chairman, President and Chief Executive Officer of Chase Bank of Texas. Mr. Adams serves on the Board of Directors and as Chairman of the Audit Committee of American Express Bank, Ltd., a wholly-owned subsidiary of American Express Company. Mr. Adams serves as Southwest Region Trustee for the Boys & Girls Clubs of America and on the University of Texas Chancellor's Council and Business School Advisory Board, and also serves on the Board of Directors, the Compensation Committee and as Chairman of the Audit Committee of the Children's Medical Center of Dallas.

### ***J. Terry Strange***

Mr. Strange has served as one of our directors since October 2003. In 2002, Mr. Strange retired from KPMG, LLP, an independent accounting firm, where he served from 1996 to 2002 as Vice Chairman, Managing Partner of U.S. Audit Practice and head of KPMG's internal risk management program. From 1998 to 2002, Mr. Strange served as Global Managing Partner of Audit Business and a member of KPMG's International Executive Committee. During his 34-year career at KPMG, his work included interaction with the Financial Accounting Standards Board and the Securities and Exchange Commission, testifying before both bodies on issues impacting the auditing profession and SEC registrants. Mr. Strange serves on the Boards of Directors and the Audit Committees of Compass Bancshares, Inc., a financial institution, New Jersey Resources Corporation, a retail and wholesale energy service provider, and Newfield Exploration Company, an oil and gas exploration and production company. Mr. Strange also serves on the Board of Directors, the Audit Committee and the Compensation Committee of BearingPoint, Inc., a business consulting, systems integration and managed services firm.

### ***Max P. Watson, Jr.***

Mr. Watson has served as one of our directors since May 2001. Mr. Watson served as President and Chief Executive Officer of BMC Software, Inc., one of the world's largest software vendors, from April 1990 to January 2001. He served as Chairman of the Board of BMC from January 1992 to April 2001. Mr. Watson is President of the Board of Trustees of Texas Children's Hospital.

## **OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE NOMINEES FOR DIRECTOR.**

## **CORPORATE GOVERNANCE**

### **Corporate Governance Guidelines**

Our Board of Directors has adopted Corporate Governance Guidelines, which can be viewed on our Web site at [www.group1auto.com](http://www.group1auto.com). Among other matters, the guidelines include the following:

#### ***Director Qualification Standards***

The Nominating/Governance Committee is responsible for establishing criteria for selecting new directors and actively seeking individuals to become directors for recommendation to the Board. This assessment will include members' qualification as independent, as well as consideration of diversity, age, skill and experience in the context of the needs of the Board.

The number of directors that constitutes the Board will be between three and nine. The Board believes that a smaller board generally functions more effectively than a large board as smaller boards generally promote

greater participation by each board member, more effective and efficient decision making and greater individual accountability.

No director may serve on more than four other public company boards.



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***Director Responsibilities***

The basic responsibility of each director is to exercise his or her business judgment to act in what he or she reasonably believes to be in the best interests of Group 1 and its stockholders.

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

Directors are encouraged to attend the annual meeting of stockholders.

***Director Access to Management and Independent Advisors***

The Board and each committee of the Board have the power to hire independent legal, financial or other advisors as they may deem necessary.

The Board has full and free access to the officers and employees of Group 1 and welcomes regular attendance at each Board meeting of senior officers of Group 1.

***Chief Executive Officer Evaluation and Management Succession***

The Compensation Committee will annually review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluate the performance of the Chief Executive Officer in light of those goals and objectives and set the compensation of the Chief Executive Officer.

The Nominating/Governance Committee will meet annually on succession planning.

***Annual Performance Evaluation, Director Orientation and Continuing Education***

The Board will conduct an annual self-evaluation of itself, its committees and each individual director.

All new directors must participate in an orientation program.

The Board will periodically allocate meeting time to receive information and updates on corporate governance issues, director best practices and legal and regulatory changes.

***Code of Ethics for Chief Executive Officer, Chief Financial Officer, Controller and Certain Other Officers***

The Board has adopted a code of ethics for our Chief Executive Officer, our Chief Financial Officer, our Controller and all other financial and accounting officers of Group 1. A copy of this code of ethics can be viewed on our Web site at [www.group1auto.com](http://www.group1auto.com). Any change to, or waiver from, this code of ethics will be disclosed on our Web site within five business days after such change or waiver. Among other matters, this code of ethics requires each of these officers to:

act with honesty and integrity, including the ethical handling of actual or apparent conflicts of interest in personal and professional relations;

avoid conflicts of interest and disclose any material transactions or relationships that reasonably could be expected to give rise to a conflict of interest;

work to ensure that Group 1 fully, fairly and accurately discloses information in a timely and understandable manner in all reports and documents that Group 1 files with the Securities and Exchange Commission and in other public communications made by Group 1;

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comply with applicable governmental laws, rules and regulations; and

report any violations of the code to the Chief Executive Officer and the Chairman of the Audit Committee.

## **Code of Conduct**

The Board has adopted a code of conduct, which sets forth the standards of behavior expected of every employee, director and agent of Group 1. A copy of this code of conduct can be viewed on our Web site at [www.group1auto.com](http://www.group1auto.com). Among other matters, this code of conduct is designed to deter wrongdoing and to promote:

honest and ethical dealing with each other, with clients and vendors of Group 1, and with all other third parties;

respect for the rights of fellow employees and all third parties;

equal opportunity, regardless of age, race, sex, sexual orientation, color, creed, religion, national origin, marital status, veteran status, handicap or disability;

fair dealing with employees and all other third parties with whom Group 1 conducts business;

avoidance of conflicts of interest;

compliance with all applicable laws and regulations;

the safeguarding of Group 1 assets; and

the reporting of any violations of the code to the appropriate officers of Group 1.

## **INFORMATION ABOUT OUR BOARD OF DIRECTORS AND COMMITTEES**

Our Board of Directors held six meetings in 2004. During the year, all directors attended at least 81% of the meetings of the Board of Directors and of the committees on which each served. Under our corporate governance guidelines, our directors are encouraged to attend the annual meeting of our stockholders. All of our directors attended our 2004 annual meeting of stockholders.

## **The Independence of the Members of the Board of Directors**

The Board of Directors has determined that each member of the Board of Directors, other than Messrs. Hesterberg, Hollingsworth and Howard, is independent as that term is defined in the New York Stock Exchange's listing standards.

Max P. Watson, Jr., who is a director and a member of the Compensation Committee, is the brother of John S. Watson who, although not an employee of Group 1, served as our Secretary until his resignation in March 2005. In addition, John Watson had been engaged to provide advisory services to Group 1 from time to time. During the twelve months ended December 31, 2004, Group 1 paid John Watson approximately \$64,375 in fees.

The Board of Directors has determined that Max Watson is independent under the rules of the New York Stock Exchange. In making this decision, the Board considered John Watson's relationship with Group 1. The Board determined that such relationship is not material to the independence of Max Watson based on the following: (i) the relationship is not a direct relationship between Group 1 and Max Watson, but rather a relationship between Group 1 and Max Watson's brother; (ii) the Secretary of Group 1 only performs a ministerial function, and John Watson was neither an executive officer nor an employee of Group 1; (iii) the Board's view, based on Max Watson's service on the

Board since 2001, that Max Watson has demonstrated a history of acting in a manner independent from

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management; (iv) the fact that John Watson has provided legal services to Group 1 (whether as a partner of Vinson & Elkins L.L.P. or as an individual consultant) since Group 1's inception in 1995 and prior to Max Watson's election to the Board; and (v) the fact that the relationship did not implicate any of the New York Stock Exchange's bright line independence disqualifications set forth in Section 303A(2).

Group 1 has in the past, and may, in the future, make donations to various charitable organizations. From time to time, some of our directors, officers and employees have been, and in the future may be, affiliated with such charities. Our Board of Directors has determined that any such affiliations have not impacted the independence of our directors.

**Executive Sessions of the Board of Directors**

The independent directors meet in executive session at each regularly scheduled meeting of the Board of Directors. In addition, the non-management directors meet in executive session at least annually at a regularly scheduled meeting of the Board of Directors. Mr. Adams, our non-executive Chairman of the Board, presides over these meetings and is responsible for preparing an agenda for the meetings of the independent directors or non-management directors in executive session.

**Committees of the Board of Directors**

Our Board of Directors has established three standing committees to assist it in discharging its responsibilities: the Audit Committee, the Compensation Committee and the Nominating/Governance Committee. The following chart reflects the current membership of each of our Board's committees:

Name	Audit Committee	Compensation Committee	Nominating/Governance Committee
John L. Adams	*	*	*
Earl J. Hesterberg, Jr.			
B.B. Hollingsworth, Jr.			
Robert E. Howard II			
Louis E. Lataif	*		*
Stephen D. Quinn	*	*	**
J. Terry Strange	**	*	
Max P. Watson, Jr.		**	*

\* Member

\*\* Chair

**Audit Committee**

Our Audit Committee functions in an oversight role and has the following purposes:

oversee the quality, integrity and reliability of the financial statements and other financial information we provide to any governmental body or the public;

oversee our compliance with legal and regulatory requirements;

oversee our independent auditors' qualifications and independence;

oversee the performance of our internal audit function and independent auditors;

oversee our systems of internal controls regarding finance, accounting, legal compliance and ethics that our management and Board of Directors have established;

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provide an open avenue of communication among our independent auditors, financial and senior management, the internal auditing department, and our Board of Directors, always emphasizing that the independent auditors are accountable to the Audit Committee; and

perform such other functions as our Board of Directors may assign to the Audit Committee from time to time.

In connection with these purposes, the Audit Committee annually selects, engages and evaluates the performance and on-going qualifications of, and determines the compensation for, our independent auditors, reviews our annual and quarterly financial statements, and confirms the independence of our independent auditors. The Audit Committee also meets with our management and external auditors regarding the adequacy of our financial controls and our compliance with legal, tax and regulatory matters and significant Group 1 policies. While the Audit Committee has the responsibilities and powers set forth in its charter, it is not the duty of the Audit Committee to plan or conduct audits, to determine that our financial statements are complete and accurate, or to determine that such statements are in accordance with accounting principles generally accepted in the United States and other applicable rules and regulations. Our management is responsible for the preparation of our financial statements in accordance with accounting principles generally accepted in the United States and our internal controls. Our independent auditors are responsible for the audit work on our financial statements. It is also not the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations and our policies and procedures. Our management is responsible for compliance with laws and regulations and compliance with Group 1 s policies and procedures.

Our Board of Directors has adopted an Audit Committee Charter. The Audit Committee reviewed and recommended an amendment to its charter, which was approved by the Board of Directors at its regularly scheduled meeting in May 2004. A copy of the revised Audit Committee Charter is attached as Exhibit A to this Proxy Statement for your reference and is also posted on our Web site, [www.group1auto.com](http://www.group1auto.com).

During 2004, the Audit Committee met 14 times and consisted of Mr. Adams (Chairman), Mr. Quinn, Mr. Lataif and Mr. Strange. On April 9, 2005, Mr. Strange was appointed Chairman of the Audit Committee, filling the position vacated by Mr. Adams in connection with his appointment as Chairman of the Board. Mr. Strange also serves on the Audit Committees of Compass Bancshares, Inc., New Jersey Resources Corporation, Newfield Exploration Company and BearingPoint, Inc. The Board of Directors has determined that such simultaneous service on these other Audit Committees and our Audit Committee will not impair the ability of Mr. Strange to serve effectively on our Audit Committee.

All members of the Audit Committee are independent as that term is defined in the New York Stock Exchange s listing standards and as that term is defined by Rule 10A-3 promulgated under the Securities Exchange Act of 1934. Our Board of Directors has determined that each member of the Audit Committee is financially literate and that Mr. Strange has the necessary accounting and financial expertise to serve as chairman. Our Board of Directors has determined that Mr. Strange is an audit committee financial expert following a determination that Mr. Strange met the criteria for such designation under the Securities and Exchange Commission rules and regulations. The Audit Committee Report is set forth on pages 15 and 16 of this Proxy Statement.

## **Compensation Committee**

Our Compensation Committee has the following purposes:

review, evaluate, and approve our agreements, plans, policies, and programs to compensate the corporate officers of Group 1;

produce an annual report on executive compensation and to publish the report in our proxy statement for our annual meeting of stockholders;



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otherwise discharge the Board of Directors responsibility relating to compensation of our corporate officers;  
and

perform such other functions as our Board of Directors may assign to the Compensation Committee from time to time.

In connection with these purposes, the Compensation Committee approves the compensation levels and terms of employment for our executive officers, including salary and bonus levels. In addition, the Compensation Committee oversees our incentive compensation, stock purchase and deferred compensation plans. All members of the Compensation Committee are independent as that term is defined in the New York Stock Exchange's listing standards. In May 2004, Mr. Strange was appointed to the Compensation Committee. The Compensation Committee, consisting of Mr. Watson (Chairman), Mr. Adams, Mr. Quinn and Mr. Strange, held nine meetings during fiscal year 2004.

Our Board of Directors has adopted a Compensation Committee Charter, which is posted on our Web site, [www.group1auto.com](http://www.group1auto.com).

The Compensation Committee's Report on Executive Compensation is set forth on pages 18 through 27 of this Proxy Statement.

**Nominating/Governance Committee**

Our Nominating/Governance Committee was formed in November 2002 to serve the following purposes:

assist our Board of Directors by identifying individuals qualified to become members of our Board of Directors and recommend director nominees to our Board of Directors for election at the annual meetings of stockholders or for appointment to fill vacancies;

recommend director nominees to our Board of Directors for each committee of our Board of Directors;

advise our Board of Directors about the appropriate composition of our Board of Directors and its committees;

advise our Board of Directors about and recommend to our Board of Directors appropriate corporate governance practices and assist our Board of Directors in implementing those practices;

lead our Board of Directors in its annual review of the performance of the Board of Directors and its committees;

direct all matters relating to the succession of our Chief Executive Officer;

review and make recommendations to the Board with respect to the form and amount of director compensation;  
and

perform such other functions as our Board of Directors may assign to the Nominating/Governance Committee from time to time.

In connection with these purposes, the Nominating/Governance Committee actively seeks individuals qualified to become members of our Board of Directors, seeks to implement the independence standards required by law, applicable listing standards, our certificate of incorporation or bylaws, and our corporate governance guidelines, and identifies the qualities and characteristics necessary for an effective Chief Executive Officer.



All members of the Nominating/Governance Committee are independent as that term is defined in the New York Stock Exchange's listing standards. The Nominating/Governance Committee, consisting of Mr. Quinn (Chairman), Mr. Adams, Mr. Lataif and Mr. Watson, held four meetings during fiscal year 2004.

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The Nominating/Governance Committee is responsible for establishing criteria for selecting new directors and actively seeking individuals to become directors for recommendation to the Board of Directors. In considering candidates for the Board of Directors, the Nominating/Governance Committee will consider the entirety of each candidate's credentials. There is currently no set of specific minimum qualifications that must be met by a nominee recommended by the Nominating/Governance Committee, as different factors may assume greater or lesser significance at particular times and the needs of the Board of Directors may vary in light of its composition and the committee's perceptions about future issues and needs. However, while the Nominating/Governance Committee does not maintain a formal list of qualifications, in making its evaluation and recommendation of candidates, the committee may consider, among other factors, diversity, age, skill, experience in the context of the needs of the Board of Directors, independence qualifications and whether prospective nominees have relevant business and financial experience, have industry or other specialized expertise, and have high moral character.

The committee may consider candidates for the Board from any reasonable source, including from a search firm engaged by the committee or stockholder recommendations, provided that the procedures set forth below are followed. The Nominating/Governance Committee does not intend to alter the manner in which it evaluates candidates based on whether the candidate is recommended by a stockholder or not. However, in evaluating a candidate's relevant business experience, the committee may consider previous experience as a member of our Board of Directors. Any invitation to join the Board of Directors must be extended by the Board of Directors as a whole, by the Chairman of the Nominating/Governance Committee and by the Chairman of the Board.

Stockholders or a group of stockholders may recommend potential candidates for consideration by the Nominating/Governance Committee by sending a written request to our Secretary at our principal executive offices, 950 Echo Lane, Suite 100, Houston, Texas 77024 not earlier than the 150th calendar day and not later than the 120th calendar day before the first anniversary of the date our proxy statement is released to stockholders in connection with the preceding year's annual meeting. The written request must include the candidate's name, contact information, biographical information and qualifications. The request must also include the potential candidate's written consent to being named in our proxy statement as a nominee and to serving as a director if nominated and elected. The stockholder or group of stockholders making the recommendation must also disclose, with the written request described above, the number of shares of common stock that the stockholder or group beneficially owns and the period of time the stockholder or group has beneficially owned the securities. From time to time, the committee may request additional information from the nominee or the stockholder.

The stockholder recommendation procedures described above do not preclude a stockholder of record from making nominations of directors or making proposals at any annual stockholder meeting; provided that they comply with the requirements described in the section entitled *Stockholder Proposals for 2006 Annual Meeting*.

Our Board of Directors has adopted a Nominating/Governance Committee Charter, which is posted on our Web site, [www.group1auto.com](http://www.group1auto.com).

## **Stock Ownership Guidelines**

In November 2004, our Board of Directors approved certain stock ownership guidelines for our non-employee directors. Under the guidelines, each director is required to maintain ownership of a minimum of 3,000 shares of our common stock. Such minimum ownership is required to be achieved within three years of election to our Board of Directors or, in the case of our current directors, by November 2007. Restricted stock or phantom stock units granted to our directors as part of their annual retainer will count toward such minimum ownership requirement without regard to the vesting or other liquidity provisions related thereto.

## **Director Compensation**

During 2004, the annual retainer fee for our non-employee directors was \$12,000. Our non-employee directors also received \$1,500 for attendance at each Board meeting and \$1,000 for attendance at each committee meeting. The chair of each committee received an additional \$4,000 annual fee for serving in that capacity.

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Effective November 17, 2004, the Board of Directors approved the following changes to the compensation payable to Group 1's non-employee directors:

an annual retainer of (a) \$35,000 in cash and (b) restricted stock or phantom stock units valued at \$60,000 at the time of the grant pursuant to the Group 1 Automotive, Inc. 1996 Stock Incentive Plan;

an additional cash retainer of \$15,000 for the chair of the Audit Committee and for the presiding director, and \$7,500 for the chairs of the Compensation Committee and the Nominating/Governance Committee;

a meeting fee of \$2,500 for each Board and Audit Committee meeting attended, and \$1,500 for each Compensation Committee and Nominating Governance Committee meeting attended; and

the use of one company vehicle, or the economic equivalent, equal to \$17,600 annually, paid quarterly.

In connection with the election of Mr. Adams as Chairman of the Board, the Board of Directors approved the payment of an additional cash retainer of \$100,000 to the non-executive Chairman of the Board. All cash retainer amounts are paid quarterly and all meeting fees are payable on the date of the meeting. As a result of a change approved in March 2005, the equity portion of the annual retainer will be paid annually. Abbreviated meetings, as determined at the discretion of the chair, will result in the payment of one-half of the regular fees for such meeting. Due to the increase in the cash retainer approved at the November 2004 meeting, each of our non-employee directors received an annual cash retainer of \$17,750 in 2004.

Some of our directors have elected to participate in the Group 1 Automotive, Inc. Deferred Compensation Plan. The plan provides select employees and members of our Board of Directors who elect to participate, an opportunity to accumulate additional savings for retirement on a tax-deferred basis. Participants in the plan can choose from various defined investment options in which the deferred compensation is notionally invested. One investment option is a declared interest rate, which was set by the Compensation Committee at 10.0% for 2004 and for 2005. Group 1 has complete discretion over how the deferred funds are utilized and they represent an unsecured obligation of Group 1 to the participants. During 2004, Messrs. Adams, Lataif and Quinn elected to participate in the 10.0% declared interest rate investment option, deferring \$75,250, \$51,750 and \$68,625, respectively, of their retainer and attendance fees.

On March 10, 2005, the Board of Directors of Group 1 approved a grant of \$60,000 of restricted stock or phantom stock units to each non-employee director of Group 1 in payment of the equity portion of the annual retainer for 2005, as well as a grant of \$15,000 of restricted stock or phantom stock units in payment of the equity portion of the annual retainer for the remainder of 2004. Based on the closing prices of Group 1 common stock on November 17, 2004 and March 14, 2005, each non-employee director is entitled to receive 513 shares of restricted stock or phantom stock units in payment of the equity portion of the annual retainer for the remainder of 2004, and 2,189 shares of restricted stock or phantom stock units in payment of the equity portion of the annual retainer for 2005. Each non-employee director has the option to select whether he shall receive restricted stock or phantom stock units. Each of these grants was made effective as of the later of March 14, 2005 and the date on which the director made an election to receive restricted stock or phantom stock units. Subsequent grants of equity awards in payment of the equity portion of the annual retainer are expected to be made annually in March.

The restricted stock or phantom stock units shall vest fully after six months. Any unvested restricted stock and any phantom stock units may not be sold or otherwise transferred. In the event that the director's membership on the Board of Directors is terminated for any reason other than death or disability, such director shall, for no consideration, forfeit to Group 1 all of his unvested shares of restricted stock or phantom stock units. All unvested restricted stock or phantom stock units held by a director shall vest upon the death or disability of such director. The vested phantom stock units held by a director shall be settled in shares of Group 1 common stock upon the termination of such director's membership on the Board of Directors.



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Our directors have historically from time to time been granted stock options under the Group 1 Automotive, Inc. 1996 Stock Incentive Plan. The following table sets forth information concerning stock options granted in 2004, 2003 and 2002 to our non-employee directors:

<b>Non-Employee Director Stock Option Grants</b>				
<b>Director</b>	<b>Grant Date</b>	<b># of Shares</b>	<b>Exercise Price</b>	
John L. Adams	2004			
	2003			
	2002	3,000	\$	19.47
Robert E. Howard II (1)	2004			
	2003			
Louis E. Lataif	2004			
	2003			
	2002	10,000		24.55
Stephen D. Quinn	2004			
	2003			
	2002	10,000		44.96
J. Terry Strange	2004			
	2003	10,000		32.50
Max P. Watson, Jr.	2004			
	2003			
	2002	3,000		19.47

(1) During 2002, Mr. Howard was an employee of Group 1.

**Communications with Directors**

Our Board welcomes communications from our stockholders and other interested parties. Stockholders and any other interested parties may send communications to our Board, to any Board committee, to the Chairman of the Board (who presides over the executive sessions of our independent and non-management directors), or to any director in particular, to:

c/o Group 1 Automotive, Inc.  
950 Echo Lane, Suite 100  
Houston, Texas 77024

Any correspondence addressed to our Board, to any Board committee, to the Chairman of the Board, or to any one of the directors care of our offices are required to be forwarded to the addressee or addressees without review by any person to whom such correspondence is not addressed.

**Table of Contents****AUDIT COMMITTEE REPORT**

The Audit Committee has reviewed and discussed with management and Ernst & Young LLP, our independent auditors, our audited financial statements as of and for the year ended December 31, 2004. The Audit Committee has also discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees).

Ernst & Young LLP submitted to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee discussed with Ernst & Young LLP such firm's independence. The Audit Committee has also considered whether the provision of non-audit services to our Company by Ernst & Young LLP is compatible with maintaining their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements referred to above be included in Group 1's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the Securities and Exchange Commission.

Respectfully submitted by the Audit Committee of the Board of Directors of Group 1,

J. Terry Strange (Chairman)  
John L. Adams  
Louis E. Lataif  
Stephen D. Quinn

**Audit and Other Fees**

Set forth below is a summary of certain fees paid to Ernst & Young LLP, our independent auditors, for services related to the fiscal years ended December 31, 2003 and December 31, 2004. In determining the independence of Ernst & Young LLP, the Audit Committee considered whether the provision of non-audit services is compatible with maintaining Ernst & Young LLP's independence.

	2003	2004
Audit Fees	\$ 788,328	\$ 1,887,187
Audit Related Fees	18,000	159,271
Tax Fees	124,735	112,250
All Other Fees		

**Audit Fees.** Audit fees consisted of amounts incurred for services performed in association with the annual financial statement audit (including required quarterly reviews), and other procedures required to be performed by the independent auditor to be able to form an opinion on our consolidated financial statements, as well as specific procedures performed by the external auditors in connection with their review of Group 1's internal control structure in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Other procedures included consultations relating to the audit or quarterly reviews, and services performed in connection with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities.

**Audit Related Fees.** Audit related fees consisted of amounts incurred for assurance and related services that are reasonably related to the performance of the audit or review of Group 1's financial statements or that are traditionally

performed by the independent auditor. Audit related services in 2004 primarily consisted of consultations related to management's documentation and assessment of Group 1's internal controls over financial reporting as required by Group 1's adoption of Section 404 of the Sarbanes-Oxley Act of 2002.

***Tax Fees.*** Tax fees consisted of amounts incurred for tax compliance and tax consultation services provided.

***All Other Fees.*** No other fees were incurred during the periods presented.



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The Audit Committee considers whether the provision of these services is compatible with maintaining Ernst & Young LLP's independence, and has determined such services for fiscal 2004 and 2003 were compatible. All of the services described above were pre-approved by the Audit Committee pursuant to paragraph (c)(7)(ii)(C) of Rule 2-01 of Regulation S-X under the Exchange Act, to the extent that rule was applicable during fiscal 2003 and 2004.

Ernst & Young LLP does not provide any internal audit services to Group 1. We use a separate firm, Crowe Chizek and Company LLP, for internal audit services.

In November 2003, the Audit Committee adopted a policy requiring pre-approval by the Audit Committee of all services (audit and non-audit) to be provided to Group 1 by its independent auditor. In accordance with this policy, the Audit Committee has given its annual approval for the provision of audit services by Ernst & Young LLP through May 31, 2005 and has also given its approval for up to a year in advance for the provision by Ernst & Young LLP of particular categories or types of audit-related, tax and permitted non-audit services, in each case subject to a specific budget. Any proposed services to be provided by the independent auditor not covered by one of these approvals, including proposed services exceeding pre-approved budget levels, will require special pre-approval by the Audit Committee. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

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**EXECUTIVE OFFICERS**

Except as described under the heading Executive Compensation Employment Agreements below, our executive officers serve at the pleasure of our Board of Directors and are subject to annual appointment by our Board of Directors at its first meeting following each annual meeting of stockholders. The following table sets forth certain information as of the date of this proxy statement regarding our executive officers:







that the holder of each award does all consulting work through the Company and does not become an employee for a past or present cli

ch 30, 2012 and April 1, 2011, respectively.















ial condition, results of operations or liquidity.

expressed in, or implied by, any such forward-looking statements. Factors that could cause or contribute to such material differences in

doubtful accounts are described in our fiscal 2011 Annual Report on Form 10-K under “Critical Accounting Estimates” and Note 1 (S

arter of 2012 as compared to 73% during the same period last year. Utilization in the quarter was better than expected and continued to

cts and delivery dates.

r services in our mechanics and materials, electrical, and thermal sciences practices. Technical full-time equivalent employees increased

ing of the second quarter of 2012.







mpared to a decrease of \$6,472,000 during the same period last year. This smaller decrease during the first quarter of 2012 was due to a

ture operating results. These measures are used to evaluate our financial results, develop budgets and determine employee compensation













