GROUP 1 AUTOMOTIVE INC

2000
Annual Report

creating
the future in automotive retailing

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profile

Group 1 Automotive, Inc. is a leading operator in the $1 trillion automotive retailing industry. Since its initial public offering in October 1997, Group 1 has more than tripled its annual revenues and vaulted into the top 10 dealership groups in the United States. By leveraging the significant synergy in its business model, the company has experienced above-industry-average operating margins and has exceeded analysts' expectations in all quarters since going public.

The company owns 100 dealer franchises comprised of 30 different brands and 21 collision service centers located in Texas, Oklahoma, Florida, New Mexico, Colorado, Georgia, Louisiana and Massachusetts. Through its dealerships and Internet sites, the company sells new and used cars and light trucks, provides maintenance and repair services, sells replacement parts and arranges related financing, vehicle service and insurance contracts. In 2000, the company sold over 145,000 retail new and used vehicles.

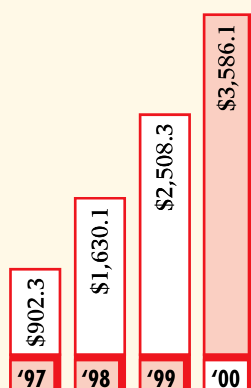
Financial Highlights

(dollars in thousands, except per share amounts)

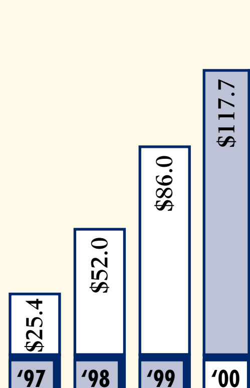
	2000	1999	1998	1997
Revenues	**$3,586,146**	$2,508,324	$1,630,057	$ 902,295
Operating Income	**$ 117,720**	$ 85,950	$ 52,046	$ 25,412
Net Income	**$ 40,812**	$ 33,515	$ 20,719	$ 11,413
Diluted Earnings per Share	**$ 1.88**	$ 1.55	$ 1.16	$ 0.76
Diluted Cash Flow per Share	**$ 2.62**	$ 2.05	$ 1.52	$ 0.82
Shares Outstanding (diluted)	**21,709,833**	21,558,920	17,904,878	15,098,594
Gross Margin	**14.7%**	15.0%	14.5%	14.1%
Operating Margin	**3.3%**	3.4%	3.2%	2.8%
Pretax Margin	**1.8%**	2.2%	2.2%	2.1%
Return on Equity	**16.6%**	17.0%	18.0%	13.6%
Working Capital	**$ 54,769**	$ 80,128	$ 48,251	$ 55,475
Inventories	**$ 527,101**	$ 386,255	$ 219,176	$ 105,421
Total Assets	**$1,099,553**	$ 842,910	$ 477,710	$ 213,149
Stockholders' Equity	**$ 247,416**	$ 232,029	$ 136,184	$ 89,372

Notice
The 2000 Form 10-K report filed with the Securities and Exchange Commission includes financial data that supplements the material included in these highlights and in the annual report. The company will, without charge, provide a copy to any stockholder upon written request to Shareholder Relations at our Corporate Headquarters.

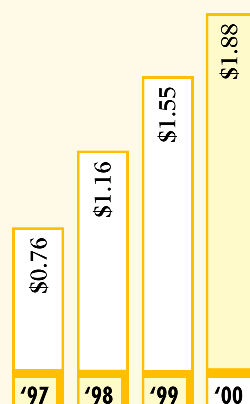
Revenues
(in millions of dollars)



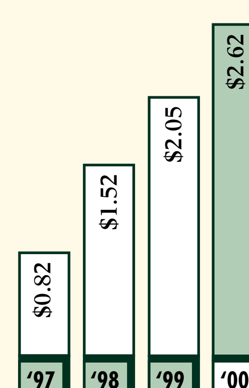
Operating Income
(in millions of dollars)



Earnings Per Share
(in dollars)



Cash Flow Per Share
(in dollars)



B.B. Hollingsworth, Jr.
Chairman, President and Chief Executive Officer

letter to our stockholders

I am pleased to report that 2000 was another record year for revenues, unit sales and earnings for your company. We succeeded in growing revenues through existing dealerships, adding quality acquisitions and continuing to benefit from the scale of our operations. Since going public in late 1997, we have delivered 13 periods of double-digit quarterly earnings per share growth on a year-over-year basis and have exceeded analysts' estimates every quarter.

We delivered this strong 2000 performance despite rising interest rates, the perceived fatal threat of the virtual dealer on the Internet, and fewer acquisitions than we have completed historically.

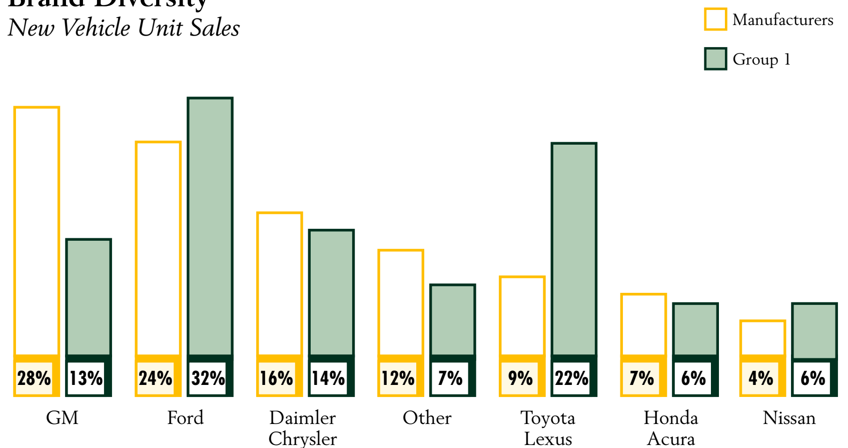
2000 Report Card

Revenues grew 43% to over $3.5 billion as net income accelerated to $40.8 million, or $1.88 per share, a 21% increase. While our revenues benefited from a record-setting year for U.S. new vehicle sales, we also expanded our higher-margin used vehicle, parts, service, finance, service contract and insurance businesses. Additionally, we benefited from our strong brand position. Toyota/Lexus and Ford represented over half of new vehicle sales.

Gross margin dipped slightly to 14.7% from 15.0% last year due to a shift in our merchandising mix. New vehicle revenues, which carry the lowest profit margin, reached a record 60% of total revenues, and lower-margin dealerships were acquired during the year. Our operating margin continues to be among the highest in the automotive retailing industry at 3.3% versus 3.4% last year.

Cash flow, defined as net income plus depreciation and amortization, was strong at $2.62 per share, a 28% increase. We used a portion of this cash to repurchase over 2.5 million shares of your company's stock. We believe that this was an excellent use of cash flow from operations. We also used some of the cash to acquire several new dealership operations. We successfully acquired and integrated $490 million of revenues in the form of 16 dealership franchises. We continued to enhance our geographic diversity by adding a major platform operation in Boston, while our seven tuck-in acquisitions further improved

Brand Diversity
New Vehicle Unit Sales



brand diversity and augmented some of our fastest-growing markets. During the year, we acquired one of only two Mercedes-Benz stores in all of Oklahoma, expanded our operation in Atlanta into a major platform, and added a Lincoln franchise, bringing the total brands we sell to 30.

We continued to expand our Internet capabilities. We have found that the Internet provides a more efficient interface with our customers and is a tool that can be used in a profitable manner. Last year 7% of sales, or about 6,000 new vehicles, were directly sourced from Internet activities, where customers started the transaction online and completed the purchase process with specially trained Internet sales people.

The Right Business Model

Group 1's strong performance was a result of our proven business model executed by our dedicated co-workers. Our award-winning dealership operations, seasoned corporate team and disciplined acquisition strategy are creating the future of automotive retailing.

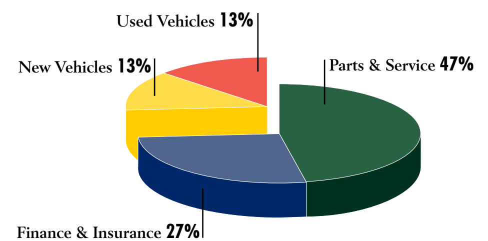
Our operating philosophy remains the same—we match strength with strength by decentralizing our dealership operations and consolidating corporate and administrative functions. Our platform presidents, who are entrepreneurial leaders, know their unique markets and products and are responsible for their regional operations. Our corporate team, which is responsible for arranging financing, monitoring operations, allocating capital and providing administrative and support functions on a consolidated level, has experience leading high-growth, national public companies.

The Right Acquisition Strategy

Our acquisition strategy is successful because we are disciplined. We seek only quality, accretive acquisitions and do not focus on revenues at the expense of earnings per share or shareholder value. We will continue to seek attractive candidates, although at a somewhat slower pace.

While the rate of consolidation in the retail automotive industry and for your company has slowed, there remains a compelling opportunity to consolidate the industry. Automotive retailing is the largest U.S. retailing sector with over $1 trillion in sales. It is highly fragmented and the average age of a dealer is over 60. Brand and geographic diversity mitigate risk. And large dealership groups enjoy the benefits of operating synergies, as well as better positioning on the Internet. These are factors that will drive the continuing consolidation of the industry. In 1996 the top 100 dealers had 6% of sales; in 1999 the top 10 dealer groups had 6% of sales. This trend will continue.

Earnings and Cash Flow Diversity
Pretax Profit by Product



The Future

We expect 2001 to be a demanding year that will offer us an exciting opportunity—the opportunity to validate our business model by demonstrating our ability to generate satisfactory returns in a less-robust new vehicle market. Automobile manufacturers are forecasting new vehicle sales to slow from the record pace of 2000, and some manufacturers are facing significant challenges. There is a perception that your company is just as cyclical and will perform just like the manufacturers. However, unlike the manufacturers and their suppliers, we also sell used vehicles, have a significant parts and service business, and enjoy a

highly variable cost structure that we believe will mitigate the impact of an economic slowdown on our earnings. Last year almost 75% of our earnings were derived from sales of parts, service, finance, insurance and service contracts. In fact, all of the record number of new vehicles that have been sold over the past few years will require routine maintenance and service, and we have positioned our dealership operations to capitalize on this opportunity. In addition, we began fine-tuning our cost structure in the fourth quarter of 2000 and are pleased with the progress.

We anticipate revenues of around $3.5 billion for 2001, with diluted earnings per share approximating our 2000 performance. This expected pause in our earnings per share growth is a reflection of an anticipated overall contraction of 5% to 10% in the new vehicle market and weaker consumer

"Our award-winning dealership operations, seasoned corporate team and disciplined acquisition strategy are creating the future of automotive retailing."

confidence in 2001. Once the market stabilizes, we expect to return to double-digit growth in earnings per share.

In 2001, we anticipate utilizing internally generated cash flow to acquire tuck-in acquisitions, repurchase common stock and invest in upgraded facilities. Tuck-in acquisitions will augment our brands, increase our market share in regions where we have operations, and create additional synergy. We anticipate investing $20 to $30 million to complete two or three tuck-ins with aggregate revenues between $200 million and $300 million. We expect, subject to market conditions, to use approximately $12 million of cash generated from operations to repurchase common stock, as we believe that your company is a very attractive investment opportunity.

To accomplish our vision, we need the continued commitment of our 6,000 dedicated co-workers and the support of our 30 manufacturers. We thank them for their contributions to an outstanding 2000 and look forward to the successes their efforts will produce this year and in the future.

And to you, our stockholders, we thank you for your support and look forward to an exciting year. We are indeed creating the future of automotive retailing.

B.B. Hollingsworth, Jr.
Chairman, President and Chief Executive Officer
Group 1 Automotive, Inc.

March 20, 2001

BSC 516

FIX IT RIGHT THE FIRST TIME

BENCHMARK
BENCHMARK

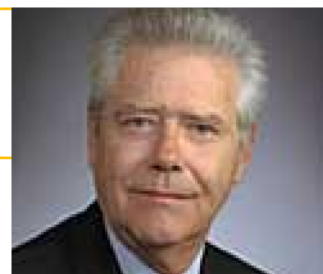
Jeep

questions & answers

commitment

"Because of Group 1's solid reputation in the industry, there will always be opportunities to acquire top dealerships, regardless of the new vehicle market."

John T. Turner
Senior Vice President, Corporate Development

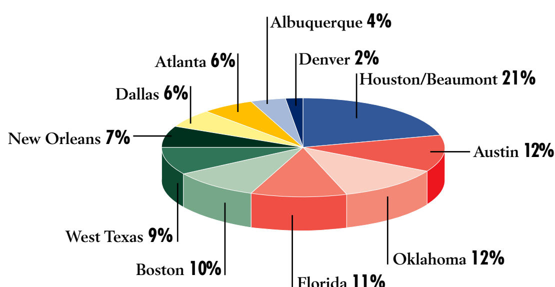


Group 1's operating strategy is based on a decentralized model. Why did you adopt this strategy?

Supporting, creating and fostering an entrepreneurial spirit within our operations are central to our operating strategy. Our decentralized model allows us to attract, develop and retain the best entrepreneurs in the industry, who have a track record of managing successful operations. The automotive retailing environment is fast-paced and to be successful, you must be responsive. This means decisions must be made at the closest point to the customer—the dealership.

We empower each platform president to develop strategies that address their specific local market conditions. Our corporate team has established uniform budgeting, accounting and reporting standards on a company-wide basis so they can maintain a consolidated business focus. For example, monthly platform benchmarking reports show rankings based on key financial ratios. These reports tell the corporate team and the platform presidents how they are contributing to total company goals. Benchmarking encourages friendly competition and shared best practices among our platform presidents, and their operations.

Geographic Diversity
New Vehicle Unit Sales



Historically, Group 1 has had significant growth through acquisitions. What is your acquisition strategy and what do you look for in an acquisition candidate?

Group 1 has a two-tiered acquisition strategy—platforms and tuck-ins. First, we build our regional operations through platform acquisitions. Platforms are large, multiple-franchise dealership groups in attractive markets. We seek world-class management talent in addition to market-leading franchises that have significant customer relationships. These dealers must have a history of profitable operations, demonstrate knowledge of their market and be committed to grow operations in the platform.

Robert E. Howard II
President,
Bob Howard Auto Group

a.

"With the synergies created by joining Group 1, my dealerships' operations have improved by over 25%."

After we have established a platform, we then seek tuck-ins, which are smaller, profitable, single-point dealerships that augment brands, products and services. These dealerships enhance our critical mass and improve our economies of scale for that platform.

How does Group 1 create value after an acquisition? Specifically, what synergies are created by platform and tuck-in acquisitions? How much in cost savings and revenue enhancements can dealerships realize?

Group 1 is different from the traditional consolidators because we look to create value in ways other than just cutting costs. Of course, we do reduce costs by consolidating vendors, systems, and business office functions, pooling advertising dollars, and eliminating other inefficiencies. For example, just by consolidating a tuck-in acquisition's advertising program with an established platform, the dealership can realize an immediate 40% savings.

Although we operate a decentralized company, we have consolidated certain functions nationally, such as financing, risk management and employee benefits. We estimate that risk management savings on items such as property, casualty and liability insurance, are about 30%. Floorplan financing has also been consolidated, resulting in interest savings of 20% for our dealerships.

We also look to create value by expanding revenues through higher-margin services. Because of Group 1's purchasing power, we have negotiated attractive fee arrangements on products such as retail finance and vehicle service contracts. This averages a 15% revenue enhancement on retail finance contracts and 40% on vehicle service contracts. When we became a public company in 1997, our income from these products was $550 per retail unit sold; in 2000, it was $756, a 37% increase.

Revenues from tuck-in acquisitions increase when we add them to our platforms' established websites. We think this is an area that will grow in importance over time, as customers get more comfortable with shopping on the Internet.

Taking both the revenue enhancement and cost improvements into account, we estimate that a dealership can improve its operating results by 25% by joining Group 1. An example would be the Bob Howard Auto Group, our Oklahoma platform managed by Bob Howard, one of Group 1's founding dealers. In 1996, before Group 1 was established, Bob generated healthy profits from his operations. Comparing 1996 to 2000, Bob has seen profit from vehicle service contracts increase about $860,000 and profit from arranging financing grow over $460,000. During the same time, he realized cost savings of over $925,000 in floorplan financing interest. These three items helped Bob increase his dealerships' pretax income by over 25%.

expertise

diversity

The new vehicle market has set records the past few years. Has this made it easier or more difficult for you to find acquisition candidates and complete the transaction?

When we evaluate dealerships, we look at several years of operating results and then we forecast future results. From this information we determine normalized after-tax profit to price a transaction.

With 22,000 dealerships in the United States, regardless of whether the new vehicle market is expanding or contracting, there will always be opportunities to acquire top brands in the top markets. Group 1, with its decentralized management approach and solid reputation in the industry, is perfectly positioned to continue to benefit from the automotive retailing industry's consolidation.

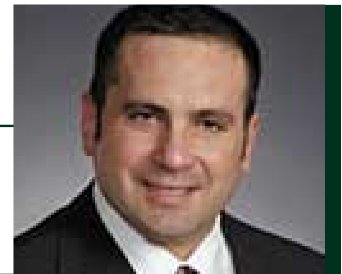
Why does an owner/operator join Group 1? How does being part of a larger group change the way the owner/operator manages the dealership?

Each owner/operator has their own reasons for joining a larger group. Some dealers are looking to retire from the business. Others realize that the burden of inheritance taxes, coupled with the lack of liquidity of their assets, makes estate planning difficult. Still others find that their children are not interested in managing their dealership. Larger private dealers are finding expansion very difficult because of the huge personal debt burden required, and the cost. It would take them several years to grow large enough to create and then leverage any regional economies of scale.

At Group 1, we give dealers new alternatives to solve these problems, as well as share proven best practices through the quarterly Presidents' Forums. We eliminate their worries over floorplan financing, capital raising, insurance, employee benefits and incentives, and other administrative burdens. We free them to do what they want to do and do best—operate profitable, thriving automotive retail operations.

"Joining Group 1 has allowed us to grow our operations more quickly and, at the same time, provided my family some liquidity."

David S. Rosenberg
President, Ira Motor Group



"Our same store revenues over the last three years have exceeded the industry's rate of expansion and contributed to our 35% annual earnings per share growth."

Scott L. Thompson
Senior Vice President, Chief Financial Officer and Treasurer

selection

How does a change in interest rates impact Group 1?

We are asked this question constantly because new vehicle sales are perceived to be highly interest-rate sensitive, much like a home. Interest rates have a huge impact on a home mortgage because those are big-ticket, long-term loans. However, a car payment is much more modest in terms of amount and duration. On average, a 100-basis-point change in a car loan rate increases or decreases the payment by only $8.00 per month, which is, generally, not enough of an impact to make a consumer alter their purchase decision. Instead, credit availability, employment rates and consumer confidence have much greater impacts.

In terms of the direct impact of a change in interest rates on Group 1, we had $572 million in floating-rate debt at December 31. A 100-basis-point change in the rate impacts our earnings per share by only $0.06. This is because the vast majority of our floating-rate debt is used for inventory financing, where we receive interest-allowance credits from various manufacturers. These credits mitigate the impact of interest rate changes on our operating results.

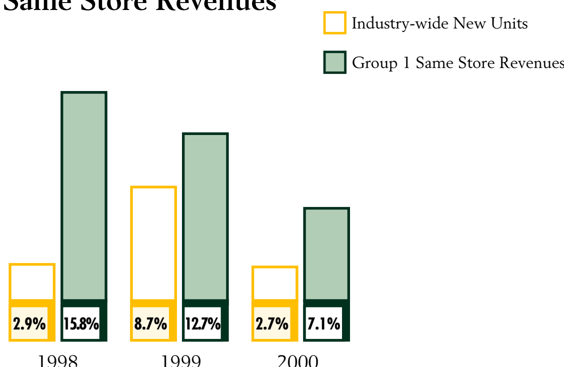
What benefits have you seen directly related to your Internet strategy?

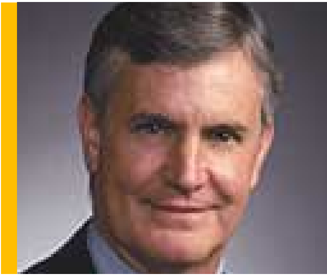
Group 1 has realized a more efficient and effective interface with our customers through our platform websites. Our customers can shop more easily, set service appointments and receive warranty reminders.

The Internet has expanded our dealerships' geographic reach from 10 miles to 25 miles by allowing the customers to search our vehicle inventory more efficiently. Because our platform dealerships consist of multiple franchises, their websites quickly show the customer that they can visit the platform and have one-stop shopping.

Overall, we are seeing more informed customers visit our dealerships. With the many informational links we provide, many customers have already compared prices, found fair trade-in values for their existing cars and received financing pre-approval. The Internet is bringing more customers to our dealerships, helping to close the sales of new and used vehicles more efficiently and generating more satisfied repeat customers.

Same Store Revenues





"Working with our manufacturer-partners is an important element of our strategy."

Charles M. Smith
Senior Vice President, Industry Relations

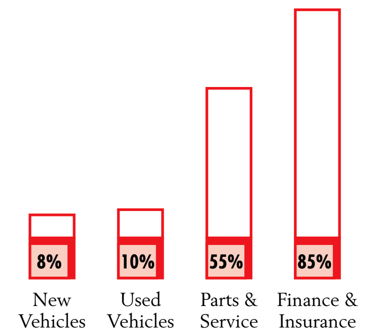
satisfaction

What typically are the most profitable products or services for a Group 1 dealership?

You need to look at the operations as a whole. Each product has some dependence on the others. If you don't sell a vehicle, you can't market your finance, vehicle service and insurance products. If you don't service a customer's vehicle properly, then it is doubtful you will ever sell that customer a vehicle in the future.

From a gross margin standpoint, finance, vehicle service and insurance contracts are the most profitable products, followed by parts and service, used vehicles and new vehicles. This pattern is not expected to change in the future. On a pretax profit basis, parts and service is the most profitable, generating 47% of pretax profit on 9% of revenues while new vehicles sales, which accounted for 60% of revenues, contributed only 13% of pretax profit.

Gross Margin by Product



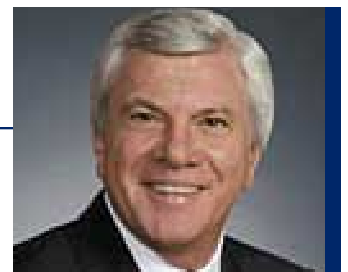
We have a very positive outlook for parts and service growth. Because of the exceptional new vehicle market for the past few years, there are a lot of newer units on the road. Owners tend to return to their dealer for service early in a vehicle's life. Additionally, our vehicle service contract program has been successful, which tends to drive customers back to their dealership for parts and service after the manufacturers' warranties expire. And finally, manufacturers are increasing the sophisticated content of vehicles. We are seeing web technology, navigation systems and voice-activated systems, to name a few, which encourage customers to return to a franchised dealership that has the trained personnel and specialized equipment to work on these sophisticated systems. We are taking advantage of this growth by updating and expanding our parts and service facilities and training programs.

Customer satisfaction is very important in retailing. How are your dealerships meeting your customers' expectations?

Many of Group 1's dealerships have received manufacturer awards for delivering superior customer satisfaction in a number of areas.

"Our dealerships are committed to customer service and have won numerous awards from leading manufacturers."

John S. Bishop
Senior Vice President, Operations



awards

Platform Presidents

Standing from left:

Don Bohn	*Bohn Group*
Dick Fleischman	*Luby Chevrolet*
John Tkac	*World Auto Group*
Kevin McHugh	*Group 1 Atlanta*
Greg Wessels	*Gene Messer Automotive Group*
Nyle Maxwell	*Maxwell Automotive Group*
Jerry Patterson	*Casa Automotive Group*
Mike Smith	*Mike Smith Automotive Group*
Ron Kutz	*Courtesy Auto Group*
David Rosenberg	*Ira Motor Group*

Sitting from left:

Kevin Whalen	*McCall Auto Group*
John Bishop	*Senior Vice President, Operations*
Bob Howard	*Bob Howard Auto Group*

DaimlerChrysler 5 Star Dealer

Bob Howard Chrysler/Jeep

Bob Howard Dodge

Casa Chrysler/Jeep on the Westside

Gene Messer Chrysler/Jeep

Ira Chrysler/Jeep

Maxwell Chrysler South
Maxwell Dodge

Maxwell Taylor Chrysler/ Dodge/Jeep

McKinney Dodge

Mike Smith Dodge

Ford Blue Oval Certified

Gene Messer Ford

Gene Messer Ford of Amarillo

Rockwall Ford/Mercury

World Ford Kendall

World Ford Sandy Springs

GM Mark of Excellence

Bob Howard Pontiac/GMC

Luby Chevrolet

South Pointe Chevrolet

Isuzu Partnership Cup Award

Sterling McCall Isuzu

Elite of Lexus

Ira Lexus

Lexus of Clear Lake

Sterling McCall Lexus

Lexus Crown Jewel

Ira Lexus

Mazda President's Club

Ira Mazda

Mitsubishi Diamond Chapter of Excellence

Gene Messer Mitsubishi

Toyota Board of Governors

Ira Toyota

Toyota Parts Excellence

Ira Toyota

Sterling McCall Toyota

Toyota President's Award

Ira Toyota

Sterling McCall Toyota

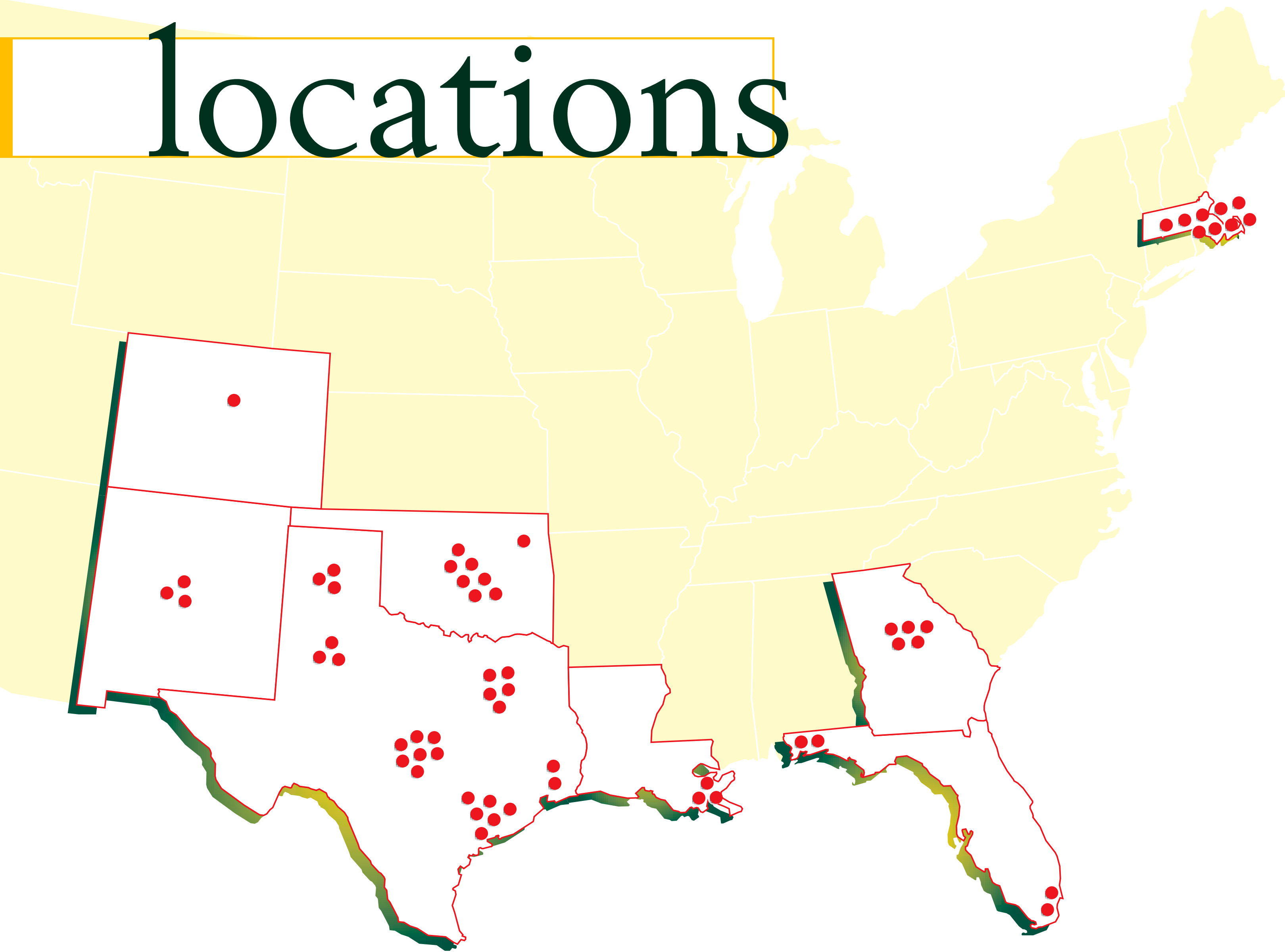
Toyota Service Excellence

Bohn Brothers Toyota

Ira Toyota

Sterling McCall Toyota

locations



Colorado

Luby Chevrolet

Florida

North Florida Group

World Auto Group

Georgia

Group 1 Atlanta

Louisiana

Bohn Group

Massachusetts

Ira Motor Group

New Mexico

Casa Automotive Group

Oklahoma

Bob Howard Auto Group

Texas

Courtesy Auto Group

Gene Messer Automotive Group

Maxwell Automotive Group

McCall Auto Group

Mike Smith Automotive Group

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Corporate Information IBC

Selected Consolidated Financial Data

We completed our initial public offering and acquisition of our first four dealership groups on November 3, 1997. Before that date, Group 1 Automotive, Inc. had no operations and each of the dealership groups were privately owned and operated independently. The financial data as of December 31, 2000, 1999, 1998 and 1997, and for the three years in the period ended December 31, 2000, include the operations of all dealerships acquired from the effective dates of the acquisitions. The following selected historical financial data as of December 31, 2000, 1999, 1998 and 1997, and for each of the three years in the period ended December 31, 2000, have been derived from audited financial statements.

	Year Ended December 31,		
(dollars in thousands, except per share amounts)	2000	1999	1998
Income Statement Data:			
Revenues	$3,586,146	$2,508,324	$1,630,057
Cost of sales	3,058,709	2,131,967	1,393,547
Gross profit	527,437	376,357	236,510
Selling, general and administrative expenses	393,679	279,791	178,038
Depreciation and amortization	16,038	10,616	6,426
Income from operations	117,720	85,950	52,046
Other income (expense):			
Floorplan interest expense	(37,536)	(20,395)	(12,837)
Other interest expense, net	(15,500)	(10,052)	(4,027)
Other income, net	1,142	186	39
Income before income taxes	65,826	55,689	35,221
Provision for income taxes	25,014	22,174	14,502
Net income	$ 40,812	$ 33,515	$ 20,719
Earnings per share:			
Basic	$ 1.91	$ 1.62	$ 1.20
Diluted	$ 1.88	$ 1.55	$ 1.16
Weighted average shares outstanding:			
Basic	21,377,902	20,683,308	17,281,165
Diluted	21,709,833	21,558,920	17,904,878

	As of December 31,			
(in thousands)	2000	1999	1998	1997
Balance Sheet Data:				
Working capital	$ 54,769	$ 80,128	$ 48,251	$ 55,475
Inventories	527,101	386,255	219,176	105,421
Total assets	1,099,553	842,910	477,710	213,149
Total long-term debt, including current portion	141,899	114,250	45,787	9,369
Stockholders' equity	247,416	232,029	136,184	89,372

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading operator in the automotive retailing industry. We own automobile dealership franchises located in Texas, Oklahoma, Florida, New Mexico, Georgia, Colorado, Louisiana and Massachusetts. Through our dealerships and Internet sites, we sell new and used cars and light trucks, and provide maintenance and repair services. We also operate 21 collision service centers.

We have diverse sources of revenues, including: new car sales, new truck sales, used car sales, used truck sales, manufacturer remarketed vehicle sales, parts sales, service sales, collision repair services, finance fees, vehicle service contract commissions, insurance commissions, documentary fees and after-market product sales. Sales revenues from new and used vehicle sales and parts and service sales include sales to retail customers, other dealerships and wholesalers. Other dealership revenue includes revenues from arranging financing, vehicle service and insurance contracts, net of a provision for anticipated chargebacks, and documentary fees.

Our total gross margin varies as our merchandise mix (the mix between new vehicle sales, used vehicle sales, parts and service sales, collision repair service sales and other dealership revenues) changes. Our gross margin on the sale of products and services varies significantly, with new vehicle sales generally resulting in the lowest gross margin and other dealership revenue sales generally resulting in the highest gross margin. When our new vehicle sales increase or decrease at a rate greater than our other revenue sources, our gross margin responds inversely. Factors such as seasonality, weather, cyclicality and manufacturers' advertising and incentives may impact our merchandise mix, and therefore influence our gross margin.

Selling, general and administrative expenses consist primarily of compensation for sales, administrative, finance and general management personnel, rent, marketing, insurance and utilities. Interest expense consists of interest charges on interest-bearing debt, including floorplan inventory financing, net of interest income earned. We believe that approximately 60% of our selling, general and administrative expenses are variable, allowing us to adjust our cost structure based on business trends.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Continued

Results of Operations

Selected Operational and Financial Data for the Years Ended December 31, 2000 and December 31, 1999

(dollars in thousands, except per unit amounts)	2000	1999	Increase/ (Decrease)	Percent Change
New Vehicle Data				
Retail unit sales	86,729	60,384	26,345	43.6%
Retail sales revenues	$2,165,954	$1,465,759	$700,195	47.8%
Gross profit	$ 169,690	$ 121,639	$ 48,051	39.5%
Average gross profit per retail unit sold	$ 1,957	$ 2,014	$ (57)	(2.8)%
Gross margin	7.8%	8.3%	(0.5)%	—

(dollars in thousands, except per unit amounts)	2000	1999	Increase/ (Decrease)	Percent Change
Used Vehicle Data				
Retail unit sales	59,144	45,630	13,514	29.6%
Retail sales revenues[1]	$ 804,039	$ 606,764	$197,275	32.5%
Gross profit	$ 79,940	$ 59,308	$ 20,632	34.8%
Average gross profit per retail unit sold	$ 1,352	$ 1,300	$ 52	4.0%
Gross margin	9.9%	9.8%	0.1%	—

(1) Excludes used vehicle wholesale revenues, as these transactions facilitate retail vehicle sales and are not expected to generate profit.

(dollars in thousands)	2000	1999	Increase/ (Decrease)	Percent Change
Parts and Service Data				
Sales revenues	$ 306,089	$ 212,970	$ 93,119	43.7%
Gross profit	$ 167,463	$ 116,622	$ 50,841	43.6%
Gross margin	54.7%	54.8%	(0.1)%	—

(dollars in thousands, except per unit amounts)	2000	1999	Increase/ (Decrease)	Percent Change
Other Dealership Revenues, Net				
Retail new and used unit sales	145,873	106,014	39,859	37.6%
Retail sales revenues	$ 110,344	$ 78,788	$ 31,556	40.1%
Other dealership revenues, net per retail unit sold	$ 756	$ 743	$ 13	1.7%

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Revenues. Revenues increased $1,077.8 million, or 43.0%, to $3,586.1 million for the year ended December 31, 2000, from $2,508.3 million for the year ended December 31, 1999. New vehicle revenues increased primarily due to strong customer acceptance of our products, particularly

Lexus, Honda, Nissan and Toyota, partially offset by some weakness in the General Motors brands, and the acquisitions of additional dealership operations during 1999 and 2000. The growth in used vehicle revenues was primarily attributable to an emphasis on used vehicle sales in the Dallas, Denver, Oklahoma and south Florida markets, and the additional dealership operations acquired. The increase in parts and service revenues was due to the additional dealership operations acquired, coupled with strong organic growth in the Austin, Houston and south Florida markets. Other dealership revenues increased primarily due to an increase in the number of retail new and used vehicle sales.

Gross Profit. Gross profit increased $151.0 million, or 40.1%, to $527.4 million for the year ended December 31, 2000, from $376.4 million for the year ended December 31, 1999. The increase was attributable to increased revenues net of a decrease in gross margin from 15.0% for the year ended December 31, 1999, to 14.7% for the year ended December 31, 2000. The gross margin decreased as lower margin new vehicle revenues increased as a percentage of total revenues, and the gross margin on new vehicle sales declined. The gross margin on new retail vehicle sales declined to 7.8% from 8.3% due to the lower margins of our last two platform acquisitions. Our new vehicle gross margin would have been 8.2%, excluding the impact of our last two platform acquisitions. The gross margins on our other products and services remained relatively consistent with the prior year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $113.9 million, or 40.7%, to $393.7 million for the year ended December 31, 2000, from $279.8 million for the year ended December 31, 1999. The increase was primarily attributable to the additional dealership operations acquired and increased variable expenses, particularly incentive pay to employees, which increased as gross profit increased. Additionally, we recorded a $1.5 million charge, during the first quarter of 2000, related to unfavorable medical claims experience. Our medical plan was revised as of March 1, 2000. Selling, general and administrative expenses increased as a percentage of gross profit to 74.6% from 74.3% due to the medical plan charge and under-performance in our Albuquerque and south Florida operations.

Interest Expense. Floorplan and other interest expense, net, increased $22.6 million, or 74.3%, to $53.0 million for the year ended December 31, 2000, from $30.4 million for the year ended December 31, 1999. The increase was due to increases in total debt outstanding and interest rates. The increase in debt outstanding was primarily attributable to the floorplan borrowings of the additional dealership operations acquired and additional borrowings to complete acquisitions. Further, contributing to the increase was a 100 basis point increase in the weighted average LIBOR. Partially mitigating the LIBOR increase was a 25 basis point rate reduction of the spread charged on our floorplan notes payable, which was effective in May 1999. Additionally, in December 2000, we received another 12.5 basis point reduction of the spread charged.

Other Income, Net. Other income, net, increased $956,000 to $1,142,000 for the year ended December 31, 2000, from $186,000 for the year ended December 31, 1999. The increase is due primarily to a $1.0 million gain from the sale of a Chrysler franchise in Austin, Texas.

Selected Operational and Financial Data for the Years Ended December 31, 1999 and December 31, 1998

(dollars in thousands, except per unit amounts)	1999	1998	Increase	Percent Change
New Vehicle Data				
Retail unit sales	60,384	39,822	20,562	51.6%
Retail sales revenues	$1,465,759	$931,205	$534,554	57.4%
Gross profit	$ 121,639	$ 74,096	$ 47,543	64.2%
Average gross profit per retail unit sold	$ 2,014	$ 1,861	$ 153	8.2%
Gross margin	8.3%	8.0%	0.3%	—

(dollars in thousands, except per unit amounts)	1999	1998	Increase	Percent Change
Used Vehicle Data				
Retail unit sales	45,630	31,248	14,382	46.0%
Retail sales revenues(1)	$ 606,764	$411,065	$195,699	47.6%
Gross profit	$ 59,308	$ 38,282	$ 21,026	54.9%
Average gross profit per retail unit sold	$ 1,300	$ 1,225	$ 75	6.1%
Gross margin	9.8%	9.3%	0.5%	—

(1) Excludes used vehicle wholesale revenues, as these transactions facilitate retail vehicle sales and are not expected to generate profit.

(dollars in thousands)	1999	1998	Increase	Percent Change
Parts and Service Data				
Sales revenues	$ 212,970	$139,144	$ 73,826	53.1%
Gross profit	$ 116,622	$ 74,616	$ 42,006	56.3%
Gross margin	54.8%	53.6%	1.2%	—

(dollars in thousands, except per unit amounts)	1999	1998	Increase	Percent Change
Other Dealership Revenues, Net				
Retail new and used unit sales	106,014	71,070	34,944	49.2%
Retail sales revenues	$ 78,788	$ 49,516	$ 29,272	59.1%
Other dealership revenues, net per retail unit sold	$ 743	$ 697	$ 46	6.6%

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Revenues. Revenues increased $878.2 million, or 53.9%, to $2,508.3 million for the year ended December 31, 1999, from $1,630.1 million for the year ended December 31, 1998. New vehicle revenues increased primarily due to strong customer acceptance of our products, particularly Chevrolet, Ford, Lexus and Honda, and the acquisitions of additional dealership operations during 1998 and 1999. The growth in used vehicle revenues was primarily attributable to an

emphasis on used vehicle sales in the Houston and Oklahoma markets, and the additional dealership operations acquired. The increase in parts and service revenues was due to the additional dealership operations acquired, coupled with strong organic growth in the Denver, Houston and Beaumont markets. Other dealership revenues increased primarily due to the implementation of our vehicle service contract and insurance programs, and related training, which resulted in improved revenues per unit, in addition to an increase in the number of retail new and used vehicle sales.

Gross Profit. Gross profit increased $139.9 million, or 59.2%, to $376.4 million for the year ended December 31, 1999, from $236.5 million for the year ended December 31, 1998. The increase was attributable to increased revenues and an increase in gross margin from 14.5% for the year ended December 31, 1998, to 15.0% for the year ended December 31, 1999. The gross margin increased even though lower margin new vehicle revenues increased as a percentage of total revenues, as improvements in other dealership revenues per unit and increases in the gross margin on new and used vehicle sales and parts and service sales offset the change in the merchandising mix. The gross margin on new vehicle retail sales improved to 8.3% from 8.0% due to our dealership managers performing well in a favorable market and our sales training programs. The increase in gross margin on used vehicle retail sales to 9.8% from 9.3% was primarily attributable to our dealership managers performing well in a favorable operating environment and our sales training programs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $101.8 million, or 57.2%, to $279.8 million for the year ended December 31, 1999, from $178.0 million for the year ended December 31, 1998. The increase was primarily attributable to the additional dealership operations acquired and increased variable expenses, particularly incentive pay to employees, which increased as gross profit increased. Selling, general and administrative expenses decreased as a percentage of gross profit to 74.3% from 75.3% due primarily to increased operating leverage.

Interest Expense. Floorplan and other interest expense, net, increased $13.5 million, or 79.9%, to $30.4 million for the year ended December 31, 1999, from $16.9 million for the year ended December 31, 1998. The increase was primarily attributable to the floorplan interest expense of the additional dealership operations acquired and borrowings to complete acquisitions. A portion of the increase is due to the completion of our offering of $100 million of senior subordinated notes during the first quarter of 1999. Partially offsetting the increases was a 40 basis point decline in the weighted average interest rate on our floorplan notes payable. Contributing to the rate decline was a rate reduction realized from obtaining a lower interest rate on our floorplan notes payable.

Liquidity and Capital Resources

Our principal sources of liquidity are cash from operations, our credit facility (which includes the floorplan facility and the acquisition facility) and equity and debt offerings.

The following table sets forth selected historical information from our statements of cash flows:

(in thousands)	Year Ended December 31, 2000	1999	1998
Net cash provided by operating activities	$ 95,592	$ 73,224	$ 24,277
Net cash used in investing activities	(72,768)	(126,944)	(58,225)
Net cash provided by (used in) financing activities	(770)	106,101	65,299
Net increase in cash and cash equivalents	$ 22,054	$ 52,381	$ 31,351

Cash Flows

Total cash and cash equivalents at December 31, 2000, were $140.9 million.

Operating activities. For the three-year period ended December 31, 2000, we generated $193.1 million in net cash from operating activities, primarily driven by net income plus depreciation and amortization. Excluding working capital changes, during 2000 cash flows from operating activities increased $14.0 million over the prior-year period.

Investing activities. The $72.8 million of cash used for investing activities during 2000 was primarily attributable to cash paid in completing acquisitions, net of cash balances obtained in the acquisitions, and purchases of property and equipment, partially offset by proceeds from the sales of franchises. During 2000, we used approximately $17.3 million in purchasing property and equipment, of which, approximately $8.8 million was for the purchase of land and construction of new facilities.

During 1999, $126.9 million was used for investing activities, primarily attributable to completing acquisitions, net of cash balances obtained in the acquisitions, and purchases of property and equipment, partially offset by sales of property and equipment. During 1999, we used approximately $27.4 million in purchasing property and equipment, of which, approximately $19.6 million was for the purchase of land and construction of new facilities. Partially offsetting these uses of cash, we received $11.7 million from sales of property and equipment. The proceeds were received primarily from the sale of dealership properties to a REIT for approximately $11.2 million, and for which no gain or loss was recognized.

During 1998, $58.2 million was used in investing activities, primarily for acquisitions, net of cash received, and purchases of property and equipment, net of sales. Of the $9.7 million used in purchasing property and equipment during 1998, approximately $5.6 million related to the purchase of land and construction of facilities for new or expanded operations. During December 1998, we completed the sale and leaseback of six dealership properties and received $20.0 million in gross proceeds from the sale, for which no gain or loss was recognized.

Financing activities. We used approximately $770,000 during 2000, and obtained approximately $106.1 million and $65.3 million during 1999 and 1998, respectively, through financing activities.

During 2000 we used approximately $770,000 in financing activities. Cash was provided primarily through borrowings on our revolving credit facility. We used $6.3 million for principal payments of long-term debt. Additionally, we used $20.9 million for purchases of treasury stock.

The net cash provided during 1999 was generated primarily from our March 1999 offerings of 2 million shares of common stock and $100 million of senior subordinated notes. The net proceeds from these offerings, approximately $137.7 million, were used to repay $59.0 million borrowed under the acquisition portion of the credit facility, with the remainder of the proceeds being used in completing acquisitions during 1999. Additionally, in connection with the sale of properties to a REIT, we paid off mortgages of approximately $2.5 million.

The net cash provided during 1998 was generated primarily from drawings on our credit facility and was utilized in completing acquisitions and supporting increased sales volumes. Partially offsetting the $75.5 million in borrowings was $10.0 million in principal payments on long-term debt, of which $6.6 million was related to the payoff of mortgages in connection with the sale and leaseback transaction completed in December 1998.

Working Capital. At December 31, 2000, we had working capital of $54.8 million. Historically, we have funded our operations with internally generated cash flow and borrowings. Certain manufacturers have minimum working capital guidelines, which may limit a subsidiary's ability to make distributions to the parent company. While we cannot guarantee it, based on current facts and circumstances, we believe we have adequate cash flow coupled with borrowing capacity under our credit facility to fund our current operations.

During 1999 we opened a new facility in south Florida. Although revenues have experienced a positive trend and the operation is generating positive cash flow, the new facility has not met our expectations. During the fourth quarter of 2000, a new operator was appointed for the south Florida operations. As part of the management change, we repurchased 1.3 million shares of our stock from the former operator and others for $14.4 million and settled various contingent acquisition payments for $6.8 million. The funding of these transactions occurred in January 2001.

Stock Repurchase

The board of directors has authorized us to repurchase a portion of our stock, subject to management's judgment and the restrictions of our various debt agreements. Our agreements, subject to other covenants, allow us to spend approximately 33 percent of our cumulative net income to repurchase stock. During 2000 we repurchased 2.7 million shares for $31.4 million, excluding shares repurchased to fulfill obligations under our employee stock purchase plan. We anticipate, subject to market conditions, that we will spend approximately $12 million repurchasing stock during 2001.

Capital Expenditures

Our capital expenditures include expenditures to extend the useful life of current facilities and expenditures to start or expand operations. Historically, our annual capital expenditures exclusive of new or expanded operations have approximately equaled our annual depreciation charge. Expenditures relating to the construction or expansion of dealership facilities, generally, are driven by new franchises being awarded to us by a manufacturer or significant growth in sales at an existing facility. During 2001, we plan to invest approximately $10 million to expand six existing facilities and prepare three new facilities for operations.

Acquisition Financing

We anticipate investing between $20 million and $30 million in completing tuck-in acquisitions during 2001. We expect the cash needed to complete our acquisitions will come from the operating cash flows of our existing dealerships and borrowings under our current credit facilities.

Credit Facility

In December 2000, we amended our credit facility to decrease the commitment from $1 billion to $900 million and reduce the rate charged on our floorplan facility to LIBOR plus 112.5 basis points. The credit facility provides a floorplan facility of $702 million for financing vehicle inventories and an acquisition facility of $198 million for financing acquisitions, general corporate purposes and capital expenditures. The lending group making up the credit facility is comprised of 15 major financial institutions, including five manufacturer captive finance companies. The manufacturer captive finance companies include Ford Motor Credit Company, Toyota Motor Credit Company, BMW Financial Services, N.A., Inc., Chrysler Financial Company, L.L.C. and Mercedes-Benz Credit Corporation. As of March 15, 2001, $143 million is available to be drawn under the acquisition facility, subject to a cash flow calculation and the maintenance of certain financial ratios and various covenants. The credit facility allows 33% of net income to be paid as cash dividends.

Leases

We lease various real estate, facilities and equipment under long-term operating lease agreements, including leases with related parties. Generally, the related-party and third-party leases have 30-year total terms with initial terms of 15 years and three five-year option periods, at our option. Additionally, we generally have an option to purchase the real estate and facilities at the end of the lease term, and a right of first refusal, giving us the opportunity to purchase the real estate and facilities, if the owner reaches an agreement to sell them to a third party.

Dependence on the Success of Our Manufacturers

Our success depends upon the overall success of the line of vehicles that each of our dealerships sells. Demand for our manufacturers' vehicles as well as the financial condition, management, marketing, production and distribution capabilities of our manufacturers affect our business. Our Ford, Toyota and Lexus dealerships represent approximately 56% of our total new vehicle retail sales.

Although we have attempted to lessen our dependence on any one manufacturer by buying dealerships representing a number of different domestic and foreign manufacturers, events such as labor disputes and other production disruptions that may adversely affect a manufacturer may also adversely affect 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.

Impact of Acquisitions on Growth

Growth in our revenues and earnings will be impacted by our ability to acquire and successfully operate dealerships. There can be no assurance that we will be able to identify and acquire dealerships in the future. In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, delays or other operational or financial problems.

Restrictions by our manufacturers as well as covenants contained in our debt instruments limit our ability to acquire additional dealerships. In addition, increased competition for acquisition candidates may develop, which could result in fewer acquisition opportunities available to us and/or higher acquisition prices.

Further, acquisitions involve a number of special risks, including possible diversion of resources and management's attention, inability to retain key acquired personnel and risks associated with unanticipated events or liabilities, some or all of which could have a material adverse effect on our business, financial condition and results of operations.

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 and issuances of our common stock.

Cyclicality

Our operations, like the automotive retailing industry in general, can be impacted by a number of factors relating to general economic conditions, including consumer business cycles, consumer confidence, economic conditions, availability of consumer credit and interest rates. Although the above factors, among others, may impact our business, we believe the impact on our operations of future negative trends in such factors will be somewhat mitigated by our (i) strong parts, service and collision repair service operations, (ii) variable cost structure, (iii) geographic diversity and (iv) product diversity.

Seasonality

Our operations are subject to seasonal variations, with the second and third quarters generally contributing more operating profit than the first and fourth quarters. Three primary forces drive this seasonality: (i) manufacturer-related factors, primarily the historical timing of major manufacturer incentive programs and model changeovers, (ii) weather-related factors and (iii) consumer buying patterns.

Current Business Trends

During 2000, approximately 17.4 million new vehicles were sold in the United States. Industry analyst estimates for 2001 are predicting new vehicle unit sales of between 15.5 million and 16.5 million units, as consumer confidence levels have trended downward from the prior year. Annual sales of 15.5 million units would rank as the fifth highest total of new vehicle retail sales

in the United States during the past 100 years. With respect to interest rates, the one-month LIBOR, which averaged approximately 6.4% during 2000, has fallen to approximately 5.2% in March 2001, after reaching a high, during November 2000, of approximately 6.8%.

Dividend Policy

We have never declared or paid dividends on our Common Stock. We intend to retain future earnings, if any, to finance the development and expansion of our business and/or repurchase our Common Stock. Therefore, we do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. The decision whether to pay dividends will be made by our Board of Directors after considering our results of operations, financial condition, capital requirements, general business conditions and other factors.

Certain provisions of the Credit Facility and the senior subordinated notes require us to maintain certain financial ratios and restrict us from making substantial disbursements outside the ordinary course of business, including limitations on the payment of cash dividends. In addition, pursuant to the automobile franchise agreements to which our dealerships are subject, all dealerships are required to maintain a certain minimum working capital.

Cautionary Statement About Forward-Looking Statements

This 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, beliefs or current expectations, including those plans, goals, beliefs and expectations of our officers and directors with respect to, among other things:

- the completion of pending and future acquisitions
- operating cash flows and availability of capital
- future stock repurchases
- capital expenditures

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, may affect the demand for new and used vehicles and parts and service sales
- regulatory environment, adverse legislation, or unexpected litigation
- our principal automobile manufacturers, especially Ford and Toyota, may not continue to enjoy high customer satisfaction with their products and they may not continue to support and make high-demand vehicles available to us
- requirements imposed on us by our manufacturers may affect our acquisitions and capital expenditures related to our dealership facilities
- our dealership operations may not perform at expected levels or achieve expected improvements

- we may not achieve expected future cost savings and our future costs could be higher than we expected
- available capital resources and various debt agreements may limit our ability to repurchase shares. Any repurchases of our stock may be made, from time to time, in accordance with applicable securities laws, in the open market or in privately negotiated transactions at such time and in such amounts, as we consider appropriate
- available capital resources may limit our ability to complete acquisitions
- available capital resources may limit our ability to complete construction of new or expanded facilities

The information contained in this annual report, including the information set forth under the heading "Business," identify 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.

Qualitative and Quantitative Disclosures About Market Risk

The table below provides information about our market-sensitive financial instruments and constitutes a "forward-looking statement." Our major market-risk exposure is changing interest rates. Our policy is to manage interest rates through use of a combination of fixed and floating rate debt. Interest rate swaps may be used to adjust interest rate exposures when appropriate, based upon market conditions. These swaps are entered into with financial institutions with investment grade credit ratings, thereby minimizing the risk of credit loss. All items described are non-trading.

	Expected Maturity Date							Fair Value
(dollars in millions)	2001	2002	2003	2004	2005	There-after	Total	Dec. 31, 2000
VARIABLE RATE DEBT								
Current	$0.1	$ —	$536.7	$ —	$ —	$ —	$536.8	$536.8
Average interest rates	8.35%	—	7.97%	—	—	—		
Non-current	$ —	$0.2	$ 35.3	$ —	$ —	$ —	$ 35.5	$ 35.5
Average interest rates	—	8.35%	8.70%	—	—	—		
Total variable rate debt	$0.1	$0.2	$572.0	$0.0	$0.0	$0.0	$572.3	
Interest rate swap	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Average pay rate (fixed)	—	—	—	—	—	—		
Average receive rate (variable)	—	—	—	—	—	—		
Net variable rate debt	$0.1	$0.2	$572.0	$0.0	$0.0	$0.0	$572.3	

We receive interest assistance from various manufacturers. In general, this assistance equals approximately 80% to 90% of our floorplan notes payable interest expense. During 2000, we recognized $31.1 million of assistance, which we accounted for as a purchase discount and reflected as a reduction of cost of sales in the income statement as vehicles were sold.

Consolidated Balance Sheets

(in thousands)

	December 31,	
	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 140,878	$118,824
Accounts and notes receivable, net	39,709	35,296
Inventories	527,101	386,255
Deferred income taxes	7,661	8,619
Other assets	5,190	4,429
Total current assets	720,539	553,423
Property and Equipment, net	70,901	46,711
Goodwill, net	285,892	235,312
Other Assets	22,221	7,464
Total assets	$1,099,553	$842,910
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Floorplan notes payable	$ 536,707	$363,489
Current maturities of long-term debt	1,506	1,076
Accounts payable	57,872	46,437
Accrued expenses	69,685	62,293
Total current liabilities	665,770	473,295
Debt, net of current maturities	45,949	15,285
Senior Subordinated Notes	94,444	97,889
Deferred Income Taxes	8,668	3,217
Other Liabilities	37,306	21,195
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, 1,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 50,000,000 shares authorized, 21,260,227 and 21,801,367 issued	213	218
Additional paid-in capital	170,683	181,398
Retained earnings	92,517	51,705
Treasury stock, at cost, 1,494,488 and 78,609 shares	(15,997)	(1,292)
Total stockholders' equity	247,416	232,029
Total liabilities and stockholders' equity	$1,099,553	$842,910

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

Consolidated Statements of Operations

(dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2000	1999	1998
Revenues:			
New vehicle sales	$2,165,954	$1,465,759	$ 931,205
Used vehicle sales	1,003,759	750,807	510,192
Parts and service sales	306,089	212,970	139,144
Other dealership revenues, net	110,344	78,788	49,516
Total revenues	3,586,146	2,508,324	1,630,057
Cost of Sales:			
New vehicle sales	1,996,264	1,344,120	857,109
Used vehicle sales	923,819	691,499	471,910
Parts and service sales	138,626	96,348	64,528
Total cost of sales	3,058,709	2,131,967	1,393,547
Gross Profit	527,437	376,357	236,510
Selling, General and Administrative Expenses	393,679	279,791	178,038
Income from operations before non-cash charges	133,758	96,566	58,472
Depreciation Expense	7,587	4,853	3,783
Amortization Expense	8,451	5,763	2,643
Income from operations	117,720	85,950	52,046
Other Income and (Expenses):			
Floorplan interest expense, before manufacturer interest assistance	(37,536)	(20,395)	(12,837)
Other interest expense, net	(15,500)	(10,052)	(4,027)
Other income, net	1,142	186	39
Income Before Income Taxes	65,826	55,689	35,221
Provision for Income Taxes	25,014	22,174	14,502
Net Income	$ 40,812	$ 33,515	$ 20,719
Earnings per share:			
Basic	$ 1.91	$ 1.62	$ 1.20
Diluted	$ 1.88	$ 1.55	$ 1.16
Weighted average shares outstanding:			
Basic	21,377,902	20,683,308	17,281,165
Diluted	21,709,833	21,558,920	17,904,878

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

Consolidated Statements of Stockholders' Equity

(dollars in thousands)

	Common Stock		Additional Paid-In	Retained Earnings	Treasury	
	Shares	Amount	Capital	(Deficit)	Stock	Total
Balance, December 31, 1997	14,673,051	$147	$ 91,846	$ (2,529)	$ (92)	$ 89,372
Net income	—	—	—	20,719	—	20,719
Issuance of common stock in acquisitions	3,516,805	35	26,770	—	—	26,805
Proceeds from sales of common stock under employee benefit plans	234,650	1	2,063	—	—	2,064
Issuance of treasury stock to employee benefit plan	(156,991)	—	(2,210)	—	2,210	—
Purchase of treasury stock	—	—	—	—	(2,776)	(2,776)
Balance, December 31, 1998	18,267,515	183	118,469	18,190	(658)	136,184
Net income	—	—	—	33,515	—	33,515
Common stock offering, net	2,000,000	20	42,866	—	—	42,886
Issuance of common stock in acquisitions	1,459,852	15	21,069	—	—	21,084
Proceeds from sales of common stock under employee benefit plans	322,195	3	4,195	—	—	4,198
Issuance of treasury stock to employee benefit plan	(248,195)	(3)	(5,201)	—	5,204	—
Purchase of treasury stock	—	—	—	—	(5,838)	(5,838)
Balance, December 31, 1999	21,801,367	218	181,398	51,705	(1,292)	232,029
Net income	—	—	—	40,812	—	40,812
Issuance of common stock in acquisitions	633,888	6	6,223	—	—	6,229
Proceeds from sales of common stock under employee benefit plans	413,004	4	3,680	—	—	3,684
Issuance of treasury stock to employee benefit plan	(341,004)	(3)	(4,510)	—	4,513	—
Purchase of treasury stock	—	—	—	—	(35,338)	(35,338)
Cancellation of treasury stock purchased	(1,247,028)	(12)	(16,108)	—	16,120	—
Balance, December 31, 2000	**21,260,227**	**$213**	**$170,683**	**$92,517**	**$(15,997)**	**$247,416**

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

Consolidated Statements of Cash Flows

(dollars in thousands)

	Year Ended December 31,		
	2000	1999	1998
Cash Flows From Operating Activities:			
Net income	$ 40,812	$ 33,515	$ 20,719
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,038	10,616	6,426
Deferred income taxes	6,370	4,011	(4,201)
Provision for doubtful accounts and uncollectible notes	1,176	1,153	356
Gain on sale of assets	(87)	(53)	(115)
Gain on sale of franchise	(1,048)	—	—
Changes in assets and liabilities:			
Accounts receivable	(1,930)	(4,717)	(4,544)
Inventories	(78,480)	(49,079)	44
Prepaid expenses and other assets	(2,167)	(3,487)	(2,661)
Floorplan notes payable	113,424	68,584	(1,730)
Accounts payable and accrued expenses	1,484	12,681	9,983
Total adjustments	54,780	39,709	3,558
Net cash provided by operating activities	95,592	73,224	24,277
Cash Flows From Investing Activities:			
Increase in notes receivable	(2,933)	(2,452)	(2,276)
Collections on notes receivable	1,413	1,040	1,630
Purchases of property and equipment	(17,252)	(27,382)	(9,695)
Proceeds from sale of property and equipment	1,371	11,705	20,238
Proceeds from sales of franchises	9,700	—	—
Cash paid in acquisitions, net of cash received	(65,067)	(109,855)	(68,122)
Net cash used in investing activities	(72,768)	(126,944)	(58,225)
Cash Flows From Financing Activities:			
Net borrowings (payments) on revolving credit facility	25,250	(32,000)	75,523
Principal payments of long-term debt	(6,321)	(3,610)	(10,001)
Borrowings of long-term debt	1,098	5,684	490
Proceeds from common stock offering, net	—	42,886	—
Proceeds from senior subordinated notes offering, net	—	94,781	—
Purchase of senior subordinated notes	(3,587)	—	—
Proceeds from issuance of common stock to benefit plans	3,684	4,198	2,063
Purchase of treasury stock, net of payables for purchases	(20,894)	(5,838)	(2,776)
Net cash provided by (used in) financing activities	(770)	106,101	65,299
Net Increase In Cash and Cash Equivalents	22,054	52,381	31,351
Cash and Cash Equivalents, beginning of period	118,824	66,443	35,092
Cash and Cash Equivalents, end of period	$140,878	$ 118,824	$ 66,443
Supplemental Disclosures of Cash Flow Information:			
Cash paid for:			
Interest	$ 53,226	$ 27,156	$ 15,218
Taxes	$ 19,150	$ 22,812	$ 17,832

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

Notes to Consolidated Financial Statements

1. Business and Organization:

Group 1 Automotive, Inc. is a leading operator in the automotive retailing industry. Group 1 Automotive, Inc. is a holding company with its primary operations and assets being its investments in its subsidiaries. These subsidiaries sell new and used cars and light trucks through their dealerships and Internet sites, provide maintenance and repair services and arrange vehicle finance, service and insurance contracts. Group 1 Automotive, Inc. and its subsidiaries are herein collectively referred to as the "Company" or "Group 1."

2. Summary of Significant Accounting Policies:

Basis of Presentation

All acquisitions completed during the periods presented have been accounted for using the purchase method of accounting and their results of operations are included from the effective dates of the closings of the acquisitions. The allocations of purchase price to the assets acquired and liabilities assumed have been initially assigned and recorded based on preliminary estimates of fair value and may be revised as additional information concerning the valuation of such assets and liabilities becomes available. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Revenues from vehicle sales, parts sales and vehicle service are recognized upon completion of the sale and delivery to the customer.

Finance, Insurance and Service Contract Income Recognition

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

The Company may be charged back ("chargebacks") for unearned financing fees or vehicle service contract commissions in the event of early termination of the contracts by customers. The revenues from financing fees and commissions are recorded at the time of the sale of the vehicles and a reserve for future chargebacks is established based on historical operating results and the termination provisions of the applicable contracts. Finance and vehicle service contract revenues, net of estimated chargebacks, are included in other dealership revenue in the accompanying consolidated financial statements.

The Company has consolidated the operations of its reinsurance company, effective January 1, 2000. The Company reinsures the credit life and accident and health policies sold by its dealerships. All of the revenues and related direct cost from the sales of these policies are deferred and recognized over the life of the policies, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 60.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments that have an original maturity of three months or less at the date of purchase, as well as contracts-in-transit. Contracts-in-transit represent contracts on vehicles sold, for which the proceeds are in transit from financing institutions. As of December 31, 2000 and 1999, contracts-in-transit totaled $117.6 and $91.7 million, respectively.

Inventories

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

The Company receives interest assistance from various of the automobile manufacturers. The assistance is accounted for as a purchase discount and is reflected as a reduction to the inventory cost on the balance sheet and as a reduction to cost of sales in the income statement as the vehicles are sold.

Property and Equipment

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

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

Goodwill

Goodwill represents the excess of the purchase price of dealerships acquired over the fair value of tangible assets acquired at the date of acquisition. Goodwill is amortized on a straight-line basis over 40 years. Amortization expense charged to operations totaled approximately $6.7, $4.5, and $2.2 million for the years ended December 31, 2000, 1999 and 1998, respectively. Accumulated amortization totaled approximately $13.7 and $7.0 million as of December 31, 2000 and 1999, respectively.

Income Taxes

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

Self-Insured Medical and Property/Casualty Plans

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

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of floorplan notes payable and long-term debt. The carrying amount of these financial instruments approximates fair value due either to length of maturity or existence of variable interest rates that approximate market rates. Specifically, the carrying value of the Company's senior subordinated notes approximates fair value as they were trading in the market at prices near book value.

Advertising

The Company expenses production and other costs of advertising as incurred. Advertising expense for the years ended December 31, 2000, 1999, and 1998 totaled $38.1, $25.9 and $16.8 million, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management in the accompanying financial statements relate to reserves for vehicle valuations, retail loan guarantees and future chargebacks on finance and service contract income. Actual results could differ from those estimates.

Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include contracts-in-transit, which are typically collected within 15 days. Additionally, the net change in floorplan financing of inventory, which is a customary financing technique in the industry, is reflected as an operating activity in the statements of cash flows.

Earnings Per Share

SFAS No. 128 requires the presentation of basic earnings per share and diluted earnings per share in financial statements of public enterprises. Under the provisions of this statement, basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impacts of all potentially dilutive securities. The following table sets forth the shares outstanding for the earnings per share calculations for the years ended December 31, 2000, 1999 and 1998:

	Year Ended December 31,		
	2000	1999	1998
Common stock issued, beginning of period	21,801,367	18,267,515	14,673,051
Weighted average common stock issued in offerings	—	1,664,049	—
Weighted average common stock issued in acquisitions	633,888	739,071	2,591,834
Weighted average common stock issued to employee stock purchase plan	208,202	128,757	90,123
Weighted average common stock issued in stock option exercises	14,191	32,978	15,953
Less: Weighted average treasury shares purchased and weighted average shares repurchased and cancelled	(1,279,746)	(149,062)	(89,796)
Shares used in computing basic earnings per share	21,377,902	20,683,308	17,281,165
Dilutive effect of stock options, net of assumed repurchase of treasury stock	331,931	875,612	623,713
Shares used in computing diluted earnings per share	21,709,833	21,558,920	17,904,878

Recent Accounting Pronouncements

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The accounting for changes in the fair value of a derivative (that is, gains or losses) depends on the intended use of the derivative and the resulting designation. SFAS No. 137 amended the effective date to be for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS No. 138, issued in June 2000, addresses a limited number of issues that were causing implementation difficulties for numerous entities applying SFAS No. 133. Management does not believe that the adoption of this statement will have a material impact on the financial position or results of operations of the Company.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition." SAB No. 101 is effective for years beginning after December 31, 1999, and provides guidance related to recognizing revenue in circumstances where no specific accounting standards exist. Adoption of SAB No. 101 did not have a material impact on the Company's revenue recognition policies.

Business Segment Information

The Company, through its operating companies, operates in the automotive retailing industry. All of the operating companies sell new and used vehicles, provide maintenance and repair services, sell replacement parts and arrange vehicle financing, service and insurance contracts. For the reasons discussed below, all of our operating companies represent one reportable segment under

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." Accordingly, the accompanying consolidated financial statements reflect the operating results of the Company's reportable segment.

The Company's operating companies deliver the same products and services to a common customer group. The Company's customers, generally, are individuals. All of the operating companies, generally, follow the same procedures and methods in managing their operations. Each operating company also operates in a similar regulatory environment. The Company's management evaluates performance and allocates resources based on the operating results of the individual operating companies.

3. Business Combinations:

During 2000, the Company acquired 16 automobile dealership franchises. These acquisitions were accounted for as purchases. The aggregate consideration paid in completing these acquisitions, including real estate acquired, and satisfying certain contingent acquisition payment arrangements from previous transactions included approximately $65.1 million in cash, net of cash received, $6.8 million of acquisition payments payable, the issuance of approximately 630,000 shares of restricted/unregistered common stock, the assumption of an estimated $59.8 million of inventory financing and the assumption of approximately $11.1 million of notes payable. The consolidated balance sheet includes preliminary allocations of the purchase price of the acquisitions, which are subject to final adjustment. These allocations resulted in recording approximately $64.3 million of goodwill, which is being amortized over 40 years.

During 1999, the Company acquired 32 automobile dealership franchises. These acquisitions were accounted for as purchases. The aggregate consideration paid in completing these acquisitions, including real estate acquired, and satisfying certain contingent acquisition payment arrangements from previous transactions included approximately $109.9 million in cash, net of cash received, approximately 1.5 million shares of common stock and the assumption of an estimated $101.5 million of inventory financing and approximately $500,000 of notes payable. The purchase price allocations resulted in recording approximately $116.2 million of goodwill, which is being amortized over 40 years.

During 1998, the Company acquired 33 automobile dealership franchises. These acquisitions were accounted for as purchases. The aggregate consideration paid in completing these acquisitions, including real estate acquired, included approximately $68.1 million in cash, net of cash received, approximately 3.5 million shares of common stock and the assumption of an estimated $103.1 million in inventory financing and $2.9 million of mortgage financing. The purchase price allocations resulted in recording approximately $98.7 million of goodwill, which is being amortized over 40 years.

The following pro forma financial information consists of income statement data from continuing operations as presented in the consolidated financial statements plus (1) unaudited income statement data for all acquisitions completed before December 31, 2000, assuming that they occurred on January 1, 1999, (2) the completion of our March 1999 offerings of two million shares of common stock and $100 million of senior subordinated notes, assuming they occurred on January 1, 1999, and (3) certain pro forma adjustments discussed below.

(in millions, except per share amounts) (unaudited)	2000	1999
Revenues	$3,783.3	$3,566.0
Gross profit	551.3	514.7
Income from operations	121.3	117.3
Net income	40.4	42.6
Basic earnings per share	1.89	1.90
Diluted earnings per share	1.86	1.83

Pro forma adjustments included in the amounts above primarily relate to: (a) increases in revenues related to changes in the contractual commission arrangements on certain third-party products sold by the dealerships; (b) pro forma goodwill amortization expense over an estimated useful life of 40 years; (c) reductions in compensation expense and management fees to the level that certain management employees and owners of the acquired companies will contractually receive; (d) incremental corporate overhead costs related to personnel costs, rents, professional service fees and directors and officers liability insurance premiums; (e) net increases in interest expense resulting from net cash borrowings utilized to complete acquisitions, partially offset by interest rate reductions received; and (f) incremental provisions for federal and state income taxes relating to the compensation differential, S Corporation income and other pro forma adjustments.

4. Detail of Certain Balance Sheet Accounts:

Accounts and notes receivable consist of the following:

	December 31,	
(in thousands)	2000	1999
Amounts due from manufacturers	$19,882	$17,189
Parts and service receivables	9,446	6,786
Due from finance companies	6,196	6,177
Other	6,920	6,783
Total accounts and notes receivable	42,444	36,935
Less—Allowance for doubtful accounts	(2,735)	(1,639)
Accounts and notes receivable, net	$39,709	$35,296

Inventories, net of valuation reserves, consist of the following:

(in thousands)	December 31, 2000	1999
New vehicles	$420,541	$286,815
Used vehicles	69,656	68,287
Rental vehicles	11,513	11,115
Parts, accessories and other	25,391	20,038
Total inventories	$527,101	$386,255

5. Property and Equipment:

Property and equipment consist of the following:

(in thousands)	Estimated Useful Lives in Years	December 31, 2000	1999
Land	—	$ 16,285	$ 5,985
Buildings	30 to 40	13,862	7,701
Leasehold improvements	7 to 15	10,835	10,586
Machinery and equipment	3 to 7	24,039	16,480
Furniture and fixtures	5 to 7	20,208	13,958
Company vehicles	5	3,510	2,596
Total		88,739	57,306
Less—Accumulated depreciation		(17,838)	(10,595)
Property and equipment, net		$ 70,901	$ 46,711

6. Floorplan Notes Payable:

Floorplan notes payable reflect amounts payable for the purchase of specific vehicle inventory and consist of the following:

(in thousands)	December 31, 2000	1999
New vehicles	$484,108	$320,058
Used vehicles	40,908	32,719
Rental vehicles	11,691	10,712
Total floorplan notes payable	$536,707	$363,489

The Company obtains its floorplan financing through its Revolving Credit Agreement with a lending group (the “Credit Facility”). The lending group making up the Credit Facility is comprised of 15 major financial institutions, including five manufacturer captive finance companies. The manufacturer captive finance companies include Ford Motor Credit Company, Toyota Motor Credit Company, BMW Financial Services, N.A., Inc., Chrysler Financial Company, L.L.C. and

Mercedes-Benz Credit Corporation. The maturity date of the Credit Facility is December 31, 2003. The notes payable bear interest at the London Interbank Offered Rate ("LIBOR") plus 112.5 basis points. As discussed more fully in Note 1, the Company receives interest assistance from various automobile manufacturers. The assistance, generally, equals approximately 80% to 90% of the Company's floorplan notes payable interest expense.

As of December 31, 2000 and 1999, the interest rate on floorplan notes payable outstanding was 7.97% and 7.72%, respectively. The floorplan arrangement permits the Company to borrow up to $702 million, dependent upon new and used vehicle inventory levels. As of December 31, 2000, total available borrowings under floorplan agreements were approximately $165 million.

Vehicle payments on the notes are due when the related vehicles are sold. The notes are collateralized by substantially all of the inventories of the Company.

7. Long-Term Debt:

	December 31,	
(in thousands)	2000	1999
Credit Facility (described below)	$35,250	$10,000
Real estate note payable, maturing June 2018, bearing interest at 9.01%, with a monthly payment of $54,023	5,699	—
Note payable, maturing June 2013, bearing interest at 8.89%, with a monthly payment of $36,774	3,321	—
Related party notes payable, maturing in November 2007, bearing interest at LIBOR plus 400 basis points	—	3,835
Other notes payable, maturing in varying amounts through February 2006 with a weighted average interest rate of 8.63%	3,185	2,526
Total long-term debt	47,455	16,361
Less—Current portion	(1,506)	(1,076)
Long-term portion	$45,949	$15,285

In addition to floorplan notes payable, the Credit Facility provides an acquisition line of credit of up to $198 million, for the financing of acquisitions, general corporate purposes or capital expenditures. The amount of funds available under the acquisition line is dependent upon a calculation based on the Company's cash flow and maintaining certain financial ratios. The acquisition line of credit of the Credit Facility bears interest based on the LIBOR plus a margin varying from 175 to 325 basis points, dependent upon certain financial ratios. Additionally, the loan agreement contains various covenants including financial ratios, such as, fixed-charge coverage, interest coverage and a minimum net worth requirement, among others, and other requirements, which must be maintained by the Company. As of December 31, 2000, the Company was in compliance with the requirements of the debt agreement. The agreement allows 33% of net income to be paid as cash dividends. The interest rate on borrowings under the acquisition line of credit of the Credit Facility was 8.70% and 8.21%, at December 31, 2000 and 1999, respectively. Land, buildings or other assets secure all of the notes payable.

Total interest incurred on long-term debt was approximately $5.7, $2.4 and $4.5 million for the years ended December 31, 2000, 1999 and 1998, respectively, which included approximately $352,000 and $592,000 of capitalized interest in 2000 and 1999, respectively.

The aggregate maturities of long-term debt as of December 31, 2000, were as follows (in thousands):

2001	$ 1,506
2002	1,685
2003	36,003
2004	493
2005	492
Thereafter	7,276
Total long-term debt	$47,455

8. Senior Subordinated Notes:

The Company completed the offering of $100 million of its 10 7/8% Senior Subordinated Notes due 2009 (the "Notes") on March 5, 1999. The Notes pay interest semi-annually on March 1 and September 1, each year. Before March 1, 2002, the Company may redeem up to $35 million of the Notes with the proceeds of certain public offerings of common stock at a redemption price of 110.875% of the principal amount plus accrued interest to the redemption date. Additionally, the Company may redeem all or part of the Notes at redemption prices of 105.438%, 103.625%, 101.813% and 100.000% of the principal amount plus accrued interest during the twelve-month periods beginning March 1, of 2004, 2005, 2006, and 2007 and thereafter, respectively. The Notes are jointly and severally guaranteed, on an unsecured senior subordinated basis, by all subsidiaries of the Company (the "Subsidiary Guarantors"), other than certain minor subsidiaries. All of the Subsidiary Guarantors are wholly-owned subsidiaries of the Company. Certain manufacturers have minimum working capital guidelines, which may limit a subsidiary's ability to make distributions to the parent company.

Total interest expense on the senior subordinated notes for the years ended December 31, 2000 and 1999, was approximately $10.7 million and $9.1 million, respectively.

9. Capital Stock and Stock Options:

In 1996, Group 1 adopted the 1996 Stock Incentive Plan (the "Plan"), which provides for the granting or awarding of stock options, stock appreciation rights and restricted stock to officers and other key employees and directors. The number of shares authorized and reserved for issuance under the Plan is 4.5 million shares, of which 757,498 are available for future issuance as of December 31, 2000. In general, the terms of the option awards (including vesting schedules) are established by the Compensation Committee of the Company's Board of Directors. All outstanding options are exercisable over a period not to exceed 10 years and vest over three- to six-year periods.

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

	Number	Weighted Average Exercise Price
Options outstanding, December 31, 1997	1,247,450	$ 7.88
Grants (exercise prices between $12.00 and $17.88 per share)	780,850	16.16
Exercised	(49,973)	3.13
Forfeited	(99,648)	13.27
Options outstanding, December 31, 1998	1,878,679	11.15
Grants (exercise prices between $16.47 and $24.72 per share)	1,015,850	19.64
Exercised	(75,600)	3.09
Forfeited	(76,425)	13.42
Options outstanding, December 31, 1999	2,742,504	14.45
Grants (exercise prices between $9.38 and $12.29 per share)	1,137,050	11.00
Exercised	(74,800)	3.24
Forfeited	(262,625)	17.39
Options outstanding, December 31, 2000	**3,542,129**	**$13.34**

At December 31, 2000, 1999 and 1998, 799,111, 448,544 and 208,460 options, respectively, were exercisable at weighted average exercise prices of $11.88, $9.86 and $7.35, respectively. The weighted average fair value per share of options granted during the years ended December 31, 2000, 1999 and 1998 is $7.34, $13.40 and $9.18, respectively. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The following table summarizes the weighted average information used in determining the fair value of the options granted during the years ended December 31, 2000, 1999 and 1998:

	2000	1999	1998
Weighted average risk-free interest rate	**6.3%**	6.2%	5.5%
Weighted average expected life of options	**10 years**	10 years	10 years
Weighted average expected volatility	**46.4%**	47.4%	42.8%
Weighted average expected dividends	**—**	—	—

The following table summarizes information regarding stock options outstanding as of December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/00	Weighted Average Exercise Price
$ 2.90	370,280	6.1 years	$ 2.90	175,280	$ 2.90
$ 9.00 to $13.99	1,652,249	8.6	11.32	296,658	12.02
$14.00 to $19.99	1,284,350	8.2	16.90	327,173	16.55
$20.00 to $25.00	235,250	8.3	24.42	—	—
Total	3,542,129	8.2	$13.34	799,111	$11.88

In September 1997, Group 1 adopted the Group 1 Automotive, Inc. 1998 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan authorizes the issuance of up to 1 million shares of Common Stock and provides that no options may be granted under the Purchase Plan after June 30, 2007. The Purchase Plan is available to all employees of the Company and its participating subsidiaries and is a qualified plan as defined by Section 423 of the Internal Revenue Code. At the end of each fiscal quarter (the "Option Period") during the term of the Purchase Plan, the employee contributions are used to acquire shares of Common Stock at 85% of the fair market value of the Common Stock on the first or the last day of the Option Period, whichever is lower. During 2000, 1999 and 1998, the Company issued 338,204, 246,595 and 184,677 shares, respectively, of Common Stock to employees participating in the Purchase Plan.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which, if fully adopted, requires the Company to record stock-based compensation at fair value. The Company has adopted the disclosure requirements of SFAS No. 123 and has elected to record employee compensation expense in accordance with Accounting Principles Board Opinion No. 25. Accordingly, compensation expense is recorded for stock options based on the excess of the fair market value of the common stock on the date the options were granted over the aggregate exercise price of the options. As the exercise price of options granted under the Plan has been equal to or greater than the market price of the Company's stock on the date of grant, no compensation expense related to the Plan has been recorded. Additionally, no compensation expense is recorded for shares issued pursuant to the Purchase Plan as it is a qualified plan.

Had compensation expense for the Plan been determined based on the provisions of SFAS No. 123, the impact on the Company's net income would have been as follows:

	Year Ended December 31,		
(in thousands, except per share amounts)	**2000**	1999	1998
Net income as reported	**$40,812**	$33,515	$20,719
Pro forma net income under SFAS 123	**37,496**	31,254	19,519
Pro forma basic earnings per share	**1.75**	1.51	1.13
Pro forma diluted earnings per share	**1.73**	1.45	1.09

10. Operating Leases:

The Company leases various facilities and equipment under long-term operating lease agreements, including leases with related parties. The third-party and related-party leases expire on various dates through December 2030 and, in general, have renewal or cancellation options, at the Company's option, at various times during the lease term.

Future minimum lease payments for operating leases are as follows:

	Year Ended December 31,		
(in thousands)	Related Parties	Third Parties	Total
2001	$ 6,553	$ 19,814	$ 26,367
2002	6,553	19,431	25,984
2003	6,553	19,351	25,904
2004	6,541	19,004	25,545
2005	6,413	17,966	24,379
Thereafter	39,545	105,223	144,768
Total	$72,158	$200,789	$272,947

Total rent expense under all operating leases, including operating leases with related parties, was approximately $28.3, $19.9 and $11.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. Rental expense on related-party leases, which is included in the above amounts, totaled approximately $10.9, $9.6 and $8.3 million for the years ended December 31, 2000, 1999 and 1998, respectively.

11. Income Taxes:

Federal and state income taxes are as follows:

	December 31,		
(in thousands)	2000	1999	1998
Federal:			
Current	$17,731	$ 16,632	$ 15,478
Deferred	5,163	2,360	(3,465)
State:			
Current	913	1,531	3,225
Deferred	1,207	1,651	(736)
Provision for income taxes	$25,014	$ 22,174	$ 14,502

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 35% in 2000, 1999 and 1998 to income before income taxes as follows:

	December 31,		
(in thousands)	2000	1999	1998
Provision at the statutory rate	$23,039	$ 19,491	$ 12,327
Increase (decrease) resulting from:			
State income tax, net of benefit for federal deduction	1,326	2,506	1,618
Non-deductible portion of goodwill amortization	691	407	339
Other	(42)	(230)	218
Provision for income taxes	$25,014	$ 22,174	$ 14,502

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

(in thousands)	December 31, 2000	1999
Inventory (LIFO conversion)	$ (2,950)	$ (5,401)
Reserves and accruals not deductible until paid	16,410	18,702
Goodwill amortization	(7,072)	(3,311)
Depreciation expense	(3,285)	(1,950)
Reinsurance operations	(2,122)	—
Other	(1,988)	(2,638)
Net deferred tax asset (liability)	$ (1,007)	$ 5,402

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

(in thousands)	December 31, 2000	1999
Deferred tax assets:		
Current	$ 10,622	$ 12,956
Long-term	11,521	8,114
Deferred tax liabilities:		
Current	(2,961)	(4,337)
Long-term	(20,189)	(11,331)
Net deferred tax asset (liability)	$ (1,007)	$ 5,402

12. Commitments and Contingencies:

Legal Proceedings

The Company is a defendant in several lawsuits arising from normal business activities. Management has reviewed pending litigation with legal counsel and believes that the ultimate liability, if any, resulting from such actions will not have a material adverse effect on the Company's financial position or results of operations. For example, we have been named as one of several defendants in a number of suits regarding deaths or injuries alleged to be attributable to tread separation of Firestone tires on Ford vehicles. While substantial damages have been sought in these suits, we believe that we have meritorious defenses and that we are entitled to seek indemnity from Ford or Bridgestone/Firestone, Inc. for any potential costs or liabilities associated with these suits.

13. Selected Quarterly Financial Data (Unaudited):

	Quarter				Year Ended December 31,
(in thousands, except per share data)	First	Second	Third	Fourth	Full Year
2000					
Total revenues	**$859,911**	**$930,137**	**$954,957**	**$841,141**	**$3,586,146**
Gross profit	**125,350**	**135,697**	**138,985**	**127,405**	**527,437**
Net income	**9,013**	**11,929**	**11,614**	**8,256**	**40,812**
Basic earnings per share	**0.40**	**0.55**	**0.54**	**0.41**	**1.91**
Diluted earnings per share	**0.40**	**0.54**	**0.54**	**0.41**	**1.88**
1999					
Total revenues	$489,351	$625,399	$701,790	$691,784	$2,508,324
Gross profit	76,194	93,657	105,095	101,411	376,357
Net income	6,157	9,177	10,519	7,662	33,515
Basic earnings per share	0.33	0.44	0.49	0.36	1.62
Diluted earnings per share	0.31	0.42	0.48	0.35	1.55

Report of Independent Public Accountants

To Group 1 Automotive, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Group 1 Automotive, Inc. and Subsidiaries (a Delaware corporation) (the "Company") as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Houston, Texas
February 15, 2001

Corporate Information

Board of Directors
Standing from left:
Robert E. Howard II
Charles M. Smith
B.B. Hollingsworth, Jr.
John L. Adams
Sterling B. McCall, Jr.

Sitting from left:
Bennett E. Bidwell
John H. Duncan

Board of Directors

John L. Adams[1,2]	*Executive Vice President, Trinity Industries, Inc.*
Bennett E. Bidwell[1*,2]	*Retired Chairman, Chrysler Motors Corporation*
John H. Duncan[1,2*]	*Private Investor*
B.B. Hollingsworth, Jr.	*Chairman, President and Chief Executive Officer*
Robert E. Howard II	*President, Bob Howard Auto Group*
Sterling B. McCall, Jr.[3]	*Chairman, McCall Auto Group*
Charles M. Smith	*Senior Vice President, Industry Relations*

[1] *Member Audit Committee*
[2] *Member Compensation Committee*
[3] *Advisory Board Member and Consultant*
**Committee Chairman*

Officers

B.B. Hollingsworth, Jr.	*Chairman, President and Chief Executive Officer*
John S. Bishop	*Senior Vice President, Operations*
Charles M. Smith	*Senior Vice President, Industry Relations*
Scott L. Thompson	*Senior Vice President, Chief Financial Officer and Treasurer*
John T. Turner	*Senior Vice President, Corporate Development*
H. Clifford Buster III	*Vice President, Financial Operations*
Randy L. Callison	*Vice President, Corporate Development*
J. Brooks O'Hara	*Vice President, Human Resources*
Michael J. Poppe	*Vice President and Corporate Controller*
Scott J. Ross	*Vice President, Fixed Operations*

Corporate Headquarters

Group 1 Automotive, Inc.
950 Echo Lane, Suite 100
Houston, Texas 77024
713.647.5700
www.group1auto.com

Annual Meeting

Wednesday, May 23, 2001
10:00 AM
JPMorgan Chase
707 Travis Street
Mezzanine Board Room
Houston, Texas

Common Stock Listing

Ticker Symbol: GPI
New York Stock Exchange

Independent Accountants

Arthur Andersen LLP
Houston, Texas

Stock Transfer Agent and Registrar

Mellon Investor Services LLC
Plaza of the Americas
600 North Pearl Street, Suite 1010
Dallas, Texas 75201-2884
214.922.4400

Common Stock Quarterly Data

Year Ended December 31,

	2000		1999	
	High	**Low**	**High**	**Low**
First Quarter	**14.6250**	**9.5000**	30.0000	18.3125
Second Quarter	**16.8750**	**10.5000**	26.9375	20.6875
Third Quarter	**12.1250**	**9.5625**	25.5000	17.7500
Fourth Quarter	**10.7500**	**8.0625**	18.3750	12.7500

There were 147 holders of record of our Common Stock as of February 28, 2001.

Designed by Curran & Connors, Inc. / www.curran-connors.com

GROUP 1 AUTOMOTIVE INC

www.group1auto.com

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

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