

GROUP 1 AUTOMOTIVE INC

Form 10-K

March 03, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-13461

Group 1 Automotive, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

76-0506313

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

800 Gessner, Suite 500

Houston, Texas 77024

(Address of principal executive offices, including zip code)

(713) 647-5700

(Registrant's telephone number, including area code)

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

Title of each class

Name of exchange on which registered

Common stock, par value \$0.01 per share

New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

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

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$1,480.4 million based on the reported last sale price of common stock on June 28, 2013, which was the last business day of the registrant's most recently completed second quarter.

As of February 25, 2014, there were 24,244,452 shares of our common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2014 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2013, are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Form 10-K”) includes certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (“Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (“Exchange Act”). This information includes statements regarding our plans, goals or current expectations with respect to, among other things:

- our future operating performance;
- our ability to maintain or improve our margins;
- operating cash flows and availability of capital;
- the completion of future acquisitions;
- the future revenues of acquired dealerships;
- future stock repurchases, refinancing of convertible notes and dividends;
- future capital expenditures;
- changes in sales volumes and availability of credit for customer financing in new and used vehicles and sales volumes in the parts and service markets;
- business trends in the retail automotive industry, including the level of manufacturer incentives, new and used vehicle retail sales volume, customer demand, interest rates and changes in industry-wide inventory levels; and
- availability of financing for inventory, working capital, real estate and capital expenditures.

Although we believe that the expectations reflected in these forward-looking statements are reasonable when and as made, we cannot assure you that these expectations will prove to be correct. When used in this Form 10-K, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements. Our forward-looking statements are not assurances of future performance and involve risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause our actual results to differ from those in the forward-looking statements are those described in Part I, “Item 1A. Risk Factors.”

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility to publicly release the result of any revision of our forward-looking statements after the date they are made.

## PART I

### Item 1. Business

#### General

Group 1 Automotive, Inc., a Delaware corporation organized in 1995, is a leading operator in the automotive retail industry. As of December 31, 2013, we owned and operated 147 franchises, representing 34 brands of automobiles, at 116 dealership locations and 28 collision service centers in the United States of America (“U.S.”), 19 franchises at 14 dealerships and four collision centers in the United Kingdom (“U.K.”) and 22 franchises at 18 dealerships and five collision centers in Brazil. Through our dealerships, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina, and Texas in the U.S., in 13 towns in the U.K., and in key metropolitan markets in the states of Sao Paulo and Parana in Brazil.

As of December 31, 2013, our U.S. retail network consisted of the following two regions (with the number of dealerships they comprised): (a) the East (48 dealerships in Alabama, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, and South Carolina) and (b) the West (68 dealerships in California, Kansas, Louisiana, Oklahoma, and Texas). Each U.S. region is managed by a regional vice president who reports directly to our Chief Executive Officer and is responsible for the overall performance of their region. The financial matters of each U.S. region are managed by a regional chief financial officer who reports directly to our Chief Financial Officer. In addition, as of December 31, 2013, we had two international regions one of which consisted of the 14 dealerships in the U.K. and the other of which consisted of the 18 dealerships in Brazil. Our international regions are also managed locally with direct reporting responsibilities to our corporate management team.

As discussed in more detail in Note 2 of our Consolidated Financial Statements, “Summary of Significant Accounting Policies and Estimates,” all of our operating subsidiaries are aligned into one of four operating segments. Our financial information, including our revenues from external customers, a measure of profit or loss, and total assets, is included in our Consolidated Financial Statements and related notes beginning on page F-1.

#### Business Strategy

Our business strategy is to leverage what we believe to be one of our key strengths — the talent of our people to: (a) sell new and used cars and light trucks; (b) arrange related vehicle financing, service and insurance contracts; (c) provide automotive maintenance and repair services; and (d) sell vehicle parts via an expanding network of franchised dealerships located primarily in growing regions of the U.S., the U.K. and Brazil. We believe, as evidenced by the significant industry experience of our executive officers, that over the last eight years we have continued to develop a distinguished management team with substantial industry expertise. With our management structure and level of executive talent, we plan to continue empowering the operators of our dealerships to make appropriate decisions to grow their respective dealership operations and to control fixed and variable costs. We believe this approach allows us to continue to attract and retain talented employees, as well as provide the best possible service to our customers.

We continue to primarily focus on the performance of our existing dealerships to achieve growth, capture market share, and maximize the investment return to our stockholders. For 2014, we will primarily focus on five key areas as we continue to become a best-in-class automotive retailer. These areas are:

- sustained growth of our higher margin parts and service business with an emphasis on service customer satisfaction and retention;
- capture of additional new and used vehicle retail market share;
- improvement of operating efficiencies and further leveraging of our cost base;
- further implementation of an operating model with greater commonality of key operating processes, systems and training that support the extension of best practices and the leveraging of scale as well as promote customer satisfaction; and
- enhancement of our current dealership portfolio by strategic acquisitions and improving or disposing of underperforming dealerships.

Our focus in our parts and service operations will be on targeted marketing efforts, strategic selling and operational efficiencies, as well as capital investments designed to support our growth targets.

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We made significant changes in our operating model during the last five years, which were designed to reduce variable and fixed expenses, appropriately leverage our scale and generate operating efficiencies. As our business grows in 2014 and beyond, we intend to manage our costs carefully and to look for opportunities to improve our operating efficiencies.

We continue our efforts to fully leverage our scale, reduce costs, enhance internal controls, and enable further growth and, as such, we are taking steps to standardize key operating processes. We believe that our management structure supports more rapid decision making and facilitates a quicker roll-out of new processes. Over the last four years, we have consolidated portions of our dealership accounting, human resources, and other administrative functions into regional centers and we implemented standardized training programs for our vehicle and service sales processes. We have also fully commonized key operating computer systems in the U.S. These actions represent key building blocks that we are using to more effectively manage the business operations, support extension of best practices, and further leverage the scale of the business. We are constantly evaluating opportunities to improve the profitability of our dealerships. We attempt to capitalize on our size, leverage, and ability to disseminate best practices in order to expedite these efforts.

In 2013, we completed 38 franchise acquisitions, which had an aggregate of \$1,317.0 million in expected annualized revenues estimated at the time of acquisition, and disposed of seven franchises with annual revenues of approximately \$318.9 million. We believe that substantial opportunities for growth through acquisitions remain in our industry. An absolute acquisition target has not been established for 2014, but we expect to acquire dealerships that meet our stringent acquisitions and return on investment criteria. We believe that as of December 31, 2013, we have sufficient financial resources to support additional acquisitions. We plan to focus our growth in geographically diverse areas with positive economic outlooks over the longer-term. Further, we intend to critically evaluate our return on invested capital in our current dealership portfolio for disposition opportunities. For more information on our acquisitions and dispositions, including those occurring in 2013, see "Acquisition and Divestiture Program" below.

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## Dealership Operations

Our operations are located in geographically diverse markets that extend domestically across 15 states and internationally in the U.K. and Brazil. By geographic area, our revenues from external customers for the years ended December 31, 2013, 2012, and 2011 were \$7,353.3 million, \$6,954.0 million and \$5,760.2 million from our domestic operations, respectively, and \$1,565.2 million, \$522.1 million, and \$319.5 million from our international operations, respectively. As of December 31, 2013, 2012, and 2011, our aggregate long-lived assets other than goodwill and intangible assets and financial instruments in our domestic operations were \$726.6 million, \$642.8 million, and \$569.4 million, respectively, and in our international operations were \$82.3 million, \$35.6 million, and \$28.0 million, respectively. For a discussion of the risks associated with our operations in the U.K. and Brazil, please see Part I, "Item 1A. Risk Factors." The following table sets forth the regions and geographic markets in which we operate, the percentage of new vehicle retail units sold in each region in 2013 and the number of dealerships and franchises in each region:

Region	Geographic Market	Percentage of Our New Vehicle Retail As of December 31, 2013		
		Units Sold During the Year Ended December 31, 2013	Number of Dealerships	Number of Franchises
East	Massachusetts	5.6	% 7	7
	New Jersey	4.2	7	7
	Georgia	3.5	8	11
	New York	2.7	4	5
	New Hampshire	2.3	3	3
	Louisiana	2.3	4	5
	South Carolina	1.6	4	4
	Mississippi	1.5	3	3
	Florida	1.3	4	4
	Alabama	0.8	2	2
	Maryland	0.6	2	2
West		26.4	48	53
	Texas	32.9	43	57
	California	10.3	7	11
	Oklahoma	7.7	13	20
	Kansas	2.5	4	4
	Louisiana	0.4	1	2
International		53.8	68	94
	Brazil	11.0	18	22
	United Kingdom	8.8	14	19
Total		100.0	% 148	188

Each of our local operations has a management structure designed to promote and reward entrepreneurial spirit and the achievement of team goals. The general manager of each dealership, with assistance from the managers of new vehicle sales, used vehicle sales, parts, service, and finance and insurance, is ultimately responsible for the operation, personnel and financial performance of the dealership. Our dealerships are operated as distinct profit centers, and our general managers have a reasonable degree of empowerment within our organization. In the U.S., each general manager reports to one of our market directors or one of two regional vice presidents. Our U.S. regional vice presidents report directly to our Chief Executive Officer and are responsible for the overall performance of their regions, as well as for overseeing the market directors and dealership general managers that report to them. Our U.K. and Brazil operations are structured similarly, with a regional vice president reporting directly to our Chief Executive Officer.



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New Vehicle Retail Sales

In 2013, we sold or leased 155,866 new vehicles representing 34 brands in retail transactions at our dealerships. Our retail sales of new vehicles accounted for 22.4% of our gross profit in 2013. In addition to the profit related to the transactions, a typical new vehicle retail sale or lease may create the following additional profit opportunities for our dealerships:

- manufacturer dealer incentives;
- the resale of any used vehicle trade-in purchased by the dealership;
- the sale of third-party finance, vehicle service and insurance contracts in connection with the retail sale;
- the sale of accessories or after-market products; and
- the service and repair of the vehicle both during and after the warranty period.

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We consider brand diversity to be one of our strengths and its importance was highlighted in 2011 when two of our largest manufacturer partners, Toyota and Honda, suffered from the natural disaster in Japan, halting production and severely limiting inventory supply for much of the year in these two brands. The following table sets forth new vehicle sales revenue by brand and the number of new vehicle retail units sold in the year ended, and the number of franchises we owned, as of December 31, 2013:

	New Vehicle Revenues	New Vehicle Unit Sales	% of Total Units Sold	Franchises Owned as of December 31, 2013
	(In thousands)			
Toyota	\$965,157	34,863	22.6	16
BMW	717,921	13,780	8.8	22
Ford	589,647	17,907	11.5	15
Honda	432,875	16,122	10.3	9
Nissan	400,445	15,415	9.9	12
Mercedes-Benz	383,334	6,652	4.3	6
Lexus	274,268	5,724	3.7	3
Audi	205,077	5,198	3.3	7
Chevrolet	157,462	4,480	2.9	5
Acura	117,667	3,097	2.0	4
Volkswagen	115,123	4,536	2.9	8
Hyundai	112,342	4,733	3.0	6
MINI	93,144	3,497	2.2	13
Land Rover	81,652	823	0.5	2
Jeep	76,797	2,214	1.4	6
GMC	70,153	1,749	1.1	5
Kia	56,958	2,501	1.6	3
Dodge	55,128	1,568	1.0	6
RAM	49,635	1,494	1.0	6
Renault	45,338	2,346	1.5	3
Peugeot	33,167	1,453	0.9	3
Cadillac	31,646	625	0.4	2
Volvo	24,690	655	0.4	2
Subaru	24,334	965	0.6	2
Buick	23,893	666	0.4	5
Chrysler	23,887	785	0.5	6
Infiniti	17,844	430	0.3	N/A <sup>(1)</sup>
Scion	17,603	827	0.5	N/A <sup>(2)</sup>
Lincoln	7,860	174	0.1	3
Porsche	5,795	68	0.0	1
Sprinter	5,198	122	0.1	2
smart	3,427	237	0.2	1
Jaguar	2,558	21	0.0	2
Fiat	2,225	112	0.1	1
Mazda	671	27	0.0	1
Total	\$5,224,921	155,866	100.0	188

(1) Franchise was disposed during the year ended December 31, 2013.

(2) The Scion brand is not considered a separate franchise, but rather is governed by our Toyota franchise agreements. We sell the Scion brand at our Toyota franchised locations.



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Our diversity by manufacturer, based on new vehicle unit sales for the years ended December 31, 2013, 2012, and 2011, is set forth below:

	For the Year Ended December 31,						
	2013	% of Total	2012	% of Total	2011	% of Total	
Toyota	41,419	26.6	% 38,951	30.3	% 30,975	30.4	%
Honda	19,219	12.3	14,302	11.1	10,870	10.7	
Ford	18,081	11.6	11,957	9.3	9,075	8.9	
BMW	17,277	11.1	14,529	11.3	13,357	13.1	
Nissan	15,845	10.2	14,638	11.4	13,957	13.7	
Volkswagen	9,802	6.3	8,439	6.6	2,800	2.7	
General Motors	7,520	4.8	7,237	5.6	5,723	5.6	
Hyundai	7,234	4.6	3,950	3.1	2,213	2.2	
Daimler	7,011	4.5	6,613	5.1	5,992	5.9	
Chrysler	6,173	4.0	5,624	4.4	4,642	4.5	
Other	6,285	4.0	2,310	1.8	2,418	2.3	
Total	155,866	100.0	% 128,550	100.0	% 102,022	100.0	%

Our new vehicle unit sales mix was affected by our acquisitions and dispositions during 2013 and 2012. And, again, our 2011 new vehicle unit sales mix was significantly impacted by the supply disruption resulting from the natural disaster in Japan that severely limited production from Toyota and Honda for much of the year.

Some new vehicles we sell are purchased by customers under lease or lease-type financing arrangements with third-party lenders. New vehicle leases generally have shorter terms, bringing the customer back to the vehicle market, and our dealerships specifically, sooner than if the vehicle purchase was debt financed. In addition, leasing provides our dealerships with a steady supply of late-model, off-lease vehicles to be sold as used vehicles. Generally, leased vehicles remain under factory warranty, allowing the dealerships to provide repair services for the contract term. However, the penetration of finance and insurance product sales on leases tends to be less than in other financing arrangements (such as debt financed vehicles). We typically do not guarantee residual values on lease transactions. Lease vehicle unit sales represented 16.8%, 19.6% and 19.9% of our total new vehicle retail unit sales for the years ended December 31, 2013, 2012 and 2011, respectively.

#### Used Vehicle Sales, Retail and Wholesale

We sell used vehicles at each of our franchised dealerships. In 2013, we sold or leased 98,813 used vehicles at our dealerships, and sold 50,736 used vehicles in wholesale markets. Our retail sales of used vehicles accounted for 12.4% of our gross profit in 2013. Used vehicles sold at retail typically generate higher gross margins on a percentage basis than new vehicles because of our ability to sell these vehicles at favorable prices due to their limited comparability, which is dependent on a vehicle's age, mileage and condition, among other things. Valuations also vary based on supply and demand factors, the level of new vehicle incentives, and the availability of retail financing and general economic conditions.

Profit from the sale of used vehicles depends primarily on a dealership's ability to obtain a high-quality supply of used vehicles at reasonable prices and to effectively manage that inventory. Our new vehicle operations provide our used vehicle operations with a large supply of generally high-quality trade-ins and off-lease vehicles, and are the best source of high-quality used vehicles. Our dealerships supplement their used vehicle inventory with purchases at auctions, including manufacturer-sponsored auctions available only to franchised dealers. We continue to extensively utilize a common used vehicle management software in all of our U.S. dealerships with the goal to enhance the management of used vehicle inventory, focusing on the more profitable retail used vehicle business and reducing our wholesale used vehicle business. This internet-based software tool enables our managers to make used vehicle inventory decisions based on real time market valuation data, and is an integral part of our used vehicle process. It also allows us to leverage our size and local market presence by expanding the pool from which used vehicles can be sold within a given market or region within the U.S., effectively broadening the demand for our used vehicle inventory. In addition, this software supports increased oversight of our assets in inventory, allowing us to better

control our exposure to used vehicles, the values of which typically decline over time.

In addition to active management of the quality and age of our used vehicle inventory, we have attempted to increase the total lifecycle profitability of our used vehicle operations by participating in manufacturer certification programs where available. Manufacturer certified pre-owned (“CPO”) vehicles typically cost more to recondition, but sell at a premium compared to other used vehicles and are available only from franchised new vehicle dealerships. Service loyalty also tends to be better for CPO vehicles. In some cases, CPO vehicles are eligible for manufacturer support, such as subsidized finance rates

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and extension of the manufacturer warranty. Our CPO vehicle sales in the U.S. and U.K. represented 32.2% of total used retail sales in 2013.

Parts and Service Sales

We sell replacement parts and provide maintenance and repair services at each of our franchised dealerships and provide collision repair services at the 37 collision centers that we operate. Our parts and service business accounted for 41.1% of our gross profit in 2013. We perform both warranty and non-warranty service work at our dealerships, primarily for the vehicle brand(s) sold at a particular location. Warranty work, customer pay, collision and wholesale accounted for 18.7%, 48.4%, 12.7% and 20.2%, respectively, of the revenues from our parts and service business in 2013. Our parts and service departments also perform used vehicle reconditioning and new vehicle preparation services for which they realize a profit when a vehicle is sold to a retail customer. However, the revenue for that internal work is eliminated from our parts and service revenue in the consolidation of our financial statements.

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

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

**Focus on Customer Relationships; Emphasize Preventative Maintenance.** Our dealerships seek to retain new and used vehicle customers as customers of our parts and service departments. To accomplish this goal, we use computer systems that track customers' maintenance records and provide advance notice to owners of vehicles purchased or serviced at our dealerships when their vehicles are due for periodic service. Our use of computer-based customer relationship management tools increases the reach and effectiveness of our marketing efforts, allowing us to target our promotional offerings to areas in which service capacity is under-utilized or profit margins are greatest. We continue to train our service personnel to establish relationships with their service customers to promote a long-term business relationship. And, we are focused on enhancing access to our service facilities by providing customers with readily-accessible means to schedule service appointments. We believe our parts and service activities are an integral part of the customer service experience, allowing us to create ongoing relationships with our dealerships' customers thereby deepening customer loyalty to the dealership as a whole.

**Sell Vehicle Service Contracts in Conjunction with Vehicle Sales.** Our finance and insurance sales departments attempt to connect new and used vehicle customers with vehicle service contracts, and thereby secure repeat customer business for our parts and service departments.

**Efficient Management of Parts Inventory.** Our dealerships' parts departments support their sales and service departments, selling factory-approved parts for the vehicle makes and models sold by a particular dealership. Parts are either used in repairs made in the service department, sold at retail to customers, or sold at wholesale to independent repair shops and other franchised dealerships. Our dealerships also frequently share parts with each other. Our dealerships employ parts managers who oversee parts inventories and sales. Software programs are used to monitor parts inventory, maximize sales, avoid obsolete and unused parts, and take advantage of manufacturer return procedures.

**Expansion of Collision Center Operations.** We plan to continue to grow our collision center operations.

- **Expansion in this segment of the business is not restricted by franchise agreements or manufacturer relationships.** We believe that our concentration of dealership operations in certain of the markets in which we operate significantly enhances the profit model.

Finance and Insurance Sales

Revenues from our finance and insurance operations consist primarily of fees for arranging financing, and vehicle service and insurance contracts in connection with the retail purchase of a new or used vehicle. Our finance and insurance business accounted for 24.1% of our gross profit in 2013. We offer a wide variety of third-party finance, vehicle service and insurance products in a convenient manner and at competitive prices. To increase transparency to our customers, we offer all of our products on menus that display pricing and other information, allowing customers to choose the products that suit their needs.

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

Extended Warranty, Vehicle Service and Insurance Products. We offer our customers a variety of vehicle warranty and extended protection products in connection with purchases of new and used vehicles, including:

- extended warranties;
- maintenance, or vehicle service, products and programs;
- guaranteed asset protection insurance, which covers the shortfall between a customer's contract balance and insurance payoff in the event of a total vehicle loss; and
- lease "wear and tear" insurance.

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

New and Used Vehicle Inventory Financing

Our dealerships finance their inventory purchases through the floorplan portion of our revolving credit facility and three separate floorplan credit facility arrangements with manufacturers that we represent, BMW, Volkswagen, and Ford, in addition to credit facilities we have with financial institutions in Brazil. Our revolving syndicated credit facility matures in June 2018 and provides a total borrowing capacity of \$1.7 billion, (the "Revolving Credit Facility"). We can expand the Revolving Credit Facility to its maximum commitment of \$1.95 billion, subject to participating lender approval. The Revolving Credit Facility consists of two tranches: a maximum of \$1.6 billion for vehicle inventory financing ("Floorplan Line"), as well as a maximum of \$320.0 million and a minimum of \$100.0 million for working capital and general corporate purposes, including acquisitions ("Acquisition Line"). The capacity under these two tranches can be re-designated within the overall \$1.7 billion commitment, subject to the aforementioned limits. However, the amount of available borrowing capacity under the Acquisition Line may be limited from time to time based upon the available borrowing base calculation within the debt covenants under the Revolving Credit Facility. We utilize our Floorplan Line to finance up to 80% of the value of our used vehicle inventory in the U.S., and up to 100% of the value of all new vehicle inventory in the U.S., other than new vehicles purchased from Ford.

We have a floorplan arrangement with Ford Motor Credit Company ("FMCC Facility") that provides \$200.0 million of floorplan financing capacity. We use the funds available under this arrangement to exclusively finance our U.S. inventories of new Ford vehicles sold by the lender's manufacturer affiliate. The FMCC Facility is an evergreen arrangement that may be canceled with 30 days notice by either party. Should the FMCC Facility no longer be available to us for financing of our new U.S. Ford inventory, we could utilize the available capacity under our Floorplan Line to finance our new Ford vehicle inventory.

We also finance certain rental vehicles through separate arrangements with the respective automobile manufacturers and utilize credit facilities with BMW Financial Services, Volkswagen Finance, and Ford Motor Credit Company ("FMCC") for the financing of new, used, and rental inventories associated with our U.K. operations. Many manufacturers offer interest assistance to offset a portion of floorplan interest charges incurred in connection with holding new vehicle inventory purchases, which we recognize as a reduction of cost of new vehicle sales.

We have credit facilities with financial institutions in Brazil, most of which are affiliated with the manufacturers, for the financing of new, used and rental vehicle inventories related to our Brazil operations. These facilities may be

canceled with notice by either party and bear interest at a benchmark rate, plus a surcharge that varies based upon the type of vehicle being financed.

Acquisition and Divestiture Program

We pursue an acquisition and divestiture program focused on the following objectives:

enhancing brand and geographic diversity with a primary focus on import and luxury brands;

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- creating economies of scale;
- delivering a targeted return on investment; and
- eliminating underperforming dealerships.

Since our inception, we have grown our business primarily through acquisitions. Over the five-year period from January 1, 2009 through December 31, 2013, we:

- purchased 75 franchises with expected annual revenues, estimated at the time of acquisition, of \$2.8 billion;
- disposed of or terminated 34 franchises with annual revenues of approximately \$660.2 million; and
- were granted eight new franchises by vehicle manufacturers with expected annual revenues, estimated at the time of grant, of \$110.2 million.

Acquisition Strategy. We seek to acquire large, profitable, well-established dealerships and franchises that are leaders in their markets to:

- expand into geographic areas we currently do not serve;
- expand our brand, product, and service offerings in our existing markets;
- capitalize on economies of scale in our existing markets; and/or
- increase operating efficiency and cost savings in areas such as used vehicle sourcing, advertising, purchasing, data processing, personnel utilization, and the cost of floorplan financing.

We typically pursue dealerships with superior operational management, whom we seek to retain. By retaining existing personnel who have experience and in-depth knowledge of their local market, we believe that we can mitigate the risks involved with employing and training new and untested personnel. In addition, our acquisition strategy targets the purchase of the related real estate to provide maximum operating flexibility.

We focus on the acquisition of dealerships or groups of dealerships that we believe offer opportunities for higher returns, and particularly on brands which provide growth opportunities for our parts and service operations and strengthen our operations in geographic regions in which we currently operate with attractive long-term economic prospects.

Recent Acquisitions. In 2013, we acquired 38 franchises with expected annualized revenues, estimated at the time of acquisition, of \$1.3 billion. The new franchises included: (a) 18 dealerships and five collision centers in Brazil; (b) four dealerships in the U.K.; and (c) nine dealerships in the U.S.

Divestiture Strategy. We continually review the investments in our dealership portfolio for disposition opportunities, based upon a number of criteria, including:

- the rate of return on our capital investment over a period of time;
- location of the dealership in relation to existing markets and our ability to leverage our cost structure;
- potential future capital investment requirements;
- the franchise; and
- existing real estate obligations, coupled with our ability to exit those obligations or identify an alternate use.

While it is our desire to only acquire profitable, well-established dealerships, at times we have been requested, in connection with the acquisition of a particular dealership group, to acquire dealerships that do not fit our acquisition strategy. We acquire such dealerships with the understanding that we may need to divest some, or all of them at some future time. The costs associated with such potential divestitures are included in our analysis of whether we acquire all dealerships in the same acquisition. Additionally, we may acquire a dealership whose profitability is marginal, but which we believe can be increased through various factors, such as: (a) change in management, (b) increase or improvement in facility operations, (c) relocation of facility based on demographic changes, (d) reduction in costs, or (e) sales training. If, after a period of time, a dealership's profitability does not positively respond, management will make the decision to sell the dealership to a third party, or, in a rare case, surrender the franchise back to the manufacturer. Management constantly monitors the performance of all of our dealerships, and routinely assesses the need for divestiture. In connection with divestitures, we are sometimes required to incur additional charges associated with lease terminations or the impairment of long-lived assets. We continue to rationalize our dealership portfolio and focus on increasing the overall profitability of our operations. In conjunction with the disposition of certain of our dealerships, we may also dispose of the associated real estate.

Recent Dispositions. During 2013, we disposed of seven franchises with annual revenues of approximately \$318.9 million.

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Competition

We operate in a highly competitive industry. In each of our markets, consumers have a number of choices in deciding where to purchase a new or used vehicle and how the purchase will be financed. Consumers also have options for the purchase of related parts and accessories, as well as the service and repair of vehicles.

In the U.S., according to The National Automobile Dealers Association, there were approximately 17,635 franchised automobile dealerships as of January 1, 2013, which was up from 17,500 as of January 1, 2012 and down 3,135 over the past five years. In addition, there were approximately 37,026 independent used vehicle dealers in the retail automotive industry.

In the U.K., according to the National Franchised Dealers Association, there were approximately 4,420 franchised dealerships as of January 2012, which was down from 4,518 as of January 2011. In addition, according to Automotive Management, there were 4,431 used vehicle dealers in 2012.

In Brazil, according to The National Association of Automobile Manufacturers, there were approximately 3,994 franchised automobile dealerships as of January 1, 2012, which was up 613 from January 1, 2009, 504 from January 1, 2010 and 280 from January 1, 2011.

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

**New and Used Vehicles.** We believe the principal competitive factors in the automotive retailing business are location, suitability of the facility, on-site management, the acceptance of a franchise to the market in which it is located, service, price, and selection. In the new vehicle market, our dealerships compete with other franchised dealerships in their market areas, as well as auto brokers, leasing companies, and internet companies that provide referrals to, or broker vehicle sales with, other dealerships or customers. We are subject to competition from dealers that sell the same brands of new vehicles that we sell and from dealers that sell other brands of new vehicles that we do not sell in a particular market. Our new vehicle dealer competitors also have franchise agreements with the various vehicle manufacturers and, as such, generally have access to new vehicles on the same terms as we do. We do not have any cost advantage in purchasing new vehicles from vehicle manufacturers, and our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area.

In the used vehicle market, our dealerships compete both in their local market and nationally, including over the internet, with other franchised dealers, large multi-location used vehicle retailers, local independent used vehicle dealers, automobile rental agencies, and private parties for the supply and resale of used vehicles.

**Parts, Service and Collision.** We believe the principal competitive factors in the parts and service business are the quality of customer service, the use of factory-approved replacement parts, familiarity with a manufacturer's brands and models, convenience, access to technology required for certain repairs and services (e.g., software patches, diagnostic equipment, etc.), location, price, the competence of technicians, and the availability of training programs to enhance such expertise. In the parts and service market, our dealerships compete with other franchised dealers to perform warranty repairs and sell factory replacement parts. Our dealerships also compete with other automobile dealers, franchised and independent service center chains, and independent repair shops for non-warranty repair and maintenance business. In addition, our dealerships sell replacement and aftermarket parts both locally and nationally over the internet in competition with franchised and independent retail and wholesale parts outlets. A number of regional or national chains offer selected parts and services at prices that may be lower than ours. Our collision centers compete with other large, multi-location companies, as well as local, independent, collision service operations.

**Finance and Insurance.** We face competition in arranging financing for our customers' vehicle purchases from a broad range of financial institutions. Many financial institutions now offer finance and insurance products over the internet, which may reduce our profits from the sale of these products. We believe the principal competitive factors in the finance and insurance business are convenience, interest rates, product availability, product knowledge and flexibility in contract length. We may be charged back for unearned financing, insurance contracts or vehicle service contract

fees in the event of early termination of the contracts by customers.

Acquisitions. We compete with other national dealer groups and individual investors for acquisitions. Increased competition, especially for certain luxury and import brands, may raise the cost of acquisitions. We cannot guarantee that there will be sufficient opportunities to complete desired acquisitions, nor are we able to guarantee that we will be able to complete acquisitions on terms acceptable to us.

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Financing Arrangements and Indebtedness

As of December 31, 2013, our total outstanding indebtedness and lease and other obligations were \$2,878.6 million, including the following:

- \$1,068.8 million under the Floorplan Line of our Revolving Credit Facility;
- \$60.0 million under the Acquisition Line of our Revolving Credit Facility;
- \$368.5 million of future commitments under various operating leases;
- \$237.0 million of term loans, entered into independently with four of our manufacturer-affiliated finance partners, Toyota Motor Credit Corporation (“TMCC”), Mercedes-Benz Financial Services USA LLC (“MBFS”), BMW Financial Services NA, LLC (“BMWFS”), and FMCC, as well as other third-party financial institutions, primarily to finance the purchase of real estate;
- \$160.3 million in carrying value of 2.25% convertible senior notes due 2036 (“2.25% Notes”);
- \$84.3 million in carrying value of 3.00% convertible senior notes due 2020 (“3.00% Notes”);
- \$191.0 million under our FMCC Facility;
- \$173.7 million under floorplan notes payable to various manufacturer affiliates and third-party financial institutions for foreign and rental vehicles;
- \$67.7 million under our five-year real estate credit facility (“Real Estate Credit Facility”);
- \$47.6 million of capital lease obligations related to real estate, as well as \$39.6 million of estimated interest;
- \$43.0 million of various other debt obligations;
- \$26.1 million of obligations from interest rate risk management activities, as well as \$48.4 million of estimated interest associated therewith;
- \$201.7 million of estimated interest payments on floorplan notes payable and other long-term debt obligations;
- \$32.0 million of letters of credit, to collateralize certain obligations, issued under the Acquisition Line; and
- \$28.9 million of other short and long-term purchase commitments.

As of December 31, 2013, we had the following amounts available for additional borrowings under our various credit facilities:

- \$311.2 million under the Floorplan Line of our Revolving Credit Facility, including \$56.2 million of immediately available funds;
- \$228.0 million under the Acquisition Line of our Revolving Credit Facility, which is limited based upon a borrowing base calculation within certain debt covenants under the Revolving Credit Facility; and
- \$9.0 million under our FMCC Facility.

In addition, the indentures relating to our other debt instruments allow us to incur additional indebtedness and enter into additional operating leases, subject to certain conditions.

Stock Repurchase Program

From time to time, our Board of Directors gives authorization to repurchase shares of our common stock, subject to the restrictions of various debt agreements and our judgment. In July 2012, our Board of Directors authorized a repurchase program of up to \$50.0 million of our common stock, replacing any amount remaining from the August 2011 authorization. In October 2013, our Board of Directors increased the authorized repurchase amount to \$75.0 million of our common shares. In the fourth quarter of the year ended December 31, 2013, we repurchased 55,655 shares at an average price of \$63.82 per share, for a total cost of \$3.6 million, leaving \$71.4 million available for future repurchases. Future repurchases are subject to the discretion of our Board of Directors after considering our results of operations, financial condition, cash flows, capital requirements, existing debt covenants, outlook for our business, general business conditions and other factors. We are limited under the terms of the Revolving Credit Facility and Real Estate Credit Facility in our ability to, among other things, repurchase shares of our outstanding common stock and make payments of cash dividends to our stockholders (“Restricted Payment Basket”).

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Dividends

During 2013, our Board of Directors approved four quarterly cash dividends totaling \$0.65 per share or \$15.8 million. The payment of dividends in the future is subject to the discretion of our Board of Directors, after considering our results of operations, financial condition, cash flows, capital requirements, outlook for our business, general business conditions, the political and legislative environments, and other factors. As noted above, under the terms of the Restricted Payment Basket, we are also limited in our ability to make cash dividend payments to our stockholders. As of December 31, 2013, the Restricted Payment Basket under both facilities was \$164.0 million and will increase in the future periods by 50.0% of our future cumulative net income, plus the net proceeds received from the sale of our capital stock, and decrease by the amount of future payments for cash dividends and share repurchases.

Relationships and Agreements with our Manufacturers

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

- inventory levels;
- working capital levels;
- the sales process;
- minimum sales performance requirements;
- customer satisfaction standards;
- marketing and branding;
- facility standards and signage;
- personnel;
- changes in management; and
- monthly financial reporting.

Our dealerships' franchise agreements are for various terms, ranging from one year to indefinite. Each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including unapproved changes of ownership or management and performance deficiencies in such areas as sales volume, sales effectiveness, and customer satisfaction. In most cases, manufacturers have renewed the franchises upon expiration so long as the dealership is in compliance with the terms of the agreement. From time to time, certain manufacturers may assert sales and customer satisfaction performance deficiencies under the terms of our framework and franchise agreements at a limited number of our dealerships. We work with these manufacturers to address any performance issues.

In general, the U.S. jurisdictions in which we operate have automotive dealership franchise laws that provide that, notwithstanding the terms of any franchise agreement, it is unlawful for a manufacturer to terminate or not renew a franchise unless "good cause" exists. It generally is difficult for a manufacturer to terminate, or not renew, a franchise under these laws, which were designed to protect dealers. Though unsuccessful to date, manufacturers' lobbying efforts may lead to the repeal or revision of dealer laws. If dealer laws are repealed in the U.S. states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or showing of good cause. Without the protection of dealer laws, it may also be more difficult for our dealers to renew their franchise agreements upon expiration. Further, U.S. federal law, including any federal bankruptcy law, may preempt U.S. state law and allow manufacturers greater freedom to terminate or not renew franchises.

The U.K. generally does not have automotive dealership franchise laws and, as a result, our U.K. dealerships operate without these types of specific protections. However, similar protections may be available as a matter of general U.K. contractual law. In addition, our U.K. dealerships are subject to European Union ("EU") and U.K. antitrust rules prohibiting certain restrictions on the sale of new vehicles and spare parts and on the provision of repairs and maintenance across the EU. For example, authorized dealers are generally able to, subject to manufacturer facility requirements, relocate or add additional facilities throughout the EU, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on cross supplies

(including on transfers of dealerships) between existing authorized dealers within the EU. However, certain restrictions on dealerships may be permissible provided the conditions set out in the relevant EU Block Exemption Regulations are met. These conditions for exemption changed on June 1, 2013, in

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respect of the sale of new vehicles. We do not currently believe that these legislative changes will have a material effect on us in the U.K.

The sale of vehicles in Brazil is regulated by federal law, commonly referred to in Brazil as the Ferrari Law. Such law sets forth the terms and conditions of distribution agreements executed among manufacturers and dealerships, specifically with regard to the distribution of cars, trucks, buses, tractors, motorbikes and similar vehicles. In addition, the Ferrari Law establishes the geographical area of a dealership, termination of distribution agreements and their consequences, among other things. Any contractual provision that conflicts with the Ferrari Law is considered void in Brazil. The distribution agreements contemplate the commercialization of vehicles and components fabricated by the manufacturer, the rendering of technical assistance relating to such products and the usage by the dealerships of the manufacturers' brand. According to the Ferrari Law, distribution agreements may be executed for either a determined or an undetermined term. In the case of a distribution agreement executed for a determined term, its initial term may not be less than 5 years. At the end of this initial 5 years term, such distribution agreement will be automatically converted into a undetermined term distribution agreement, unless any of the parties thereto expressly waives such right with a 180 days prior notice. In the case of an early termination of a distribution agreement other than as a result of a persistent breach or force majeure, the Ferrari law entitles the non-breaching party to, among other things, certain termination payments.

The economic recession, that began in 2008, caused domestic manufacturers to critically evaluate their respective dealer networks and terminate certain brands, and, as a result, the respective franchises. For example, General Motors chose to discontinue the Pontiac brand and, as a result, both of our Pontiac franchises were terminated. In addition, Ford chose to discontinue the Mercury brand and, as a result, all four of our Mercury franchises were terminated. Subject to similar future economic factors and material changes to the regulations discussed above, we generally expect our franchise agreements to survive for the foreseeable future and, when the agreements do not have indefinite terms, anticipate routine renewals of the agreements without substantial cost or modification.

Our dealership service departments perform vehicle repairs and service for customers under manufacturer warranties. We are reimbursed for the repairs and service directly from the manufacturer. Some manufacturers offer rebates to new vehicle customers that we are required, under specific program rules, to adequately document, support, and typically are responsible for collecting. In addition, from time to time, some manufacturers provide us with incentives to sell certain models and levels of inventory over designated periods of time. Under the terms of our dealership franchise agreements, the respective manufacturers are able to perform warranty, incentive, and rebate audits and charge us back for unsupported or non-qualifying warranty repairs, rebates or incentives.

In addition to the individual dealership franchise agreements discussed above, we have entered into framework agreements in the U.S. with most major vehicle manufacturers and distributors. These agreements impose a number of restrictions on our operations, including our ability to make acquisitions and obtain financing, and our management. These agreements also impose change of control provisions related to the ownership of our common stock. For a discussion of these restrictions and the risks related to our relationships with vehicle manufacturers, please read Part I, "Item 1A. Risk Factors."

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

Manufacturer	Percentage of New Vehicle Retail Units Sold during the Year Ended December 31, 2013
Toyota	26.6%
Honda	12.3%
Ford	11.6%
BMW	11.1%
Nissan	10.2%

Governmental Regulations

Automotive and Other Laws and Regulations

We operate in a highly regulated industry. A number of U.S. state and federal laws and regulations affect our business and the business of our manufacturers. In every U.S. state in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales and finance, and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our conduct of business, including those relating to our sales, operations, financing, insurance,

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advertising and employment practices. These laws and regulations include franchise laws and regulations, consumer protection laws, and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as a variety of other laws and regulations. These laws also include U.S. federal and U.S. state wage-hour, anti-discrimination and other employment practices laws.

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

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

Our U.S. operations are subject to consumer protection laws known as Lemon Laws. These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. U.S. federal laws require various written disclosures to be provided on new vehicles, including mileage and pricing information. We are aware that several U.S. states are considering enacting consumer "bill-of-rights" statutes to provide further protection to the consumer which could affect our profitability in such states.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and established the Consumer Financial Protection Bureau (the "CFPB") with broad regulatory powers. Although automotive dealers are generally excluded from the CFPB's regulatory authority, we are required to comply with regulations applicable to privacy notices, and the CFPB has announced its intention to regulate automotive financing activities through its regulation of automotive finance companies and other financial institutions that service the automotive industry. The CFPB has issued regulatory guidance instructing financial institutions to monitor dealer loans for potential discrimination resulting from the system used to compensate dealers for assisting in the customer financing transaction. The CFPB has instructed lenders that, if discrimination is found, the lender would be required to change dealer compensation practices. In addition, the CFPB has announced its intention to regulate the sale of other finance and insurance products. If the result of either of these initiatives is to substantially restrict our ability to generate revenue from arranging financing for our customers for the purchase of vehicles and associated products and services, it could have a material adverse effect on our business and results of operations.

**Environmental and Occupational Health and Safety Laws and Regulations**

Our operations involve the use, handling, storage and contracting for recycling and/or disposal of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires, and fuel. Consequently, our business is subject to a complex variety of stringent laws and regulations governing management and disposal of materials and wastes, protection of the environment and occupational health and safety. These laws and regulations affect many aspects of our operations, such as requiring the acquisition of permits or other governmental approvals to conduct regulated activities, restricting the manner in which we handle, recycle and dispose of our wastes, incurring capital expenditures to construct, maintain and upgrade pollution control and containment equipment and facilities, impose specific health and safety criteria addressing worker protection, and impose substantial liabilities for pollution caused by our operations or attributable to former operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of remedial obligations, and issuance of injunctions delaying, restricting or prohibiting some or all of our operations. We may not be able to recover some or any of these costs from insurance.

Most of our dealerships utilize above ground storage tanks and, to a lesser extent, underground storage tanks primarily for storing and dispensing petroleum-based products. Storage tanks in the U.S. are subject to testing, containment,

upgrading and removal requirements under the Resource Conservation and Recovery Act, or RCRA, and its state law counterparts. RCRA imposes requirements relating to the handling and disposal of hazardous and non-hazardous wastes and requires us to comply with stringent and costly requirements in connection with our storage and recycling or disposal of the various used fluids, paints, batteries, tires, and fuels generated by our operations. Clean-up or other remedial action may be necessary in the event of leaks or other unauthorized discharges from storage tanks or other equipment operated by us. In addition, water quality protection programs under the federal Water Pollution Control Act (commonly known as the Clean Water Act) and comparable U.S. state and local programs govern certain wastewater and stormwater discharges from our operations, which discharges may require permitting. Similarly, certain sources of air emissions from our operations may be subject to permitting, pursuant to the

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federal Clean Air Act and related state and local laws. Certain health and safety standards imposed under the Federal Occupational Safety and Health Act or otherwise promulgated by the Occupational Safety and Health administration of the United States Department of Labor and related state agencies are also applicable to protection of the health and safety of our employees.

We generally conduct environmental studies on dealerships to be acquired regardless of whether we are leasing or acquiring in fee the underlying real property, and as necessary, implement environmental management practices or remedial activities to reduce the risk of noncompliance with environmental laws and regulations. Nevertheless, we currently own or lease, and in connection with our acquisition program anticipate in the future owning or leasing, properties that in some instances have been used for auto retailing and servicing for many years. Laws regarding the prevention of pollution or remediation of environmental contamination generally apply regardless of whether we lease or purchase the land and facilities. Although we or our predecessors may have utilized operating and disposal practices that were standard in the industry at the time, a risk exists that petroleum products or wastes such as new and used motor oil, transmission fluids, antifreeze, lubricants, solvents and motor fuels could have been spilled or released on or under the properties owned or leased by us or on or under other locations where such materials were taken for recycling or disposal. Further, we believe that structures found on some of these properties may contain asbestos-containing materials, although in an undisturbed condition that does not require removal or other corrective action under applicable regulations. In addition, many of these properties have been operated by third parties whose use, handling and disposal of such petroleum products or wastes were not under our control. These properties and the materials disposed or released on them may be subject to the U.S. federal Comprehensive Environmental Response, Compensation, and Liability Act (also known as the Superfund law), RCRA and analogous U.S. state laws, pursuant to which we could be required to remove or remediate previously disposed wastes or property contamination or to perform remedial activities to prevent future contamination.

The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. Consequently, any changes in environmental laws and regulations or re-interpretations of enforcement policies that result in more stringent and costly vehicular pollution control equipment or waste handling, storage, transport, disposal or remediation requirements could have a material adverse effect on our business, results of operations and financial position. For example, U.S. vehicle manufacturers are subject to U.S. federal mandated corporate average fuel economy standards, which will increase substantially from 2013 through model year 2017. Furthermore, in response to studies suggesting that emissions of carbon dioxide and certain other gases, referred to as "greenhouse gases," may be contributing to warming of the Earth's atmosphere and other climatic changes, climate-change legislation and regulatory changes have been made or are being considered at state and federal levels. The adoption of any laws or regulations requiring significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide on vehicles and automotive fuels in the United States could adversely affect prices of and demand for the vehicles we sell.

**Insurance and Bonding**

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

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

The automotive retailing business is also subject to substantial risk of real and personal property loss as a result of the significant concentration of real and personal property values at dealership locations. Under self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles and claims handling expenses, including property and casualty, automobile physical damage, and employee medical benefits. In certain cases, we insure costs in excess of our retained risk per claim under various contracts with third-party insurance carriers. Actuarial estimates for the portion of claims not covered by insurance are based on historical claims experience, adjusted for current trends and changes in claims-handling procedures. Risk retention levels may change in the future as a result of changes in the insurance market or other factors affecting the economics of our insurance programs. Although we believe our insurance coverage is adequate, we cannot assure that we will not be exposed to uninsured or underinsured

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

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Employees

We believe our relationship with our employees is favorable. As of December 31, 2013, we employed 11,510 (full-time, part-time and temporary) people, of whom:

- 4,574 were employed in managerial positions;
- 2,518 were employed in non-managerial vehicle sales department positions;
- 5,453 were employed in non-managerial parts and service department positions; and
- 4,965 were employed in administrative support positions.

In the U.S., ninety of our employees in New Jersey are represented by a labor union. In Brazil, all employees are represented by a local union. Because of our dependence on vehicle manufacturers, we may be affected by labor strikes, work slowdowns and walkouts at vehicle manufacturing facilities and/or their suppliers. Additionally, labor strikes, work slowdowns and walkouts at businesses participating in the distribution of manufacturers' products may also affect us.

For further discussion, please read Part I, "Item 1A. Risk Factors."

Seasonality

We generally experience higher volumes of vehicle sales and service in the the second and third calendar quarters of each year in the U.S., in the first and third quarters in the U.K. and during the third and fourth quarters in Brazil. The first quarter is generally the weakest in Brazil, driven by heavy vacation and activities associated with Carnival. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to inclement weather. As a result, our consolidated revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. Other factors unrelated to seasonality, such as changes in economic condition, inventory availability, and manufacturer incentive programs, may exaggerate seasonal or cause counter-seasonal fluctuations in our revenues and operating income.

For further discussion, please read Part I, "Item 1A. Risk Factors."

Internet Website and Availability of Public Filings

Our internet address is [www.group1auto.com](http://www.group1auto.com). We make the following information available free of charge on our internet website:

- Annual Report on Form 10-K;
- Quarterly Reports on Form 10-Q;
- Current Reports on Form 8-K;
- Amendments to the reports filed or furnished electronically with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act;
- Our Corporate Governance Guidelines;
- The charters for our Audit, Compensation, Finance/Risk Management and Nominating/Governance Committees;
- Our Code of Conduct for Directors, Officers and Employees; and
- Our Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Controller.

We make our filings with the Securities and Exchange Commission ("SEC") available on our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. The SEC also maintains an internet website at <http://sec.gov> that contains reports, proxy and information statements, and other information regarding our company that we file and furnish electronically with the SEC. The above information is available in print to anyone who requests it free of charge. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, N.E., Washington, DC 20549 and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

#### Item 1A. Risk Factors

Demand for and pricing of our products and services is subject to economic conditions and other factors, which have had and, in the future, could have a material adverse effect on our business and results of operations.

The automotive retail industry, and especially new vehicle unit sales, is influenced by general economic conditions, particularly consumer confidence, the level of personal discretionary spending, interest rates, fuel prices, unemployment rates and credit availability. During economic downturns, such as the recession experienced in 2008 and much of 2009, retail new vehicle sales typically experience periods of decline characterized by oversupply and weak demand. In addition, periods of economic uncertainty, as well as volatility in consumer preference around fuel-efficient vehicles in response to volatile fuel prices, and concern about manufacturer viability, may adversely impact future consumer spending and result in a difficult business environment. Any tightening of the credit markets and credit conditions may decrease the availability of automotive loans and leases and adversely impact our new and used vehicle sales and margins. In particular, if sub-prime finance companies apply higher credit standards or if there is another decline in the overall availability of credit in the sub-prime lending market, the ability of consumers to purchase vehicles could be limited, which could have a material adverse effect on our business and results of operations.

Volatile fuel prices may also continue to affect consumer preferences in connection with the purchase of our vehicles. Rising fuel prices may make consumers less likely to purchase larger, more expensive vehicles, such as sports utility vehicles or luxury automobiles and more likely to purchase smaller, less expensive and more fuel efficient vehicles. Sudden changes in customer preferences make maintenance of an optimal mix of large and small vehicle inventory a challenge. Further increases or sharp declines in fuel prices could have a material adverse effect on our business and results of operations.

In addition, local economic, competitive and other conditions affect the performance of our dealerships. Our results of operations depend substantially on general economic conditions and spending habits in those regions of the U.S. where we maintain most of our operations.

We are subject to a concentration of risk in the event of financial distress, merger, sale or bankruptcy, including potential liquidation, of, or other adverse economic impacts on, certain major vehicle manufacturers.

Toyota, Nissan, Honda, Ford, BMW, Volkswagen, Hyundai, Daimler, Chrysler and General Motors dealerships represented approximately 96.0% of our total new vehicle retail units sold in 2013. In particular, sales of Toyota/Scion/Lexus new vehicles represented 26.6% of our new vehicle unit sales in 2013. The success of our dealerships is dependent on vehicle manufacturers in several key respects. First, we rely exclusively on the various vehicle manufacturers for our new vehicle inventory. Our ability to sell new vehicles is dependent on a vehicle manufacturer's ability to produce and allocate to our dealerships an attractive, high quality, and desirable product mix at the right time in order to satisfy customer demand. Second, manufacturers generally support their franchisees by providing direct financial assistance in various areas, including, among others, incentives, floorplan assistance and advertising assistance. A discontinuation or change in our manufacturers' warranty and incentive programs could adversely affect our business. Third, manufacturers provide product warranties and, in some cases, service contracts to customers. Our dealerships perform warranty and service contract work for vehicles under manufacturer product warranties and service contracts and bill the manufacturer directly as opposed to invoicing the customer. In addition, we rely on manufacturers to varying extents for original equipment manufactured replacement parts, training, product brochures and point of sale materials, and other items for our dealerships.

Vehicle manufacturers may be adversely impacted by economic downturns or recessions, significant declines in the sales of their new vehicles, increases in interest rates, adverse fluctuations in currency exchange rates, declines in their credit ratings, reductions in access to capital or credit, labor strikes or similar disruptions (including within their major suppliers), supply shortages, or rising raw material costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products (including due to bankruptcy), product defects, vehicle recall campaigns, litigation, poor product mix or unappealing vehicle design, governmental laws and regulations, natural disasters, or other adverse events. These and other risks could materially adversely affect any manufacturer and impact its ability to profitably design, market, produce or distribute new vehicles, which in turn could have a material adverse effect on our business, results of operations and financial condition. In 2011, natural disasters in Asia adversely affected certain vehicle manufacturers, including Toyota and Honda, and many of the parts suppliers on which they depend by

temporarily restricting the manufacturers' ability to supply new vehicles and related parts. As a result, we experienced a decline in the supply of new vehicles and related parts associated with these manufacturers, slowing the pace of new vehicle sales in 2011.

In the event or threat of a bankruptcy by a vehicle manufacturer, among other things: (1) the manufacturer could attempt to terminate all or certain of our franchises, and we may not receive adequate compensation for them, (2) we may not be able to collect some or all of our receivables that are due from such manufacturer and we may be subject to preference claims relating to payments made by such manufacturer prior to bankruptcy, (3) we may not be able to obtain financing for our new vehicle inventory, or arrange financing for our customers for their vehicle purchases and leases, with such

manufacturer's captive finance subsidiary, which may cause us to finance our new vehicle inventory, and arrange financing for our customers, with alternate finance sources on less favorable terms, and (4) consumer demand for such manufacturer's products could be materially adversely affected and could impact the value of our inventory. These events may result in a partial or complete write-down of our goodwill and/or intangible franchise rights with respect to any terminated franchises and cause us to incur non-cash impairment charges related to operating leases and/or receivables due from such manufacturers or to record allowances against the value of our new and used vehicle inventory.

We are dependent on our relationships with manufacturers and if we are unable to enter into new franchise agreements in connection with dealership acquisitions or maintain or renew our existing franchise agreements on favorable terms, our operations may be significantly impaired.

We are dependent on our relationships with manufacturers, which exercise a great degree of influence over our operations through the franchise agreements. For example, delays in obtaining, or failing to obtain, manufacturer approvals for dealership acquisitions could adversely affect our acquisition program. In determining whether to approve an acquisition, manufacturers may consider many factors, including the moral character and business experience of the dealership principals and the financial condition, ownership structure, CSI scores (described below), sales efficiency, and other performance measures of our other dealerships. Also, our manufacturers attempt to measure customers' satisfaction with automobile dealerships through systems generally known as CSI, which may be modified or replaced at the manufacturer's discretion. Manufacturers may use these performance indicators, as well as sales performance numbers, as conditions for certain payments and as factors in evaluating applications for additional acquisitions. In unusual cases where performance indicators, such as the ones described above, are not met to the satisfaction of the manufacturer, certain manufacturers may either limit our ability to acquire additional dealerships or require the disposal of existing dealerships or both. From time to time, we have not met all of the manufacturers' requirements to make acquisitions and have received requests to dispose of certain of our dealerships. On one occasion, one of our manufacturers initiated legal proceedings to block one of our acquisitions, but before the court could address the matter, the manufacturer dismissed its proceeding when the seller elected not to sell its dealerships to us. In the event one or more of our manufacturers sought to prohibit future acquisitions, or imposed requirements to dispose of one or more of our dealerships, our acquisition and growth strategy could be adversely affected.

A manufacturer may also limit the number of its dealerships that we may own or the number that we may own in a particular geographic area. For example, in the U.S. we may acquire only six primary Lexus dealerships or six outlets nationally. As of December 31, 2013, we owned three primary Lexus dealerships. Also, under the manufacturer's interpretation of existing guidelines, as of December 31, 2013, we owned the maximum number of Toyota dealerships permitted in the Gulf States region, which is comprised of Texas, Oklahoma, Louisiana, Mississippi and Arkansas, and in the Boston region, which is comprised of Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. In addition, each of our franchise agreements may be terminated or not renewed by the manufacturer for a variety of reasons, including any unapproved changes of ownership or management, sales and customer satisfaction performance deficiencies and other material breaches of the franchise agreements. Manufacturers may also have a right of first refusal if we seek to sell dealerships. We cannot guarantee all of our franchise agreements will be renewed or that the terms of the renewals will be as favorable to us as our current agreements. In addition, we cannot guarantee that our manufacturers will not attempt to terminate our franchise agreements if they perceive that performance deficiencies exist. If such an instance occurs, although we are generally protected by automotive dealership franchise laws requiring "good cause" be shown for such termination, we cannot guarantee that the termination of the franchise will not be successful. Actions taken by manufacturers to exploit their bargaining position in negotiating the terms of renewals of franchise agreements could also have a material adverse effect on our results of operations. Further, the terms of certain of our real estate related indebtedness require the repayment of all amounts outstanding in the event that the associated franchise is terminated. Our results of operations may be materially and adversely affected to the extent that our franchise rights become compromised or our operations restricted due to the terms of our franchise agreements or if we lose substantial franchises.

Finally, our franchise agreements do not give us the exclusive right to sell a manufacturer's product within a given geographic area. Subject to state laws that are generally designed to protect dealers, a manufacturer may grant another dealer a franchise to start a new dealership near one of our locations, or an existing dealership may move its dealership

to a location that would more directly compete against us. The location of new dealerships near our existing dealerships could have a material and adverse effect our operations and reduce the profitability of our existing dealerships.

Our ability to acquire new dealerships and successfully integrate those dealerships into our business could adversely affect the growth of our revenues and earnings.

Growth in our revenues and earnings partially depends on our ability to acquire new dealerships and successfully integrate those dealerships into our existing operations. We cannot guarantee that we will be able to identify and acquire dealerships in the future. In addition, we cannot guarantee that any acquisitions will be successful or on terms and conditions consistent with past acquisitions. Restrictions by our manufacturers, as well as covenants contained in our debt instruments,

may directly or indirectly limit our ability to acquire additional dealerships. In addition, increased competition for acquisitions may develop, which could result in fewer acquisition opportunities available to us and/or higher acquisition prices. And, some of our competitors may have greater financial resources than us.

We will continue to need substantial capital in order to acquire additional automobile dealerships. We currently intend to finance future acquisitions by using cash generated from operations, borrowings under our acquisition lines, proceeds from debt and/or equity offerings and/or issuing shares of our common stock as partial consideration for acquired dealerships. If potential acquisition candidates are unwilling to accept our common stock, we will rely solely on available cash or proceeds from debt or equity financings, which could adversely affect our acquisition program. While it has improved recently, access to funding through the debt or equity capital markets could become challenging again in the future. Also, in the recent past, the cost of obtaining money from the credit markets increased as many lenders and institutional investors increased interest rates, enacted tighter lending standards, refused to refinance existing debt as maturity at all or on terms similar to current debt, and reduced and, in some cases, ceased to provide funding to borrowers. Accordingly, our ability to complete acquisitions could be adversely affected if the price of our common stock is depressed or if our access to capital is limited.

In addition, managing and integrating additional dealerships into our existing mix of dealerships may result in substantial costs, diversion of our management's attention, delays, or other operational or financial problems.

Acquisitions involve a number of special risks, including, among other things:

- incurring significantly higher capital expenditures and operating expenses;
- failing to integrate the operations and personnel of the acquired dealerships;
- entering new markets with which we are not familiar;
- incurring undiscovered liabilities at acquired dealerships, in the case of stock acquisitions;
- disrupting our ongoing business;
- failing to retain key personnel of the acquired dealerships;
- impairing relationships with employees, manufacturers and customers; and
- incorrectly valuing acquired entities.

These risks could have a material adverse effect on our business, results of operations and financial condition.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses.

We are subject to substantial regulations, which may adversely affect our business and results of operations.

A number of state and federal laws and regulations applicable to automotive companies affect our business. We are also subject to laws and regulations relating to business corporations generally. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil, or criminal penalties, the imposition of remedial obligations or the issuance of injunctions limiting or prohibiting our operations. In every jurisdiction in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales, finance and insurance-related licenses issued by government authorities. These laws also regulate our conduct of business, including our advertising, operating, financing, employment and sales practices. Other laws and regulations include U.S. state franchise laws and regulations, anti-trust laws and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as U.S. federal and state wage-hour, anti-discrimination and other employment practices laws. Furthermore, some states have initiated consumer "bill of rights" statutes which involve increases in our costs associated with the sale of vehicles, or decreases in some of our profit centers.

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

Our operations are also subject to the National Traffic and Motor Vehicle Safety Act, the Magnusson-Moss Warranty Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation and

various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to U.S. customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

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

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and established the Consumer Financial Protection Bureau (the "CFPB") with broad regulatory powers. Although automotive dealers are generally excluded from the CFPB's regulatory authority, we are required to comply with regulations applicable to privacy notices, and the CFPB has announced its intention to regulate automotive financing activities through its regulation of automotive finance companies and other financial institutions that service the automotive industry. The CFPB has issued regulatory guidance instructing financial institutions to monitor dealer loans for potential discrimination resulting from the system used to compensate dealers for assisting in the customer financing transaction. The CFPB has instructed lenders that, if discrimination is found, the lender would be required to change dealer compensation practices. If this initiative substantially restricts our ability to generate revenue from arranging financing for our customers for the purchase of vehicles, the result could have an adverse effect on our business and results of operations.

In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual employee health care costs that we fund, with the most significant increases commencing in 2015. We cannot predict the extent of the effect that this statute, or any future state or federal healthcare legislation or regulation, will have on us. However, an expansion in government's role in the U.S. healthcare industry could result in significant long-term costs to us, which could in turn adversely affect our business, results of operations and financial condition.

Possible penalties for violation of any of these laws or regulations include revocation or suspension of our licenses and/or civil or criminal fines and penalties. In addition, many laws may give customers a private cause of action. Violation of these laws, the cost of compliance with these laws, or changes in these laws could have a material adverse effect on our business and results of operations.

Our operations are subject to environmental laws and regulations that may expose us to significant costs and liabilities.

In the course of our operations, we generate, handle, store and recycle or dispose of various used products and wastes. These business activities are subject to stringent federal, regional, state and local laws and regulations governing the release of materials into the environment or otherwise relating to environmental protection. These laws and regulations may impose numerous obligations upon our operations including the acquisition of permits to conduct regulated activities, the imposition of restrictions on where or how to manage or dispose of used products and wastes, the incurrence of capital expenditures to limit or prevent releases of such material, and the imposition of substantial liabilities for pollution resulting from our operations. Failure to comply with these laws, regulations, and permits may result in the assessment of administrative, civil, and criminal penalties, the imposition of remedial and corrective action obligations, and the issuance of injunctions limiting or preventing some or all of our operations.

There is a risk of incurring significant environmental costs and liabilities in the operations or our automotive dealerships due to our handling of regulated used products and wastes, because of releases arising in the course of our operations, especially from storage tanks, and due to contamination arising from historical operations and waste disposal practices. Under certain environmental laws, we could be subject to joint and several, strict liability for the removal or remediation of previously released materials or property contamination or for correction of previously unknown equipment or facility deficiencies regardless of whether we were responsible for the release, contamination or deficiency or if the operations were in compliance with all applicable laws at the time those actions were taken. The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus any changes in environmental laws and regulations that result in more stringent and costly pollution control equipment or waste containment, management or disposal requirements could have a material adverse effect on our business, results of operation and financial condition. For instance, vehicle manufacturers are currently subject to federally mandated corporate average fuel economy standards, which require most manufacturers to modify their engines to achieve a fleet-wide average fuel efficiency equivalent of 35.5 miles per gallon by model

year 2017 and to achieve a fuel efficiency equivalent of 54.5 miles per gallon by 2025. These increased fuel efficiency requirements are expected to increase the cost of new vehicles over time, which could potentially result in a reduction in new vehicle sales. Also, in response to studies suggesting that emissions of carbon dioxide and certain other gases, referred to as “greenhouse gases,” may be contributing to warming of the Earth’s atmosphere and other climatic changes, the Congress and numerous states have from time to time considered and — in the case of some states, adopted — legislation to restrict greenhouse gases. Moreover, the EPA has adopted rules under existing provisions of the federal Clean Air Act that require a reduction in emissions of greenhouse gases from motor vehicles, require certain construction and operating permit reviews for greenhouse gas emissions from certain

large stationary sources, and require monitoring and reporting of greenhouse gas emissions from specified sources on an annual basis. The adoption of any laws or regulations requiring significant increases in fuel economy requirements or new federal or state restrictions on emissions of greenhouse gases from our operations or on vehicles and automotive fuels in the United States could adversely affect prices of and demand for the vehicles we sell which could adversely affect our revenues and earnings. Please see “Item 1. Business — Governmental Regulations — Environmental and Occupational Health and Safety Laws and Regulations” for more information.

If we lose key personnel or are unable to attract additional qualified personnel, our business could be adversely affected because we rely on the industry knowledge and relationships of our key personnel.

We believe our success depends to a significant extent upon the efforts and abilities of our executive officers, senior management and key employees, including our regional vice presidents. The unexpected or unanticipated loss of the services of one or more members of our senior management team could have an adverse effect on our business and impair the efficiency and productivity of our operations. We do not have key man insurance for any of our executive officers or key personnel. In addition, the market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. We do not have employment agreements with most of our dealership general managers and other key dealership personnel. Accordingly, the loss of any of our key employees or the failure to attract qualified managers could have an adverse effect on our business and may impact the ability of our dealerships to conduct their operations in accordance with our national standards.

Substantial competition in automotive sales and services may materially and adversely affect our results of operations due to our need to lower prices to sustain sales.

The automotive retail industry is highly competitive. Depending on the geographic market, we compete with: franchised automotive dealerships in our markets that sell the same or similar makes of new and used vehicles that we offer, occasionally at lower prices than we do;

- other national or regional affiliated groups of franchised dealerships and/or of used vehicle dealerships;
- private market buyers and sellers of used vehicles;
- internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- service center chain stores; and
- independent service and repair shops.

We do not have any cost advantage in purchasing new vehicles from vehicle manufacturers and typically rely on advertising, merchandising, sales expertise, service reputation and dealership location in order to sell new vehicles.

Our franchise agreements do not grant us the exclusive right to sell a manufacturer’s product within a given geographic area. If competing dealerships expand their market share or are awarded additional franchises by manufacturers that supply our dealerships, it could have a material and adverse effect on our business and results of operations.

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

The internet has also become a significant part of the advertising and sales process in our industry. Customers are using the internet as part of the sales process to compare pricing for cars and related finance and insurance services, which may reduce gross profit margins for new and used cars and profits for related finance and insurance services. Some websites offer vehicles for sale over the internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. If internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, or if dealerships are able to effectively use the internet to sell outside of their markets, our business could be materially adversely affected. Our business would also be

materially adversely affected to the extent that internet companies acquire dealerships or align themselves with our competitors' dealerships.

Please see "Item 1. Business — Competition" for more discussion of competition in our industry.

A data security breach with regard to personally identifiable information ("PII") about our customers or employees could negatively affect operations and result in high costs.

In the ordinary course of business, we and our business affiliates receive significant PII about our customers in order to complete the sale or service of a vehicle and related products. We also receive PII from our employees. Numerous state and federal regulations, as well as payment card industry and other vendor standards, govern the collection and maintenance of PII from consumers and other individuals. Although many companies across many industries are affected by malicious efforts to obtain access to PII, news reports suggest that the automotive dealership industry is a particular target of identity thieves. Moreover, there are numerous opportunities for a data security breach, including cyber-security breaches, burglary, lost or misplaced data, scams, or misappropriation of data by employees, vendors or unaffiliated third parties. Despite the security measures we have in place and any additional measures we may implement or adopt in the future, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, scams, burglary, human errors, acts of vandalism, or other events. Alleged or actual data security breaches can increase costs of doing business, negatively affect customer satisfaction and loyalty, expose us to negative publicity, individual claims or consumer class actions, administrative, civil or criminal investigations or actions, and infringe on proprietary information, any of which could have a material adverse effect on our business, results of operations or financial condition.

The impairment of our goodwill, our indefinite-lived intangibles and our other long-lived assets has had, and could in the future have, a material adverse effect on our results of operations.

We assess goodwill and other indefinite-lived intangibles for impairment on an annual basis, or more frequently when events or circumstances indicate that an impairment may have occurred. We assess the carrying value of our long-lived assets when events or circumstances indicate that an impairment may have occurred.

Based on the organization and management of our business, we determined that each region qualified as reporting units for the purpose of assessing goodwill for impairment. To determine the fair value of our reporting units in assessing the carrying value of our goodwill for impairment, we use a combination of the discounted cash flow and market approaches. In addition, we are required to evaluate the carrying value of our indefinite-lived, intangible franchise rights at a dealership level. To test the carrying value of each individual intangible franchise right for impairment, we also use a discounted cash flow based approach. Both these analysis are based upon a series of assumptions. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Accounting Estimates — Goodwill" and "Intangible Franchise Rights" for additional information on our assumptions. If any one of these assumptions changes, or fails to materialize, the resulting decline in our estimated fair value could result in a material non-cash impairment charge.

We are required to evaluate the carrying value of our long-lived assets at the lowest level of identifiable cash flows. To test the carrying value of assets to be sold, we generally use independent, third-party appraisals or pending transactions as an estimate of fair value. In the event of an adverse change in the real estate market, the resulting decline in our estimated fair value could result in a material non-cash impairment charge to the associated long-lived assets.

Changes in interest rates could adversely impact our results of operations.

Borrowings under our credit facilities and various other notes payable bear interest based on a floating rate. Therefore, our interest expense would increase with any rise in interest rates. We have entered into derivative transactions to convert a portion of our variable-rate debt to fixed rates to partially mitigate this risk. A rise in interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of our business, particularly new and used vehicle sales, because many of our customers finance their vehicle purchases. As a result, a rise in interest rates may have the effect of simultaneously increasing our costs and reducing our revenues. In addition, we receive credit assistance from certain automobile manufacturers, which is reflected as a reduction in cost of sales on our statements of operations. Please see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" for a discussion regarding our interest rate sensitivity.

Natural disasters and adverse weather events can disrupt our business.

Our dealerships are concentrated in states and regions in the U.S., U.K. and Brazil in which actual or threatened natural disasters and severe weather events (such as hurricanes, earthquakes and hail storms) have in the past, and may

in the future, disrupt our dealership operations. A disruption in our operations may adversely impact our business, results of operations, financial condition and cash flows. In addition to business interruption, the automotive retailing business is subject to substantial risk of property loss due to the significant concentration of property at dealership locations. Although we have, subject to certain limitations and exclusions, substantial insurance, including business interruption insurance, we may be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, results of operations and financial condition.

Our insurance does not fully cover all of our operational risks, and changes in the cost of insurance or the availability of insurance could materially increase our insurance costs or result in a decrease in our insurance coverage.

The operation of automobile dealerships is subject to compliance with a wide range of laws and regulations and is subject to a broad variety of risks. While we have insurance on our real property, comprehensive coverage for our vehicle inventory, general liability insurance, workers' compensation insurance, employee dishonesty coverage, employment practices liability insurance, pollution coverage and errors and omissions insurance in connection with vehicle sales and financing activities, we are self-insured for a portion of our potential liabilities. We purchase insurance policies for worker's compensation, liability, auto physical damage, property, pollution, employee medical benefits and other risks consisting of large deductibles and/or self-insured retentions.

In certain instances, our insurance may not fully cover an insured loss depending on the magnitude and nature of the claim. Additionally, changes in the cost of insurance or the availability of insurance in the future could substantially increase our costs to maintain our current level of coverage or could cause us to reduce our insurance coverage and increase the portion of our risks that we self-insure.

Our indebtedness and the associated covenants could materially adversely affect our ability to obtain additional financing, including for acquisitions and capital expenditures, limit our flexibility to manage our business, prevent us from fulfilling our financial obligations and restrict our use of capital.

Our indebtedness could impact us, in the following ways:

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- a portion of our current cash flow from operations must be dedicated to the payment of principal on our indebtedness, thereby reducing the funds available to us for our operations and other corporate purposes;
- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates; and
- we may be more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

Our debt instruments contain numerous covenants that limit our discretion with respect to business matters, including mergers or acquisitions, paying dividends, repurchasing our common stock, international investments, incurring additional debt or disposing of assets. A breach of any of these covenants could result in a default under the applicable agreement or indenture. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures under the cross default provisions in those agreements or indentures. If a default or cross default were to occur, we may be required to renegotiate the terms of our indebtedness, which would likely be on less favorable terms than our current terms and cause us to incur additional fees to process. Alternatively, we may not be able to pay our debts or borrow sufficient funds to refinance them. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

We are subject to risks associated with our non-U.S. operations that could have a material adverse effect on our business, results of operations and financial condition.

Over the past several years, we have significantly increased our operations outside the U.S. Expanding our operations in the U.K. and Brazil are important elements of our growth strategy. Operations outside of the U.S. are subject to various risks which may not be present or as significant for operations within U.S. markets, and our exposure to these risks increases as we expand. Government actions, both in terms of policy-setting as well as actions directly affecting our operations, and economic uncertainty in some geographic regions in which we operate, such as emerging markets, could result in the disruption of markets and negatively affect our results of operations and cash flows in those areas.

Risks inherent in our international operations include, but are not limited to:

- exposure to local economic conditions;
- wage inflation in emerging markets;
- social plans that prohibit or increase the cost of certain restructuring actions;
- increases in working capital requirements related to long supply chains or regional terms of business;
- currency exchange controls;
- exposure to currency and exchange rate fluctuations;



- variations in protection of legal rights;
- import or export licensing requirements;
- the difficulty of enforcing agreements and collecting receivables through certain foreign legal systems;
- restrictions on transfer or repatriation of funds and trade protection matters, including antidumping duties, tariffs, embargoes and other laws and regulations creating tax inefficiencies and prohibitions or restrictions on acquisitions or joint ventures;
- increased risk of corruption;
- changes in laws and regulations, including the laws and policies of the U.S. affecting trade and foreign investment;
- more expansive legal rights of foreign labor unions;
- the potential for nationalization of enterprises;
- exposure to local public health concerns and the resultant impact on economic and political conditions;
- transparency issues in general and, more specifically, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other anti-corruption compliance laws and issues;
- unsettled social and political conditions, in general, and possible terrorist attacks, drug cartel related violence or acts of war, civil unrest, expansion of hostilities and other political risks; and
- lack of franchise protection, which creates greater competition.

The likelihood of these occurrences and their potential effect on us vary from country to country and are unpredictable. These and other factors may have a material adverse effect on our international operations and, therefore, on our business, results of operations and financial condition, which may become more pronounced as we expand our international presence.

Our Consolidated Financial Statements reflect that our results of operations and financial position are reported in local currency and are converted into U.S. dollars at the applicable currency rate. Fluctuations in such currency rates may have a material effect on our results of operations or financial position as reported in U.S. dollars. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Exchange Rates” for additional information on foreign currency exchange rate sensitivity.

Our growth in emerging markets, such as Brazil, is subject to special risks that could have a material adverse effect on our operations.

Many emerging markets have experienced growth rates in excess of the world's largest markets, leading to an increased contribution to the industry's global performance. As a result, we have been employing strategies to grow in emerging markets. Executing on this growth strategy, we acquired UAB Motors Participações S.A. (“UAB Motors”) in February 2013, which allowed us to enter the Brazilian market. There is no assurance that our growth strategies in an emerging market, such as Brazil, will be successful or that Brazil will continue to sustain growth rates. In addition, Brazil, as an emerging market country may be particularly vulnerable to periods of financial instability or significant currency fluctuations as discussed above under “We are subject to risks associated with our non-U.S. operations that could have an adverse effect on our business, results of operations and financial condition,” which can adversely affect our results. Further, our growth in emerging markets by acquisition of existing dealerships, such as our acquisition of UAB Motors, is subject to additional risk as discussed under “Our ability to acquire new dealerships and successfully integrate those dealerships into our business could adversely affect the growth of our revenues and earnings” above. Certain restrictions relating to our management and ownership of our common stock could deter prospective acquirers from acquiring control of us and adversely affect our ability to engage in equity offerings.

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

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

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

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

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

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

Our certificate of incorporation, bylaws and franchise agreements contain provisions that make a takeover of us difficult.

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

• providing for a Board of Directors with staggered, three-year terms, permitting the removal of a non-employee director from office only for cause;

• allowing only the Board of Directors to set the number of non-employee directors;

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

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

• limiting stockholder action by written consent; and

• establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon at stockholders' meetings.

In addition, our certificate of incorporation authorizes us to issue "blank check" preferred stock, the designation, number, voting powers, preferences, and rights of which may be fixed or altered from time to time by our Board of Directors. Accordingly, the Board of Directors has the authority, without stockholder approval, to issue preferred stock with rights that could materially adversely affect the voting power or other rights of the common stock holders or the market value of the common stock and prevent a change of our control.

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

Item 1B. Unresolved Staff Comments  
None.

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## Item 2. Properties

We presently lease our corporate headquarters, which is located at 800 Gessner, Suite 500, Houston, Texas. In addition, as of December 31, 2013, we had 188 franchises situated in 148 dealership locations throughout the U.S., U.K. and Brazil. As of December 31, 2013, we leased 84 of these dealership locations and owned the remainder. We have one location in Massachusetts, one location in Alabama and one location in California where we lease the land, but own the building facilities. These locations are included in the leased column of the table below.

Region	Geographic Location	Dealerships		
		Owned	Leased	
East	Georgia	7	1	
	Massachusetts	4	3	
	New Jersey	4	3	
	Louisiana	4	—	
	Mississippi	3	—	
	Florida	3	1	
	South Carolina	3	1	
	Maryland	2	—	
	Alabama	1	1	
	New York	1	3	
	New Hampshire	1	2	
			33	15
	West	Texas	13	30
Kansas		4	—	
Oklahoma		2	11	
California		1	6	
Louisiana		1	—	
		21	47	
International	United Kingdom	10	4	
	Brazil	—	18	
Total		64	84	

We use a number of facilities to conduct our dealership operations. Each of our dealerships may include facilities for (1) new and used vehicle sales, (2) vehicle service operations, (3) retail and wholesale parts operations, (4) collision service operations, (5) storage and (6) general office use. Prior to 2005, we tried to structure our operations so as to avoid the ownership of real property. In connection with our dealership acquisitions, we generally sought to lease, rather than acquire, the facilities on which the acquired dealerships were located. We generally entered into lease agreements with respect to such facilities that have 30-year total terms, consisting of 15-year initial terms and three five-year option periods, at our option. As a result, we lease the majority of our facilities under long-term operating leases. See Note 18 to our Consolidated Financial Statements, "Operating Leases."

Since 2005, Group 1 Realty, Inc., one of our wholly-owned subsidiaries, has typically acquired the property in connection with our U.S. dealership acquisitions and relocations and acts as the landlord for those dealership operations. For the year ended December 31, 2013, we acquired \$87.9 million of real estate, of which \$49.2 million was purchased in conjunction with our dealership acquisitions. With these acquisitions, the capitalized value of the real estate used in operations that we owned was \$618.4 million as of December 31, 2013. Of this total, \$539.7 million is mortgaged through our Real Estate Credit Facility or another real estate related borrowing arrangement. We do not believe that any single facility is material to our operations and, if necessary, we would obtain a replacement facility.

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Item 3. Legal Proceedings

From time to time, our dealerships are named in various types of litigation involving customer claims, employment matters, class action claims, purported class action claims, as well as claims involving the manufacturer of automobiles, contractual disputes and other matters arising in the ordinary course of business. Due to the nature of the automotive retailing business, we may be involved in legal proceedings or suffer losses that could have a material adverse effect on our business. In the normal course of business, we are required to respond to customer, employee and other third-party complaints. Amounts that have been accrued or paid related to the settlement of litigation are included in Selling, General and Administrative expenses ("SG&A") in our Consolidated Statements of Operations. In addition, the manufacturers of the vehicles that we sell and service have audit rights allowing them to review the validity of amounts claimed for incentive, rebate or warranty-related items and charge us back for amounts determined to be invalid payments under the manufacturers' programs, subject to our right to appeal any such decision. Amounts that have been accrued or paid related to the settlement of manufacturer chargebacks of recognized incentives and rebates are included in cost of sales in our Consolidated Statements of Operations, while such amounts for manufacturer chargebacks of recognized warranty-related items are included as a reduction of revenues in our Consolidated Statements of Operations.

San Diego Superior Court Matter. In December 2011, an adverse jury verdict was rendered against us in the San Diego County Superior Court, awarding \$7.5 million to the plaintiff who sought reimbursement for medical expenses, lost wages and pain and suffering arising from an accident involving one of our customer shuttle vans and the plaintiff's motorcycle. Our insurance covered any loss in excess of its \$1.0 million self-insured retention relative to this matter. We fully accrued the amount of the award and the related insurance charge as a current account receivable and a current accrued expense, respectively, in the Consolidated Balance Sheet as of December 31, 2011. During the third quarter of 2013, the insurance company settled this matter with the plaintiff, we paid our self-insured retention and the full amount of the current account receivable and current accrued expense was settled as originally anticipated.

Delaware Unclaimed Property Matter. Beginning in late 2012, we were notified by the Department of State of the State of Delaware of a new program called the Delaware Unclaimed Property Voluntary Disclosure Program ("VDA Program"), and encouraged to enroll in this program as an alternative to a potential unclaimed property audit by the Delaware Department of Finance. Unclaimed property such as payroll, accounts payable, gift cards, accounts receivable credit balances and equity related property on our books and records to a payee, vendor, customer or shareholder is generally subject to state escheat laws. Because of our Delaware registered business entities, certain unclaimed property may be escheatable to the State of Delaware. The VDA Program would limit our exposure, by limiting the time frame under review, as well as penalties and interest, allowing us to self-review our Delaware entities and make a report of our findings for review and approval by the State of Delaware. In May 2013, we elected to join the VDA Program, and we have initiated our internal review. If we are unable to resolve this matter to the mutual satisfaction of us and the State of Delaware, the State of Delaware could pursue its own audit and make a determination of potential liability.

Notwithstanding the foregoing, we are not party to any legal proceedings, including class action lawsuits that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty and an unfavorable resolution of one or more of these matters could have a material adverse effect on our results of operations or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable.

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## PART II

Item 5. Market for Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities  
Our common stock is listed on the New York Stock Exchange under the symbol "GPI." There were 54 holders of record of our common stock as of February 25, 2014. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. The following table presents the quarterly high and low sales prices for our common stock, as reported on the New York Stock Exchange Composite Tape under the symbol "GPI" and dividends paid per common share for 2012 and 2013:

	High	Low	Dividends Declared
2012:			
First Quarter	\$57.71	\$47.95	\$0.14
Second Quarter	59.97	43.63	0.15
Third Quarter	61.06	44.98	0.15
Fourth Quarter	65.99	57.31	0.15
2013:			
First Quarter	\$69.00	\$57.51	\$0.15
Second Quarter	66.00	54.91	0.16
Third Quarter	82.40	64.36	0.17
Fourth Quarter	78.54	61.20	0.17

We expect comparable cash dividends to be paid in the future. However, payment of dividends in the future is subject to the discretion of our Board of Directors after considering our results of operations, financial condition, cash flows, capital requirements, outlook for our business, general business conditions, the political and legislative environments and other factors.

Further, we are limited under the terms of the Revolving Credit Facility and Real Estate Credit Facility in our ability to make cash dividend payments to our stockholders and to repurchase shares of our outstanding common stock, based primarily on our quarterly net income or loss. As of December 31, 2013, the Restricted Payment Basket under both facilities was \$164.0 million. The Restricted Payment Basket will increase in the future periods by 50.0% of our future cumulative net income, plus the net proceeds received from the sale of our capital stock, and decrease by the amount of future payments for cash dividends and share repurchases.

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## Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, each as amended, except to the extent that we specifically incorporate it by reference into such filing. The graph compares the performance of our common stock to the S&P 500 Index and to an industry peer group for our last five fiscal years. The members of the peer group are Asbury Automotive Group, Inc., AutoNation, Inc., Lithia Motors, Inc., Penske Automotive Group, Inc. and Sonic Automotive, Inc. The source for the information contained in this table is Zacks Investment Research, Inc.

The returns of each member of the peer group are weighted according to each member’s stock market capitalization as of the beginning of each period measured. The graph assumes that the value of the investment in our common stock, the S&P 500 Index and the peer group was \$100 on the last trading day of December 2008, and that all dividends were reinvested. Performance data for Group 1 Automotive, Inc., the S&P 500 Index and for the peer group is provided as of the last trading day of each of our last five fiscal years.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURNS

## AMONG GROUP 1 AUTOMOTIVE, INC., S&amp;P 500 INDEX AND A PEER GROUP

## TOTAL RETURN BASED ON \$100 INITIAL INVESTMENT &amp; REINVESTMENT OF DIVIDENDS

Measurement Date	Group 1 Automotive, Inc.	S&P 500	Peer Group
December 2008	\$100.00	\$100.00	\$100.00
December 2009	263.23	126.46	202.98
December 2010	388.74	145.51	283.42
December 2011	487.63	148.59	354.46
December 2012	589.87	172.37	453.78
December 2013	682.46	228.19	647.02

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## Purchases of Equity Securities by the Issuer

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> (In thousands, excluding commissions)
October 1 - October 31, 2013	—	\$—	—	\$75,000
November 1 - November 30, 2013	55,655	\$63.82	55,655	\$71,448
December 1 - December 31, 2013	—	\$—	—	\$71,448
Total	55,655		55,655	

(1) In October 2013, the Board of Directors approved an increase of 50 percent of our July 2012 authorization to a new amount of \$75.0 million. The shares may be repurchased from time to time in open market or privately negotiated transactions, depending on market conditions, at our discretion, and funded by cash from operations.

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## Item 6. Selected Financial Data

The following selected historical financial data as of December 31, 2013, 2012, 2011, 2010, and 2009, and for the five years in the period ended December 31, 2013, have been derived from our audited Consolidated Financial Statements, subject to certain reclassifications to make prior years conform to the current year presentation. This selected financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
<b>Income Statement Data:</b>					
Revenues	\$8,918,581	\$7,476,100	\$6,079,765	\$5,509,169	\$4,525,707
Cost of sales	7,626,035	6,358,848	5,119,165	4,632,136	3,749,870
Gross profit	1,292,546	1,117,252	960,600	877,033	775,837
Selling, general and administrative expenses	976,856	848,446	735,229	693,635	621,048
Depreciation and amortization expense	35,826	31,534	27,063	26,455	25,828
Asset impairments	6,542	7,276	4,805	10,840	20,887
Income (loss) from operations	273,322	229,996	193,503	146,103	108,074
Other income and (expense):					
Floorplan interest expense	(41,667)	(31,796)	(27,687)	(34,110)	(32,345)
Other interest expense, net	(38,971)	(37,465)	(33,722)	(27,217)	(29,075)
Gain (loss) on redemption of long-term debt	—	—	—	(3,872)	8,211
Other expense, net	(789)	—	—	—	(14)
Income from continuing operations before income taxes	191,895	160,735	132,094	80,904	54,851
Provision for income taxes	(77,903)	(60,526)	(49,700)	(30,600)	(20,006)
Net income	\$113,992	\$100,209	\$82,394	\$50,304	\$34,845
	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
<b>Earnings per common share:</b>					
<b>Basic:</b>					
Net income	\$4.72	\$4.39	\$3.50	\$2.09	\$1.43
<b>Diluted:</b>					
Net income	\$4.32	\$4.19	\$3.47	\$2.09	\$1.43
Dividends per share	\$0.65	\$0.59	\$0.48	\$0.10	\$—
<b>Weighted average common shares outstanding:</b>					
Basic	23,096	21,620	22,157	22,767	22,888

Diluted	25,314	22,688	22,409	22,788	22,906
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	December 31,					
	2013	2012	2011	2010	2009	
	(Dollars in thousands)					
Balance Sheet Data:						
Working capital	\$ 102,762	\$ 170,603	\$ 130,637	\$ 124,300	\$ 103,225	
Inventories	1,542,318	1,194,288	867,470	777,771	596,743	
Total assets	3,819,478	3,023,015	2,476,343	2,201,964	1,969,414	
Floorplan notes payable — credit facility and other <sup>(1)</sup>	1,086,906	856,698	609,738	560,840	420,319	
Floorplan notes payable — manufacturer affiliates	346,572	211,965	155,980	103,345	115,180	
Real Estate Credit Facility, including current portion	67,719	56,677	41,003	42,600	192,727	
Long-term debt, including current portion <sup>(2)</sup>	631,359	521,010	456,261	423,539	265,769	
Temporary Equity <sup>(3)</sup>	29,094	32,505	—	—	—	
Stockholders' equity	\$ 1,035,175	\$ 860,284	\$ 807,100	\$ 784,368	\$ 720,156	
Long-term debt to capitalization <sup>(4)</sup>	40	% 39	% 38	% 37	% 39	%

(1) Includes immediately available funds of \$56.2 million, \$112.3 million, \$109.2 million, \$129.2 million, and \$71.6 million, respectively, that we temporarily invest as an offset to the gross outstanding borrowings.

(2) Includes the Acquisition Line, Real Estate Credit Facility and other long-term debt and excludes short-term financing.

(3) Redeemable equity portion of the 3.00% convertible notes reclassified from additional paid in capital.

(4) Includes temporary equity as a component of capitalization.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Part I, including the matters set forth in "Item 1A. Risk Factors," and our Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-K.

Overview

We are a leading operator in the automotive retail industry. Through our dealerships, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Effective with the acquisition of UAB Motors Participações S.A. ("UAB Motors") in February 2013, we are aligned into four geographic regions: the East and West Regions in the U.S., the U.K. Region, and the Brazil Region. Also, in conjunction with the acquisition of UAB Motors, and consistent with how our chief operating decision maker evaluates performance and allocates resources, we reaffirmed that each region represents an operating segment. Each U.S. region is managed by a regional vice president who reports directly to our Chief Executive Officer and is responsible for the overall performance of their regions. The financial matters of each U.S. region are managed by a regional chief financial officer who reports directly to our Chief Financial Officer. Further, the East and West Regions of the U.S. continue to be economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments. As a result, we concluded that the East and West Regions of the U.S. should continue to be aggregated into one reportable segment. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K. and Brazil.

As of December 31, 2013, we owned and operated 147 franchises, representing 34 brands of automobiles, at 116 dealership locations and 28 collision service centers in the U.S., 19 franchises at 14 dealerships and four collision centers in the U.K., and 22 franchises at 18 dealerships and five collision centers in Brazil. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina, and Texas in the U.S., in 13 towns of the U.K. and in key metropolitan markets in the states of Sao Paulo and Parana in Brazil. We typically seek to acquire large, profitable, well-established and well-managed dealerships that are leaders in their respective market areas. From January 1, 2009 through December 31, 2013, we have purchased 75 franchises with expected annual revenues, estimated at the time of acquisition, of \$2.8 billion and been granted eight new franchises by our manufacturers, with expected annual revenues, estimated at the time of acquisition, of \$110.2 million. In 2013 alone, we acquired 38 franchises with expected annual revenues, estimated at the time of acquisition, of \$1,317.0 million. We make disposition decisions based principally on the rate of return on our capital investment, the location of the dealership, our ability to leverage our cost structure, the brand, and existing real estate obligations. From January 1, 2009 through December 31, 2013, we disposed of or terminated 34 franchises with annual revenues of approximately \$660.2 million. Specifically, during 2013, we disposed of seven franchises with annual revenues of approximately \$318.9 million. In the following discussion and analysis, we report certain performance measures of our newly acquired and disposed dealerships separately from those of our existing dealerships.

We account for our dealership acquisitions using the purchase method of accounting. As a result, we do not include in our financial statements the results of operations of these dealerships prior to the date we acquired them, which may impact the comparability of the financial information presented. Also, as a result of the effects of our acquisitions, dispositions, and other potential factors in the future, our historical financial information is not necessarily indicative of our results of operations and financial position in the future or the results of operations and financial position that would have resulted had such transactions occurred at the beginning of the periods presented.

Our operating results reflect the combined performance of each of our interrelated business activities, which include the sale of new vehicles, used vehicles, finance and insurance products, and parts, as well as service and collision repair services. Historically, each of these activities has been directly or indirectly impacted by a variety of supply/demand factors, including vehicle inventories, consumer confidence, consumer discretionary spending, availability and affordability of consumer credit, manufacturer incentives, weather patterns, fuel prices, and interest rates. For example, during periods of sustained economic downturn or significant supply/demand imbalances, new vehicle sales may be negatively impacted as consumers tend to shift their purchases to used vehicles. Some consumers

may even delay their purchasing decisions altogether, electing instead to repair their existing vehicles. In such cases, however, we believe the new vehicle sales impact on our overall business is mitigated by our ability to offer other products and services, such as used vehicles and parts, service and collision repair services, as well as our ability to reduce our costs in response to lower sales.

In the U.S., we generally experience higher volumes of vehicle sales and service in the second and third calendar quarters of each year. This seasonality is generally attributable to consumer buying trends and the timing of manufacturer new vehicle model introductions. In addition, in some regions of the U.S., vehicle purchases decline during the winter months due to

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inclement weather. As a result, our U.S. revenues and operating income are typically lower in the first and fourth quarters and higher in the second and third quarters. For the U.K., the first and third calendar quarters tend to be stronger, driven by plate change months of March and September. For Brazil, we expect higher volumes in the third and fourth calendar quarters; however, the first quarter is the weakest, driven by heavy vacations and activities associated with Carnival. Other factors unrelated to seasonality, such as changes in economic condition and manufacturer incentive programs, may exaggerate seasonal or cause counter-seasonal fluctuations in our revenues and operating income.

According to U.S. industry experts, the annual new unit sales for 2013 increased 1.1 million units, or 7.6%, to 15.6 million units, compared to 14.5 million units in 2012.

The U.K. economy represents the sixth largest economy in the world. The U.K. automotive sales market continues to outperform the rest of Europe. Vehicle registrations in the U.K. increased 10.8% during 2013 as compared to the same period a year ago. The Brazilian economy represents the seventh largest in the world and recently has been one of the fastest growing economies in the world. We believe the Brazilian government's decision in 2013 to not implement the planned increases in Industrial Products taxes that were scheduled for April 1, 2013 and to freeze current tax rates indefinitely were positive developments for the market. However, the Brazilian economy is facing many challenges and is not demonstrating significant growth at the moment. Industry sales in Brazil declined 1.5% during 2013 as compared to the same period a year ago and we have seen a rise in inflation and interest rates and a decrease in the value of the Brazilian real compared to the U.S. dollar.

For the year ended December 31, 2013, our total revenues increased 19.3% from 2012 to \$8.9 billion and gross profit improved 15.7% to \$1.3 billion. For the years ended December 31, 2012 and 2011, total revenues were \$7.5 billion and \$6.1 billion, respectively. For the years ended December 31, 2012 and 2011, gross profits were \$1,117.3 million and \$960.6 million, respectively. For the year ended December 31, 2013, we realized net income of \$114.0 million, or \$4.32 per diluted common share, and for the years ended December 31, 2012 and 2011, we realized net income of \$100.2 million, or \$4.19 per diluted share, and \$82.4 million, or \$3.47 per diluted share, respectively. In addition to the matters described above, the following factors impacted our financial condition and results of operations in 2013, 2012, and 2011:

**Year Ended December 31, 2013:**

**Asset Impairments:** We determined that the fair value of indefinite-lived intangible franchise rights related to four of our franchises did not exceed their carrying value and an impairment charge was required. Accordingly, we recorded a \$5.4 million pretax non-cash impairment charge during the fourth quarter of 2013. We also recognized a total of \$1.1 million in pretax non-cash asset impairment charges related to impairment of various long-lived assets.

**Non-Cash Interest Expense:** Our 2013 results were negatively impacted by \$10.8 million of non-cash interest expense relative to the amortization of the discount associated with our 2.25% Notes and 3.00% Notes representing the impact of the accounting for convertible debt as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 470, Debt ("ASC 470").

**Catastrophic Events:** During the year, our 2013 results were negatively impacted by several catastrophic events.

Insurance deductibles and other related expenses caused by snow storms, windstorms, and hail damage, were recognized as SG&A expense for a total of \$12.2 million.

- **Acquisition Costs:** Primarily due to our acquisition of UAB Motors in February 2013, we incurred a total of \$6.2 million in acquisition costs for the year ended December 31, 2013.

- **Net Gain on Real Estate and Dealership Disposition Transactions:** Positively impacting our 2013 results was a pre-tax net gain on sale of dealerships of \$10.4 million.

**Year Ended December 31, 2012:**

**Asset Impairments:** We determined that the fair value of indefinite-lived intangible franchise rights related to three of our franchises did not exceed their carrying value and an impairment charge was required. Accordingly, we recorded a \$7.0 million pretax non-cash asset impairment charge during the fourth quarter of 2012. We also recognized a total of \$0.3 million in pretax non-cash asset impairment charges related to impairment of various long-lived assets.

**Non-Cash Interest Expense:** Our 2012 results were negatively impacted by \$9.9 million of non-cash interest expense relative to the amortization of the discount associated with our 2.25% Notes and 3.00% Notes representing the impact

of the accounting for convertible debt as required by ASC 470.

Catastrophic Events: Our 2012 results were negatively impacted by several catastrophic events. Insurance deductibles and other related expenses caused by hail damage and Hurricane Sandy were recognized as SG&A expense for a total of \$4.6 million.

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Acquisition Costs: During the fourth quarter of 2012, we incurred a total of \$1.8 million in acquisition costs, primarily related to our acquisition of UAB Motors at the beginning of 2013.

Year Ended December 31, 2011:

Asset Impairments: We recognized a total of \$4.8 million in pretax non-cash asset impairment charges, primarily related to the impairment of assets held-for-sale of \$3.2 million and other various long-lived assets of \$1.6 million.

Non-Cash Interest Expense: Our 2011 results were negatively impacted by \$9.1 million of non-cash interest expense relative to the amortization of the discount associated with our 2.25% Notes and 3.00% Notes representing the impact of the accounting for convertible debt as required by ASC 470.

These items, and other variances between the periods presented, are covered in the following discussion.

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## Key Performance Indicators

The following table highlights certain of the key performance indicators we use to manage our business:  
Consolidated Statistical Data

	For the Year Ended December 31,			
	2013	2012	2011	
Unit Sales				
Retail Sales				
New Vehicle	155,866	128,550	102,022	
Used Vehicle	98,813	85,366	70,475	
Total Retail Sales	254,679	213,916	172,497	
Wholesale Sales	50,736	43,756	35,997	
Total Vehicle Sales	305,415	257,672	208,494	
Gross Margin				
New Vehicle Retail Sales	5.5	% 5.8	% 6.2	%
Total Used Vehicle Sales	6.8	% 7.3	% 7.7	%
Parts and Service Sales	52.5	% 52.4	% 52.3	%
Total Gross Margin	14.5	% 14.9	% 15.8	%
SG&A as a % of Gross Profit	75.6	% 75.9	% 76.5	%
Operating Margin	3.1	% 3.1	% 3.2	%
Pretax Margin	2.2	% 2.1	% 2.2	%
Finance and Insurance Revenues per Retail Unit Sold	\$1,223	\$1,215	\$1,135	

The following discussion briefly highlights certain of the results and trends occurring within our business. Throughout the following discussion, references are made to Same Store results and variances that are discussed in more detail in the “Results of Operations” section that follows.

## 2013 compared to 2012

Over the course of 2013, our industry experienced an increase in new vehicle unit sales. Our consolidated new vehicle retail sales revenues increased 21.8% for the twelve months ended December 31, 2013 as compared to 2012. This growth primarily reflects an increase in new vehicle unit sales of 21.2% for the year ended December 31, 2013, as compared to the same period in 2012, as a result of dealership acquisition activity, stronger consumer confidence in the U.S., better industry conditions in the U.K., improved inventory levels and the execution of initiatives made by our operating team. New vehicle retail gross margin declined during the year ended December 31, 2013 as gross profit per retail unit sold decreased in most of our brands, primarily reflecting the increasingly competitive nature of the industry.

Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory. Our used vehicle retail sales revenues increased 16.1% for the twelve months ended December 31, 2013 as compared to 2012. This growth primarily reflects an increase in used vehicle unit sales of 15.8% for the year ended December 31, 2013 as compared to 2012, including the impact of our dealership acquisitions in the U.K. and Brazil. The improving U.S. economic environment that has benefited new vehicle sales also supported increased used vehicle demand. Used vehicle retail gross margin declined 40 basis points for the twelve months ended December 31, 2013 as compared to 2012. Used vehicle margins are generally lower in our U.K. and Brazil segments. Therefore, the decline in consolidated used vehicle gross margin partially relates to the mix shift effect, as a result of a larger contribution from these foreign segments.

Our parts and service sales increased 14.8%, for the year ended December 31, 2013, as compared to the same period in 2012. This growth was driven by increases in all aspects of our business: customer-pay parts and service, collision, warranty parts and service, and wholesale parts. Our parts and service gross margin increased 10 basis points for the year ended December 31, 2013 as compared to 2012, with improving U.S. margins more than offsetting the mix effect of the U.K. and Brazil.

Our consolidated finance and insurance revenues per retail unit sold increased \$8 for the twelve months ended December 31, 2013, as compared to the same period in 2012, primarily as a result of higher income per contract and increased

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penetration rates in the U.S., partially offset by the mix effect of increased business in the U.K. and Brazil where income per retail unit sold tends to be lower.

Our total gross margin decreased 40 basis points for the year ended December 31, 2013 as compared to 2012, primarily due to the shift in business mix towards lower margin new and used vehicle businesses and growing contribution from our foreign segments, which generally realize lower total gross margin.

Our consolidated SG&A expenses increased in absolute dollars for the twelve months ended December 31, 2013, as compared to 2012, primarily as a result of dealership acquisitions, as well as the correlation to vehicle sales volumes. However, SG&A as a percentage of gross profit declined 30 basis points to 75.6%, for the year ended December 31, 2013 from the same period in 2012, reflecting ongoing cost control and the leverage on our cost structure that higher revenues and gross profits provide.

For the twelve months ended December 31, 2013, floorplan interest expense increased 31.0%, as compared to 2012, primarily as a result of an increase in our floorplan borrowings from dealership acquisitions, particularly the acquisition of UAB Motors, and expanded inventory levels necessary to support higher sales rates. Other interest expense, net increased 4.0% for the year ended December 31, 2013, primarily due to additional real estate financing including mortgage borrowings related to acquisitions.

The combination of all of these factors, including \$6.5 million of non-cash asset impairments, resulted in an operating margin of 3.1% for the twelve months ended December 31, 2013, which is flat from 2012.

2012 compared to 2011

Over the course of 2012, our industry experienced an increase in new vehicle unit sales. While total industry sales remained low relative to years before 2008, unit sales rose from 12.8 million for the twelve months ended December 31, 2011 to 14.5 million in 2012. Our new vehicle retail sales revenues increased 26.1% for the twelve months ended December 31, 2012 as compared to 2011. This growth primarily reflects an increase in our new vehicle unit sales of 26.0% for the year ended December 31, 2012, reflecting stronger consumer confidence, improved inventory levels in our import brands that had experienced shortages as a result of the March 2011 natural disaster in Japan, and strong execution by our operating team. New vehicle retail gross margin declined during the year ended December 31, 2012 primarily as industry-wide new vehicle inventory levels returned to more normalized levels following the shortage in most of 2011.

Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory. Our used vehicle retail sales revenues increased 24.0% for the twelve months ended December 31, 2012 as compared to 2011. This growth primarily reflected an increase in the used vehicle unit sales of 21.1% for the year ended December 31, 2012 as compared to 2011. The improving economic environment that has benefited new vehicle sales also supported improved used vehicle demand. Used vehicle gross margins declined for the twelve months ended December 31, 2012, due to a decrease in gross profit per unit sold coupled with an increase in the sales price per unit. Our parts and service sales increased by 8.1%, for the year ended December 31, 2012, as compared to the same period in 2011, primarily driven by increases in our customer-pay parts and service business and in our collision business, as well as in our wholesale parts business. Our parts and service margins for 2012 increased to 52.4%, up 10 basis points from 2011, primarily as a result of an increase in internal work generated by increased new and used retail vehicle sales volumes.

Our consolidated finance and insurance income per retail unit sold increased to \$1,215 for the twelve months of 2012, as compared to \$1,135 in 2011, primarily driven by increases in income per contract from our finance, insurance, and other product offerings, as well as an increase in penetration rates for finance and vehicle service contracts.

Our total gross margin decreased 90 basis points to 14.9% for the twelve months ended December 31, 2012, primarily due to the shift in business mix towards the lower margin new and used vehicle businesses.

Our consolidated SG&A expenses increased in absolute dollars for the twelve months ended December 31, 2012, as compared to 2011, primarily as a result of the correlation to vehicle sales volumes, as well as dealership acquisitions. However, SG&A as a percentage of gross profit declined 60 basis points to 75.9%, for the year ended December 31, 2012 from the same period in 2011, reflecting ongoing cost control and the leverage on our cost structure that higher

revenues and gross profits provide.

For the twelve months ended December 31, 2012, floorplan interest expense increased 14.8%, as compared to 2011, primarily due to higher weighted average borrowings as our import brand inventories returned to more normalized levels following the March 2011 natural disasters in Japan and recent acquisitions. Other interest expense increased 11.1% for the year ended December 31, 2012, largely due to an increase in real estate related borrowings.

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The combination of all of these factors, including \$7.3 million of asset impairments, resulted in an operating margin of 3.1% for the twelve months ended December 31, 2012, which reflects a 10 basis-point decrease from 2011.

We address these items further, and other variances between the periods presented, in the “Results of Operations” section below.

Recent Accounting Pronouncements

Refer to Note 2 of our Consolidated Financial Statements, “Summary of Significant Accounting Policies and Estimates,” for a discussion of those most recent pronouncements that impact us.

Critical Accounting Policies and Accounting Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) principles requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. We analyze our estimates based on our historical experience and various other assumptions that we believe to be reasonable under the circumstances. However, actual results could differ from such estimates. The following is a discussion of our critical accounting estimates and policies.

We have identified below what we believe to be the most pervasive accounting policies and estimates that are of particular importance to the portrayal of our financial position, results of operations and cash flows. See Note 2 to our Consolidated Financial Statements, “Summary of Significant Accounting Policies and Estimates,” for further discussion of all our significant accounting policies and estimates.

**Revenue Recognition.** Revenues from vehicle sales, parts sales, and vehicle service are recognized upon completion of the sale or service and delivery to the customer. Conditions to completing a sale include having an agreement with the customer, including pricing, and the sales price must be reasonably expected to be collected. We include revenues from our collision center operations in parts and services sales.

We record the profit we receive for arranging vehicle fleet transactions net in other finance and insurance revenues. Since all sales of new vehicles must occur through franchised new vehicle dealerships, the dealerships effectively act as agents for the automobile manufacturers in completing sales of vehicles to fleet customers. As these customers typically order the vehicles, we have no significant general inventory risk. Additionally, fleet customers generally receive special purchase incentives from the automobile manufacturers and we receive only a nominal fee for facilitating the transactions. Taxes collected from customers and remitted to governmental agencies are not included in total revenues.

We arrange financing for customers through various institutions and receive financing fees based on the difference between the loan rates charged to customers and wholesale financing rates set by the financing institution. In addition, we receive fees from the sale of insurance and vehicle service contracts to customers. Further, through agreements with certain vehicle service contract administrators, we earn volume incentive rebates and interest income on reserves, as well as participate in the underwriting profits of the products. We may be charged back for unearned financing, insurance contract or vehicle service contract fees in the event of early termination of the contracts by customers.

Revenues from these fees are recorded at the time of the sale of the vehicles and a reserve for future amounts which might be charged back is established based on our historical chargeback results and the termination provisions of the applicable contracts. While chargeback results vary depending on the type of contract sold, a 10% change in the historical chargeback results used in determining estimates of future amounts which might be charged back would have changed the reserve at December 31, 2013, by \$2.5 million.

**Inventories.** New, used and demonstrator vehicle inventories are carried at the lower of specific cost or market and are removed from inventory using the specific identification method in the Consolidated Balance Sheets. Parts and accessories inventories are valued at lower of cost (determined on a first-in, first-out basis) or market in the Consolidated Balance Sheets. Vehicle inventory cost consists of the amount paid to acquire the inventory, plus the cost of reconditioning, cost of equipment added and transportation cost. Additionally, we receive interest assistance from some of our automobile manufacturers. This assistance is accounted for as a vehicle purchase price discount and is reflected as a reduction to the inventory cost on our Consolidated Balance Sheets and as a reduction to cost of sales in our Statements of Operations as the vehicles are sold. At December 31, 2013 and 2012, inventory cost had been

reduced by \$9.0 million and \$7.8 million, respectively, for interest assistance received from manufacturers. New vehicle cost of sales was reduced by \$38.5 million, \$33.9 million, and \$26.1 million for interest assistance received related to vehicles sold for the years ended December 31, 2013, 2012, and 2011, respectively. The assistance over the past three years has ranged from approximately 87.3% of our quarterly floorplan interest expense in the first quarter of 2013 to 115.9% for the third quarter of 2012, and was 94.4% for the fourth quarter of 2013.

As the market value of inventory typically declines over time, we establish new and used vehicle reserves based on our historical loss experience and considerations of current market trends. These reserves are charged to cost of sales and reduce

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the carrying value of inventory on hand. Used vehicles are complex to value as there is no standardized source for determining exact values and each vehicle and each market in which we operate is unique. As a result, the value of each used vehicle taken at trade-in, or purchased at auction, is determined based on industry data, primarily accessed via our used vehicle management software and the industry expertise of the responsible used vehicle manager.

Valuation risk is partially mitigated, by the speed at which we turn this inventory. At December 31, 2013, our used vehicle days' supply was 35 days.

We incur shipping costs in connection with selling the parts to customers. The cost of shipping parts is included in cost of sales on the Consolidated Statements of Operations.

**Goodwill.** Effective with the acquisition of UAB Motors on February 28, 2013, we added a fourth geographic region, the Brazil region, to our existing East and West regions in the U.S. and the U.K. region. We also determined that each region continues to represent a reporting unit for the purpose of assessing goodwill for impairment. Goodwill represents the excess, at the date of acquisition, of the purchase price of the business acquired over the fair value of the net tangible and intangible assets acquired. Annually in the fourth quarter, based on the carrying values of our regions as of October 31<sup>st</sup>, we perform a fair value and potential impairment assessment of goodwill. An impairment analysis is done more frequently if certain events or circumstances arise that would indicate a change in the fair value of the non-financial asset has occurred (i.e., an impairment indicator).

In evaluating goodwill, we compare the carrying value of the net assets of each reporting unit to its respective fair value, which is calculated by using unobservable inputs based upon our internally developed assumptions. This represents the first step of the impairment test. If the fair value of a reporting unit is less than the carrying value of its net assets, we must proceed to step two of the impairment test. Step two involves allocating the calculated fair value to all of the tangible and identifiable intangible assets of the reporting unit as if the calculated fair value was the purchase price in a business combination. Then we compare the value of the implied goodwill resulting from this second step to the carrying value of the goodwill in the reporting unit. To the extent the carrying value of the goodwill exceeds its implied fair value under step two of the impairment test, a non-cash impairment charge equal to the difference is recorded.

We use a combination of the discounted cash flow, or income approach (80% weighted), and the market approach (20% weighted) to determine the fair value of our reporting units. Included in the discounted cash flow are assumptions regarding revenue growth rates, future gross margins, future SG&A expenses and an estimated weighted average cost of capital ("WACC"). We also must estimate residual values at the end of the forecast period and future capital expenditure requirements. Specifically, with regards to the valuation assumptions utilized in the income approach as of October 31, 2013, we based our analysis on a recovery back to an industry sales rate of 17.0 million units by 2016. For the market approach, we utilize recent market multiples of guideline companies for both revenue (20% weighted) and pretax net income (80% weighted). Each of these assumptions requires us to use our knowledge of (1) the industry, (2) recent transactions and (3) reasonable performance expectations for our operations. If any one of the above assumptions change or fails to materialize, the resulting decline in the estimated fair value could result in a material non-cash impairment charge to the goodwill associated with our reporting unit(s).

**Intangible Franchise Rights.** Our only significant identifiable intangible assets, other than goodwill, are rights under franchise agreements with manufacturers, which are recorded at an individual dealership level. We expect these franchise agreements to continue for an indefinite period and, for agreements that do not have indefinite terms, based on the history with the manufacturer we believe that renewal of these agreements can be obtained without substantial cost. As such, we believe that our franchise agreements will contribute to cash flows for an indefinite period and, therefore, the carrying amounts of the franchise rights are not amortized. Franchise rights acquired in business acquisitions prior to July 1, 2001, were recorded and amortized as part of goodwill and remain as part of goodwill at December 31, 2013 and 2012 in the accompanying Consolidated Balance Sheets. Since July 1, 2001, intangible franchise rights acquired in business combinations have been recorded as distinctly separate intangible assets. In accordance with guidance primarily codified within ASC 350, Intangibles — Goodwill and Other ("ASC 350"), we evaluate these franchise rights for impairment annually in the fourth quarter, based on the carrying values of our individual dealerships as of October 31<sup>st</sup>, or more frequently if events or circumstances indicate possible impairment has occurred.

In performing our impairment assessments, we test the carrying value of each individual franchise right that was recorded by using a direct value method discounted cash flow model, or income approach, specifically the excess earnings method. Included in this analysis are assumptions, at a dealership level, regarding the cash flows directly attributable to the franchise rights, revenue growth rates, future gross margins and future SG&A expenses. Using an estimated WACC, estimated residual values at the end of the forecast period and expected future capital expenditure requirements, we calculate the fair value of each dealership's franchise rights.

If any one of the above assumptions change or fails to materialize, the resulting decline in the intangible franchise rights' estimated fair value could result in a non-cash impairment charge to the intangible franchise right associated with the applicable dealership. See Note 15 to our Consolidated Financial Statements, "Asset Impairments," and Note 16 to our Consolidated

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Financial Statements, “Intangible Franchise Rights and Goodwill,” for additional details regarding our intangible franchise rights.

Income Taxes. Currently, we operate in 15 different states in the U.S., in the U.K., and in Brazil, each of which has unique tax rates and payment calculations. As the amount of income generated in each jurisdiction varies from period to period, our estimated effective tax rate can vary based on the proportion of taxable income generated in each jurisdiction. We follow the liability method of accounting for income taxes in accordance with ASC 740, Income Taxes. Under this method, deferred income taxes are recorded based on differences between the financial reporting and tax basis 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. Each tax position must satisfy a threshold of more-likely-than-not and a measurement attribute for some or all of the benefits of that position to be recognized in a company's financial statements. See Note 7 to our Consolidated Financial Statements, “Income Taxes,” for additional information.

We have recognized deferred tax assets, net of valuation allowances, that we believe will be realized, based primarily on the assumption of future taxable income. As it relates to net operating losses, a corresponding valuation allowance has been established to the extent that we have determined that net income attributable to certain jurisdictions will not be sufficient to realize the benefit.

Fair Value of Assets Acquired and Liabilities Assumed. The fair values of assets acquired and liabilities assumed in business combinations are estimated using various assumptions. The most significant assumptions, and those requiring the most judgment, involve the estimated fair values of property and equipment and intangible franchise rights, with the remaining amounts attributable to goodwill, if any. We utilize third-party experts to determine the fair values of property and equipment purchased, including real estate and our fair value model as discussed under Intangible Franchise Rights to determine the fair value of intangible franchise rights acquired.

Derivative Financial Instruments. One of our primary market risk exposures is increasing interest rates. Interest rate derivatives, designated as cash flow hedges, are used to adjust interest rate exposures when appropriate based on market conditions.

We follow the requirements of guidance primarily codified within ASC 815, Derivatives and Hedging (“ASC 815”) pertaining to the accounting for derivatives and hedging activities. ASC 815 requires us to recognize all cash flow hedges on our Consolidated Balance Sheet at fair value. The related gains or losses on these interest rate derivatives are deferred in stockholders’ equity as a component of accumulated other comprehensive loss. These deferred gains and losses are recognized in interest expense in the period in which the related items being hedged are recognized in interest expense. However, to the extent that the change in value of a derivative contract does not perfectly offset the change in the value of the items being hedged, that ineffective portion is immediately recognized in other income or expense. Monthly contractual settlements of these swap positions are recognized as floorplan or other interest expense in the accompanying Consolidated Statements of Operations. All of our interest rate hedges were designated as cash flow hedges and were deemed to be effective at December 31, 2013, 2012, and 2011.

We measure interest rate derivative instruments utilizing an income approach valuation technique, converting future amounts of cash flows to a single present value in order to obtain a transfer exit price within the bid and ask spread that is most representative of the fair value of our derivative instruments. In measuring fair value, we utilize the option-pricing Black-Scholes present value technique for all of our derivative instruments. This option-pricing technique utilizes a one-month London Interbank Offered Rate (“LIBOR”) forward yield curve, obtained from an independent external service provider, matched to the identical maturity term of the instrument being measured. Observable inputs utilized in the income approach valuation technique incorporate identical contractual notional amounts, fixed coupon rates, periodic terms for interest payments and contract maturity. Our fair value estimate of the interest rate derivative instruments also considers the credit risk of our instruments in a liability position or the counterparty for the instruments in an asset position. The credit risk is calculated by using the spread between the one-month LIBOR yield curve and the relevant average 10 and 20-year retail rate for BB+ S&P rated companies, or 6.8%, as of December 31, 2013. We have determined the valuation measurement inputs of these derivative instruments to maximize the use of observable inputs that market participants would use in pricing similar or identical

instruments and market data obtained from independent sources, which is readily observable or can be corroborated by observable market data for substantially the full term of the derivative instrument. Accordingly, we have classified the derivatives within Level 2 of the ASC 820 hierarchy framework in Note 13 to our Consolidated Financial Statements, "Fair Value Measurements." We validate the outputs of our valuation technique by comparison to valuations from the respective counterparties.

Self-Insured Medical, Property and Casualty Reserves. We purchase insurance policies for worker's compensation, liability, auto physical damage, property, pollution, employee medical benefits and other risks consisting of large deductibles and/or self-insured retentions.

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Annually we engage a third-party actuary to conduct a study of the exposures under the self-insured portion of our worker's compensation and general liability insurance programs for all open policy years. In the interim, we review the estimates within the study and monitor actual experience for unusual variances. The appropriate adjustments are made to the accrual, based upon these procedures. Actuarial estimates for the portion of claims not covered by insurance are based on historical claims experience adjusted for loss trending and loss development factors. Changes in the frequency or severity of claims from historical levels could influence our reserve for claims and our financial position, results of operations and cash flows. A 10% change in the actuarially determined estimate of aggregate future losses would have changed the reserve for these losses at December 31, 2013, by \$2.2 million.

Our auto physical damage insurance coverage is limited and contains two layers of coverage. The first layer covers up to \$10.0 million per incident with no annual maximum after consideration of our deductible. Our minimum deductible of \$2.5 million per occurrence is applied against future losses until claims paid reach \$15.0 million in annual aggregate at which point the deductible increases to 50% of the incurred loss in excess of the per occurrence deductible. The second layer of coverage provides for up to \$50.0 million in aggregate loss coverage in excess of \$20.0 million in deductibles.

For policy years ended prior to October 31, 2005, our workers' compensation and general liability insurance coverage included aggregate retention (stop loss) limits in addition to a per claim deductible limit ("Stop Loss Plans"). Due to historical experience in both claims frequency and severity, the likelihood of breaching the aggregate retention limits was deemed remote, and as such, we elected not to purchase this stop loss coverage for the policy year beginning November 1, 2005 and for each subsequent year ("No Stop Loss Plans"). Our exposure per claim under the No Stop Loss Plans is limited to \$1.0 million per occurrence, with unlimited exposure on the number of claims up to \$1.0 million that we may incur. As of December 31, 2013, we have accrued \$0.7 million and \$21.3 million for our Stop Loss and No Stop Loss plans, respectively. Our maximum potential exposure under worker's compensation and general liability insurance Stop Loss Plans totaled \$34.9 million at December 31, 2013, before consideration of amounts previously paid or accruals recorded related to our loss projections. After consideration of the amounts paid or accrued, the remaining potential loss exposure under the workers compensation and general liability Stop Loss Plans totaled \$13.7 million at December 31, 2013.

Variable Interest Entity. In 2013, we entered into arrangements to provide a fixed-interest-rate working capital loan and various administrative services to a related-party entity that owns and operates retail automotive dealerships for a variable fee, both of which constitute variable interests in the entity. Our exposure to loss as a result of its involvement in the entity includes the balance outstanding under the loan arrangement. We hold no equity ownership interest in the entity. We have determined that the entity meets the criteria of a variable interest entity ("VIE"). The terms of the loan and services agreements provide us with the right to control the activities of the VIE that most significantly impact the VIE's economic performance, the obligation to absorb potentially significant losses of the VIE and the right to receive potentially significant benefits from the VIE. Accordingly, we qualified as the VIE's primary beneficiary and consolidated 100% of the assets and liabilities of the VIE as of December 31, 2013, as well as 100% of the results of operations of the VIE beginning on the effective date of the variable interests arrangements to December 31, 2013.

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Results of Operations

The “Same Store” amounts presented below include the results of dealerships for the identical months in each period presented in the comparison, commencing with the first full month in which the dealership was owned by us and, in the case of dispositions, ending with the last full month it was owned by us. For example, for a dealership acquired in June 2012, the results from this dealership will appear in our Same Store comparison beginning in 2013 for the period July 2013 through December 2013, when comparing to July 2012 through December 2012 results. Depending on the periods being compared, the dealerships included in Same Store will vary. For this reason, the 2012 Same Store results that are compared to 2013 differ from those used in the comparison to 2011. Same Store results also include the activities of our corporate headquarters.

The following table summarizes our combined Same Store results for the year ended December 31, 2013 as compared to 2012 and for the year ended December 31, 2012 compared to 2011.

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## Total Same Store Data

(dollars in thousands, except per unit amounts)

	For The Year Ended December 31,						
	2013	% Change	2012	2012	% Change	2011	
<b>Revenues</b>							
New vehicle retail	\$4,354,540	6.0%	\$4,107,638	\$3,932,266	16.3%	\$3,381,216	
Used vehicle retail	1,794,875	6.0%	1,693,237	1,618,272	14.8%	1,409,253	
Used vehicle wholesale	276,121	0.4%	275,011	254,052	1.7%	249,693	
Parts and service	902,905	7.4%	840,383	826,119	2.0%	809,632	
Finance, insurance and other	286,837	14.0%	251,544	242,706	24.6%	194,775	
Total revenues	\$7,615,278	6.2%	\$7,167,813	\$6,873,415	13.7%	\$6,044,569	
<b>Cost of Sales</b>							
New vehicle retail	\$4,121,902	6.6%	\$3,868,417	\$3,708,763	16.9%	\$3,172,080	
Used vehicle retail	1,651,418	6.4%	1,552,222	1,483,616	15.4%	1,285,545	
Used vehicle wholesale	276,615	1.6%	272,220	251,381	2.3%	245,615	
Parts and service	423,023	5.8%	399,997	393,704	2.1%	385,779	
Total cost of sales	6,472,958	6.2%	6,092,856	5,837,464	14.7%	5,089,019	
Gross profit	\$1,142,320	6.3%	\$1,074,957	\$1,035,951	8.4%	\$955,550	
Selling, general and administrative expenses	\$858,367	6.2%	\$808,218	\$783,702	7.2%	\$731,036	
Depreciation and amortization expenses	\$32,418	6.1%	\$30,549	\$29,834	10.6%	\$26,966	
Floorplan interest expense	\$33,771	9.8%	\$30,746	\$29,383	6.9%	\$27,486	
<b>Gross margin</b>							
New vehicle retail	5.3	%	5.8	% 5.7	%	6.2	%
Used vehicle	6.9	%	7.3	% 7.3	%	7.7	%
Parts and service	53.1	%	52.4	% 52.3	%	52.4	%
Total gross margin	15.0	%	15.0	% 15.1	%	15.8	%
SG&A as a % of gross profit	75.1	%	75.2	% 75.7	%	76.5	%
Operating margin	3.2	%	3.2	% 3.1	%	3.2	%
Finance and insurance revenues per retail unit sold	\$1,345	9.0%	\$1,234	\$1,232	8.4%	\$1,137	

The discussion that follows provides explanation for the variances noted above. In addition, each table presents by primary income statement line item comparative financial and non-financial data of our Same Store locations, those locations acquired or disposed of ("Transactions") during the periods and the consolidated company for the years ended December 31, 2013, 2012, and 2011.

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## New Vehicle Retail Data

(dollars in thousands, except per unit amounts)

	For The Year Ended December 31,						
	2013	% Change	2012	2012	% Change	2011	
<b>Retail Unit Sales</b>							
<b>Same Stores</b>							
U.S.	119,213	4.3%	114,265	112,845	17.3%	96,188	
U.K.	8,428	8.4%	7,778	5,071	(0.1)%	5,077	
Total Same Stores	127,641	4.6%	122,043	117,916	16.4%	101,265	
<b>Transactions</b>							
U.S.	5,856		6,270	7,690		757	
U.K.	5,271		237	2,944		—	
Brazil	17,098		—	—		—	
Total	155,866	21.2%	128,550	128,550	26.0%	102,022	
<b>Retail Sales Revenues</b>							
<b>Same Stores</b>							
U.S.	\$4,053,242	5.8%	\$3,830,652	\$3,758,003	17.2%	\$3,206,211	
U.K.	301,298	8.8%	276,986	174,263	(0.4)%	175,005	
Total Same Stores	4,354,540	6.0%	4,107,638	3,932,266	16.3%	3,381,216	
<b>Transactions</b>							
U.S.	167,671		173,559	246,208		21,431	
U.K.	140,239		9,901	112,624		—	
Brazil	562,471		—	—		—	
Total	\$5,224,921	21.8%	\$4,291,098	\$4,291,098	26.1%	\$3,402,647	
<b>Gross Profit</b>							
<b>Same Stores</b>							
U.S.	\$211,373	(3.0)%	\$217,871	\$210,384	7.2%	\$196,300	
U.K.	21,265	(0.4)%	21,350	13,119	2.2%	12,836	
Total Same Stores	232,638	(2.8)%	239,221	223,503	6.9%	209,136	
<b>Transactions</b>							
U.S.	8,971		7,588	15,075		1,202	
U.K.	7,177		630	8,861		—	
Brazil	41,089		—	—		—	
Total	\$289,875	17.2%	\$247,439	\$247,439	17.6%	\$210,338	
<b>Gross Profit per Retail Unit Sold</b>							
<b>Same Stores</b>							
U.S.	\$1,773	(7.0)%	\$1,907	\$1,864	(8.7)%	\$2,041	
U.K.	\$2,523	(8.1)%	\$2,745	\$2,587	2.3%	\$2,528	
Total Same Stores	\$1,823	(7.0)%	\$1,960	\$1,895	(8.2)%	\$2,065	
<b>Transactions</b>							
U.S.	\$1,532		\$1,210	\$1,960		\$1,588	
U.K.	\$1,362		\$2,658	\$3,010		\$—	
Brazil	\$2,403		\$—	\$—		\$—	
Total	\$1,860	(3.4)%	\$1,925	\$1,925	(6.6)%	\$2,062	
<b>Gross Margin</b>							
<b>Same Stores</b>							
U.S.	5.2	%	5.7	% 5.6	%	6.1	%
U.K.	7.1	%	7.7	% 7.5	%	7.3	%

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Total Same Stores	5.3	%	5.8	%	5.7	%	6.2	%
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## Transactions

U.S.	5.4	%	4.4	%	6.1	%	5.6	%
U.K.	5.1	%	6.4	%	7.9	%	—	%
Brazil	7.3	%	—	%	—	%	—	%
Total	5.5	%	5.8	%	5.8	%	6.2	%

The following table sets forth our top ten Same Store brands, based on retail unit sales volume and the percentage changes from year to year, as well as Same Store unit sales mix:

## Same Store New Vehicle Unit Sales

	For The Year Ended December 31,					
	2013	% Change	2012	2012	% Change	2011
Toyota	32,262	2.3%	31,526	32,738	26.2%	25,935
Ford	12,444	10.2	11,288	10,455	18.2	8,844
Nissan	12,121	6.5	11,386	13,637	6.0	12,860
BMW	11,912	11.1	10,720	10,253	2.4	10,010
Honda	10,511	0.9	10,422	10,837	26.0	8,604
Mercedes-Benz	6,652	6.5	6,248	6,248	7.0	5,839
Lexus	5,724	8.6	5,269	5,269	19.3	4,418
Chevrolet	4,480	8.8	4,116	4,116	5.7	3,893
Volkswagen	4,278	(7.7)	4,637	2,176	13.6	1,915
Audi	3,762	9.5	3,437	730	—	730
Other	23,495	2.2	22,994	21,457	17.8	18,217
Total	127,641	4.6%	122,043	117,916	16.4%	101,265

We believe the focus that we have placed on improving our dealership sales processes, as well as the increase in overall industry sales, have contributed to increased Same Store new vehicle retail sales. Our total Same Store new vehicle retail sales revenues increased 6.0% for the year ended December 31, 2013, as compared to the same period in 2012, as a result of increased new vehicle retail unit sales of 4.3% in the U.S. and 8.4% in the U.K. New vehicle retail unit sales improved in most of our major brand offerings, highlighted by an 11.1% increase in BMW, a 10.2% growth in Ford, a 6.5% growth in Nissan and a 2.3% improvement in Toyota unit sales. The level of retail sales, as well as our own ability to retain or grow market share during any future period, is difficult to predict.

Our total Same Store new vehicle gross profit decreased 2.8% for the year ended December 31, 2013, as compared to the same period in 2012, driven by a 7.0% decline in U.S. Same Store gross profit per retail unit ("PRU") to \$1,773. Competition among U.S. dealerships for new vehicle sales continued to escalate during 2013, causing downward price pressure on most of our major brands and in most of our markets. As a result, our total Same Store new vehicle gross margin for the twelve months ended December 31, 2013 declined 50 basis points to 5.3% as compared to the same period in 2012.

In 2012, our total Same Store new vehicle retail sales revenues increased 16.3%, primarily as a result of increased new vehicle retail unit sales of 16.4%, as compared to 2011. The mix shift effect on revenues from the normalization of our high volume brand inventories contributed to a decline in our total Same Store revenues PRU, which decreased 0.1% to \$33,348 in 2012, as compared to 2011.

Our total Same Store new vehicle gross profit increased 6.9% for the year ended December 31, 2012, as a result of the 16.4% increase in new vehicle retail unit sales. The balancing of industry-wide inventory levels resulted in a mix shift to our high volume brands, which contributed to a decline in our total Same Store gross profit PRU by 8.2% to \$1,895 for the twelve months ended December 31, 2012, as compared to the same period in 2011. As a result, our total Same Store new vehicle gross margin for 2012 declined 50 basis points to 5.7% from 2011.

Most manufacturers offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases. This assistance varies by manufacturer, but generally provides for a defined amount, adjusted periodically for changes in market interest rates, regardless of our actual floorplan interest rate or the length of time for which the inventory is financed. We record these incentives as a reduction of new vehicle cost of sales as the vehicles are sold,

impacting the gross profit and gross margin detailed above. The total assistance recognized in cost of sales during the years ended December 31, 2013, 2012, and 2011 was \$38.5 million, \$33.9 million, and \$26.1 million, respectively. The amount of interest assistance we

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recognize in a given period is primarily a function of: (a) the mix of units being sold, as U.S. domestic brands tend to provide more assistance, (b) the specific terms of the respective manufacturers' interest assistance programs and market interest rates, (c) the average wholesale price of inventory sold, and (d) our rate of inventory turnover. Over the past three years, manufacturers' interest assistance as a percentage of our total consolidated floorplan interest expense has ranged from 87.3% in the first quarter of 2013 to 115.9% in the third quarter of 2012 and was 94.4% for the fourth quarter of 2013. The ratio for the fourth quarter of 2013 of 94.4% was 8.8 percentage points lower than the fourth quarter of 2012 primarily due to the country mix effect, since the U.K. receives a much lower rate of assistance as compared to the U.S., and Brazil does not receive this type of assistance from the manufacturers. In the U.S., manufacturer's interest assistance was 114.1% of floorplan interest expense in the fourth quarter of 2013.

We increased our new vehicle inventory levels by \$269.8 million, or 30.1%, from \$895.5 million as of December 31, 2012 to \$1,165.3 million as of December 31, 2013, primarily in response to an improved selling environment and our recent dealership acquisitions. Our consolidated days' supply of new vehicle inventory increased to 72 days as of December 31, 2013 compared to 63 days as of December 31, 2012.

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Used Vehicle Retail Data

(dollars in thousands, except per unit amounts)

For The Year Ended December 31,

	2013	% Change	2012	2012	% Change	2011
Retail Unit Sales						