

GROUP 1 AUTOMOTIVE INC

Form DEF 14A

April 11, 2008

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**SCHEDULE 14A**  
**(Rule 14a-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**  
**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**GROUP 1 AUTOMOTIVE, INC.**

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
- (1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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April 11, 2008

Dear Fellow Stockholder:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Group 1 Automotive, Inc. to be held at 10:00 a.m., central time, on Thursday, May 22, 2008, at Four Seasons Hotel, 1300 Lamar Street, Houston, Texas 77010.

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

It is important that your shares are represented at the meeting, whether or not you plan to attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to submit a proxy containing your voting instructions, as soon as possible, by telephone or through the Internet, or by requesting a proxy card to complete, sign and return by mail, each in the manner described in the accompanying Proxy Statement.

Our Board of Directors recommends that stockholders vote FOR each of the matters described in the proxy statement to be presented at the meeting.

We hope you will be able to join us at our Annual Meeting in Houston on May 22<sup>nd</sup>.

Sincerely,

John L. Adams

Chairman of the Board

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Houston, TX 77024

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**Thursday, May 22, 2008**

To the Stockholders of Group 1 Automotive, Inc.:

The Annual Meeting of Stockholders of Group 1 Automotive, Inc. will be held on Thursday, May 22, 2008, at 10:00 a.m., central time, at Four Seasons Hotel, 1300 Lamar Street, Houston, Texas 77010. At the meeting, we will consider and vote upon the following matters:

- (1) The election of two directors to serve until the 2011 Annual Meeting of Stockholders;
- (2) The ratification of the appointment by the Audit Committee of Ernst & Young LLP as the independent registered public accounting firm of Group 1 for the year ending December 31, 2008; and
- (3) The consideration of any other business that is properly presented at the meeting or any adjournments or postponements of the meeting.

If you were a stockholder at the close of business on March 25, 2008, the record date for the meeting, you are entitled to vote at the meeting. A list of stockholders will be available and may be inspected during normal business hours for a period of at least 10 days prior to the annual meeting at the offices of Group 1, 800 Gessner, Suite 500, Houston, Texas 77024. The list of stockholders will also be available for your review at the annual meeting. In the event there are not sufficient votes for a quorum or to approve the forgoing proposals at the time of the annual meeting, the annual meeting may be adjourned in order to permit further solicitation of proxies.

In accordance with new rules approved by the Securities and Exchange Commission, beginning on or about April 11, 2008, we mailed a Notice of Internet Availability of Proxy Materials to our stockholders containing instructions on how to access the proxy statement and vote online and made our proxy materials available to our stockholders over the Internet.

Your vote is important. We urge you to review the accompanying materials carefully and to vote by telephone or Internet as promptly as possible. Alternatively, you may request a proxy card, which you may complete, sign and return by mail.

By Order of the Board of Directors,

Darryl M. Burman  
*Vice President, General Counsel &  
Corporate Secretary*

Houston, Texas  
April 11, 2008

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800 Gessner, Suite 500  
Houston, TX 77024

**PROXY STATEMENT**

This proxy statement is being furnished to you in connection with the solicitation of proxies by the Board of Directors of Group 1 Automotive, Inc. for use at our 2008 Annual Meeting of Stockholders.

**2008 ANNUAL MEETING DATE AND LOCATION**

The annual meeting will be held at Four Seasons Hotel, 1300 Lamar Street, Houston, Texas 77010, on Thursday, May 22, 2008, at 10:00 a.m., central time, or at such other time and place to which the meeting may be adjourned. References in this proxy statement to the annual meeting also refer to any adjournments, postponements or changes in location of the meeting, to the extent applicable.

**DELIVERY OF PROXY MATERIALS**

On or about April 11, 2008, we mailed a Notice of Internet Availability of Proxy Materials to our stockholders containing instructions on how to access the proxy materials and vote online. We made these proxy materials available to you over the Internet or, upon your request, have delivered paper versions of these materials to you by mail, in connection with the solicitation of proxies by our Board of Directors for the annual meeting.

Choosing to receive your future proxy materials by e-mail will save us the cost of printing and mailing documents to you. If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

**ABOUT THE ANNUAL MEETING**

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

At our annual meeting, stockholders will act upon the matters outlined in the notice of meeting, including the election of two directors, the ratification of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008 and consideration of any other matters properly presented at the meeting. In addition, senior management will report on our business and financial performance during fiscal 2007 and respond to your questions.

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

Only our stockholders as of 5:00 p.m., central time, on March 25, 2008, the record date, are entitled to receive notice of the annual meeting and to vote at the meeting. On March 25, 2008, there were 23,143,854 shares of Group 1 common stock issued and outstanding and entitled to vote at the meeting.

**How many votes can I cast?**

You are entitled to one vote for each share of Group 1 common stock you owned at 5:00 p.m., central time, on March 25, 2008, on all matters presented at the meeting.

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

Most stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned in street name.

*Stockholder of Record.* If your shares are registered directly in your name with Mellon Investor Services, LLC, our transfer agent, you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to grant your voting proxy directly or to vote in person at the annual meeting.

*Street Name Stockholder.* If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your broker or nominee how to vote and are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the annual meeting unless you obtained a signed proxy from the record holder giving you the right to vote the shares.

**How do I vote my shares?**

*Stockholders of Record:* Stockholders of record may vote their shares or submit a proxy to have their shares voted by one of the following methods:

By Internet. You may submit a proxy electronically on the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials. Please have the Notice of Internet Availability of Proxy Materials in hand when you log onto the website. Internet voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern Daylight Time, on May 21, 2008.

In Person. You may vote in person at the annual meeting by completing a ballot; however, attending the meeting without completing a ballot will not count as a vote.

By Telephone. If you request paper copies of the proxy materials by mail, you may submit a proxy by telephone (from U.S. and Canada only) using the toll-free number listed on the proxy card. Please have your proxy card in hand when you call. Telephone voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern Daylight Time, on May 21, 2008.

By Mail. If you request paper copies of the proxy materials by mail, you may indicate your vote by completing, signing and dating your proxy card and returning it in the enclosed reply envelope.

*Street Name Stockholders:* Street name stockholders may generally vote their shares or submit a proxy to have their shares voted by one of the following methods:

By Mail. If you request paper copies of the proxy materials by mail, you may indicate your vote by completing, signing and dating your proxy card and returning it in the enclosed reply envelope.

By Methods Listed on Proxy Card. Please refer to your proxy card or other information forwarded by your bank, broker or other holder of record to determine whether you may submit a proxy by telephone or electronically on the Internet, following the instructions on the proxy card or other information provided by the record holder.

In Person with a Proxy from the Record Holder. You may vote in person at the annual meeting if you obtain a legal proxy from your bank, broker or other nominee. Please consult the voting form or other information sent to you by your bank, broker or other nominee to determine how to obtain a legal proxy in order to vote in person at the annual meeting.



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**Can I revoke my proxy?**

Yes. If you are a stockholder of record, you can revoke your proxy at any time before it is exercised by: submitting written notice of revocation to Darryl M. Burman, Group 1 Automotive, Inc., 800 Gessner, Suite 500, Houston, Texas 77024 no later than May 21, 2008; submitting another proxy with new voting instructions by telephone or the Internet voting system; or attending the meeting and voting your shares in person.

If you are a street name stockholder and you vote by proxy, you may change your vote by submitting new voting instructions to your bank, broker or nominee in accordance with that entity's procedures.

**What is the effect of broker non-votes and abstentions and what vote is required to approve each proposal?**

If you hold your shares in street name, you will receive instructions from your broker or other nominee describing how to vote your shares. If you do not instruct your broker or nominee how to vote your shares, they may vote your shares as they decide as to each matter for which they have discretionary authority under the rules of the New York Stock Exchange. There are also non-discretionary matters for which brokers and other nominees do not have discretionary authority to vote unless they receive timely instructions from you. When a broker or other nominee does not have discretion to vote on a particular matter, you have not given timely instructions on how the broker or other nominee should vote your shares and the broker or other nominee indicates it does not have authority to vote such shares on its proxy, a broker non-vote results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters. For Items 1 (*Election of Directors*) and 2 (*Ratification of the Appointment of Ernst & Young LLP*) to be voted on at the annual meeting, brokers and other nominees will have discretionary authority in the absence of timely instructions from you.

Abstentions occur when stockholders are present at the annual meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which the stockholders are voting.

*Item 1 (Election of Directors):* To be elected, each nominee for election as a director must receive the affirmative vote of a plurality of the votes of our common stock, present in person or represented by proxy at the meeting and entitled to vote on the proposal. This means that director nominees with the most votes are elected. Votes may be cast in favor of or withheld from the election of each nominee. Votes that are withheld from a director's election will be counted toward a quorum, but will not affect the outcome of the vote on the election of a director.

*Item 2 (Ratification of the Appointment of Ernst & Young LLP):* Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008 requires the affirmative vote of the holders of a majority of the votes of our common stock cast at the annual meeting with respect to the proposal. Abstentions and broker non-votes will not have an impact on the outcome of the vote or the proposal.

Our Board of Directors has appointed Earl J. Hesterberg, our President and Chief Executive Officer, and John C. Rickel, our Senior Vice President and Chief Financial Officer, as the management proxy holders for the annual meeting. If you are a stockholder of record, your shares will be voted by the management proxy holders in accordance with the instructions on the proxy card you submit by mail, or the instructions provided for any proxy submitted by telephone or Internet, as applicable. For stockholders who have their shares voted by duly submitting a proxy by mail, telephone or Internet, the management proxy holders will vote all shares represented by such valid proxies as our Board of Directors recommends, unless a stockholder appropriately specifies otherwise.

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Our Board of Directors recommends a vote:

**FOR** each of the nominees for director set forth on page 15; and

**FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008.

### **What is a quorum?**

A quorum is the presence at the annual meeting, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock as of the record date. There must be a quorum for the annual meeting to be held. If a quorum is not present, the meeting may be adjourned from time to time until a quorum is reached. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of votes considered to be present at the annual meeting.

### **Who will bear the cost of soliciting votes for the annual meeting?**

We will bear all expenses of soliciting proxies. We may reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners of our common stock for their reasonable expenses in forwarding solicitation material to such beneficial owners. Directors, officers and employees of Group 1 may also solicit proxies in person or by other means of communication. Such directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. We have engaged Broadridge Financial Solutions to tabulate the votes and to serve as inspector of election at the annual meeting for a fee of approximately \$10,000.

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

You may submit proposals for consideration at future stockholder meetings, including director nominations. Please read *Stockholder Proposals for 2009 Annual Meeting* for information regarding the submission of stockholder proposals and director nominations for consideration at next year's annual meeting.

## **CORPORATE GOVERNANCE**

We are committed to good corporate governance. Our Board of Directors has adopted several governance documents to guide the operation and direction of our Board of Directors and its committees, which include our Corporate Governance Guidelines, Code of Ethics, Code of Conduct and charters for the Audit Committee, Compensation Committee, Nominating/Governance Committee and Finance/Risk Management Committee. Each of these documents is available on our website at [www.group1auto.com](http://www.group1auto.com) and stockholders may obtain a printed copy, free of charge, by sending a written request to Group 1 Automotive, Inc., 800 Gessner, Suite 500, Houston, TX 77024, Attn: Corporate Secretary.

### **Corporate Governance Guidelines**

Our Board of Directors has adopted Corporate Governance Guidelines. Among other matters, the Guidelines include the following:

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

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

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

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

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

***Director Responsibilities***

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

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

Directors are encouraged to attend the annual meeting of stockholders.

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

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

Our Board of Directors has full and free access to our officers and employees and welcomes regular attendance by our senior officers at each meeting of our Board of Directors.

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

The Compensation Committee annually reviews and approves corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluates the performance of the Chief Executive Officer in light of those goals and objectives and sets the compensation of the Chief Executive Officer based on this evaluation.

The Nominating/Governance Committee meets annually on succession planning.

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

Our Board of Directors conducts an annual self-evaluation of itself and its committees.

All new directors must participate in an orientation program.

Our Board of Directors periodically allocates meeting time to receive information and updates on corporate governance issues, director best practices and legal and regulatory changes.

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

Our Board of Directors has adopted a Code of Ethics for our Chief Executive Officer, our Chief Financial Officer, our Controller and all other financial and accounting officers. Any change to, or waiver from, the Code of Ethics will be disclosed on our website within five business days after such change or waiver. Among other matters, the Code of Ethics requires each of these officers to:

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

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

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work to ensure that we fully, fairly and accurately disclose information in a timely and understandable manner in all reports and documents that we file with the Securities and Exchange Commission ( SEC ) and in other public communications made by us;  
comply with applicable governmental laws, rules and regulations; and  
report any violations of the Code of Ethics to the Chief Executive Officer and the Chairman of the Audit Committee.

**Code of Conduct**

Our Board of Directors has adopted a Code of Conduct, which sets forth the standards of behavior expected of each of our employees, directors and agents. Among other matters, this Code of Conduct is designed to deter wrongdoing and to promote:

honest and ethical dealing with each other, with our clients and vendors, and with all other third parties;  
respect for the rights of fellow employees and all third parties;  
equal opportunity, regardless of age, race, sex, sexual orientation, color, creed, religion, national origin, marital status, veteran status, handicap or disability;  
fair dealing with employees and all other third parties with whom we conduct business;  
avoidance of conflicts of interest;  
compliance with all applicable laws and regulations;  
the safeguarding of our assets; and  
the reporting of any violations of the Code of Conduct to the appropriate officers.

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

Our Board of Directors held 10 meetings and took two actions by unanimous written consent during 2007. During the year, our directors attended an average of 99% of the meetings of our Board of Directors and of the committees on which they served. Under our Corporate Governance Guidelines, our directors are encouraged to attend the annual meeting of our stockholders. Six of our directors attended our 2007 annual meeting of stockholders.

Our Board of Directors and each of its committees annually conduct a self-evaluation to assess, and identify opportunities to improve, its performance. The Nominating/Governance Committee leads our Board of Directors in its annual self-evaluation.

**Independence of the Members of our Board of Directors**

Our Board of Directors has affirmatively determined that no member of our Board of Directors, other than Mr. Hesterberg (our President and Chief Executive Officer), has a material relationship with Group 1 and therefore, is independent as that term is defined in the New York Stock Exchange's listing standards.

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

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

**Committees of our Board of Directors**

Our Board of Directors has established four standing committees to assist it in discharging its responsibilities: the Audit Committee, the Compensation Committee, the Nominating/Governance Committee and the Finance/Risk Management Committee. The following chart reflects the current membership of each committee:

| Name               | Nominating/<br>Finance/<br>Risk |                           |                         |                         |
|--------------------|---------------------------------|---------------------------|-------------------------|-------------------------|
|                    | Audit<br>Committee              | Compensation<br>Committee | Governance<br>Committee | Management<br>Committee |
| John L. Adams      | *                               | *                         | *                       | *                       |
| Earl J. Hesterberg |                                 |                           |                         | *                       |
| Louis E. Lataif    | *                               | *                         | **                      |                         |
| Stephen D. Quinn   | *                               |                           | *                       | **                      |
| Beryl Raff         |                                 | *                         | *                       |                         |
| J. Terry Strange   | **                              | *                         |                         | *                       |
| Max P. Watson, Jr. |                                 | **                        | *                       | *                       |

\* Member

\*\* Chairman

Each of the committee charters are available on our website at [www.group1auto.com](http://www.group1auto.com) and stockholders may obtain printed copies, free of charge, by sending a written request to Group 1 Automotive, Inc., 800 Gessner, Suite 500, Houston, TX 77024, Attn: Corporate Secretary.

**Audit Committee**

Our Audit Committee functions in an oversight role and has the following purposes pursuant to its charter:

- oversee the quality, integrity and reliability of the financial statements and other financial information we provide to any governmental body or the public;
- oversee our compliance with legal and regulatory requirements;
- oversee the qualifications, performance and independence of our independent registered public accounting firm;
- oversee the performance of our internal audit function;
- oversee our systems of internal controls regarding finance, accounting, legal compliance and ethics that our management and Board of Directors have established;
- provide an open avenue of communication among our independent registered public accounting firm, financial and senior management, the internal auditing department, and our Board of Directors, always emphasizing that the independent registered public accounting firm is accountable to the Audit Committee; and
- perform such other functions as our Board of Directors may assign to the Audit Committee from time to time.

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

During 2007, the Audit Committee met nine times and consisted of Mr. Strange (Chairman), Mr. Adams, Mr. Lataif and Mr. Quinn. Mr. Strange also serves on the Audit Committees of New Jersey Resources Corporation, Newfield Exploration Company and BearingPoint, Inc. Our Board of Directors has determined that Mr. Strange's simultaneous service on these other Audit Committees and our Audit Committee will not impair his ability to serve effectively on our Audit Committee.

All members of the Audit Committee are independent as that term is defined in the New York Stock Exchange's listing standards and by Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Our Board of Directors has determined that each member of the Audit Committee is financially literate and that Mr. Strange has the necessary accounting and financial expertise to serve as Chairman. Our Board of Directors has also determined that Mr. Strange is an audit committee financial expert following a determination that Mr. Strange met the criteria for such designation under the SEC's rules and regulations.

The Report of the Audit Committee is set forth on page 45 of this proxy statement.

## **Compensation Committee**

Pursuant to its charter, the purposes of our Compensation Committee are to:

- review, evaluate, and approve our agreements, plans, policies, and programs to compensate our corporate officers;
- review and discuss with our management the Compensation Discussion and Analysis to be included in our proxy statement for the annual meeting of stockholders and to determine whether to recommend to our Board of Directors that the Compensation Discussion and Analysis be included in the proxy statement, in accordance with applicable rules and regulations;
- produce the Compensation Committee Report for inclusion in the proxy statement, in accordance with applicable rules and regulations;
- otherwise discharge our Board of Directors' responsibility relating to compensation of our corporate officers; and
- perform such other functions as our Board of Directors may assign to the Compensation Committee from time to time.

In connection with these purposes, our Board of Directors has entrusted the Compensation Committee with the overall responsibility for establishing, implementing and monitoring the compensation for our corporate officers. The Compensation Committee reviews and approves the compensation of our corporate officers and makes appropriate adjustments based on company performance, achievement of predetermined goals and changes in an officer's duties and

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responsibilities. The Compensation Committee makes all executive compensation decisions, approves all employment agreements related to the executive team and approves recommendations regarding equity awards for all employees.

In general, executive compensation matters are presented to the Compensation Committee or raised with the Compensation Committee in one of the following ways: (1) at the request of the Compensation Committee Chairman or another Compensation Committee member or member of our Board of Directors, (2) in accordance with the Compensation Committee's agenda, which is reviewed by the Compensation Committee members and other directors on an annual basis, (3) by our Chief Executive Officer or Vice President of Human Resources or (4) by the Compensation Committee's outside compensation consultant.

The Compensation Committee works with the management team, our Chief Executive Officer and our Vice President of Human Resources to implement and promote our executive compensation strategy. The most significant aspects of management's involvement in this process are:

- preparing materials in advance of Compensation Committee meetings for review by the Compensation Committee members;
- evaluating employee performance;
- establishing our business goals; and
- recommending the compensation arrangements and components for our employees.

Our Chief Executive Officer is instrumental to this process. Specifically, the Chief Executive Officer assists the Compensation Committee by:

- evaluating corporate officer performance;
- providing background information regarding our business goals; and
- recommending compensation arrangements and components for our corporate officers (other than himself).

In addition, our Vice President of Human Resources is involved in the executive compensation process by:

- providing the necessary compensation information to, and acting as our liaison with, our compensation consultant;
- updating and modifying compensation plan policies, guidelines and materials, as needed; and
- providing recommendations to the Compensation Committee and our Chief Executive Officer regarding compensation structure, awards and plan design changes.

Pursuant to its charter, the Compensation Committee has the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of the compensation of our corporate officers and directors and also has the sole authority to approve the consultant's fees and other retention terms. During 2007, the Compensation Committee engaged the services of Pearl Meyer & Partners, a consulting firm experienced in executive compensation that has access to national compensation surveys and our compensation information, to assist it in evaluating executive compensation matters. Specifically, the Compensation Committee requested Pearl Meyer & Partners to provide information, insights and advice regarding our compensation philosophy, objectives and strategy, selection of peer companies for competitive analyses, methodology for valuing long-term incentives and total direct compensation. In addition, Pearl Meyer & Partners reviews briefing materials prepared by management and advises the Compensation Committee on the matters included in the materials, including the consistency of proposals with the Compensation Committee's compensation philosophy and comparisons to programs at other companies. At the request of the Compensation Committee, Pearl Meyer & Partners also prepares its own analysis of compensation matters including positioning of programs in the competitive market and the design of plans consistent with the Compensation Committee's compensation philosophy. Finally, Pearl Meyer & Partners provides an analysis of non-employee director compensation for use by the Nominating/Governance Committee.

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Together with management, Pearl Meyer & Partners and any counsel or other advisors deemed appropriate by the Compensation Committee, the Compensation Committee typically reviews and discusses the particular executive compensation matter presented and makes a final determination, with the exception of compensation matters relating to our Chief Executive Officer. In the case of our Chief Executive Officer, the Compensation Committee reviews and discusses the particular compensation matter (together with our management, Pearl Meyer & Partners and any counsel or other advisors deemed appropriate) and formulates a recommendation. The Compensation Committee's Chairman then generally reports the Compensation Committee's recommendation for approval by the full Board of Directors or, in certain cases, by the independent directors.

To the extent permitted by applicable law, the Compensation Committee may delegate some or all of its authority to subcommittees as it deems appropriate.

All members of the Compensation Committee are independent as that term is defined in the New York Stock Exchange's listing standards. The Compensation Committee, consisting of Mr. Watson (Chairman), Mr. Adams, Mr. Lataif, Ms. Raff and Mr. Strange, held seven meetings during 2007.

The Report of the Compensation Committee is set forth on page 42 of this proxy statement.

**Nominating/Governance Committee**

Pursuant to its charter, the purposes of our Nominating/Governance Committee are to:

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

recommend director nominees to our Board of Directors for each of its committees;

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

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

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

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

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

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

In connection with these purposes, the Nominating/Governance Committee actively seeks individuals qualified to become members of our Board of Directors, seeks to implement the independence standards required by law, applicable listing standards, our Restated Certificate of Incorporation and Amended and Restated Bylaws, and our Corporate Governance Guidelines, and identifies the qualities and characteristics necessary for an effective Chief Executive Officer.

The Nominating/Governance Committee is responsible for establishing criteria for selecting new directors and actively seeking individuals to become directors for recommendation to our Board of Directors. In considering candidates for our Board of Directors, the Nominating/Governance Committee will consider the entirety of each candidate's credentials. There is currently no set of specific minimum qualifications that must be met by a nominee recommended by the Nominating/Governance Committee, as different factors may assume greater or lesser significance at particular times and the needs of our Board of Directors may vary in light of its composition and the Nominating/Governance Committee's



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perceptions about future issues and needs. However, while the Nominating/Governance Committee does not maintain a formal list of qualifications, in making its evaluation and recommendation of candidates, the Nominating/Governance Committee may consider, among other factors, diversity, age, skill, experience in the context of the needs of our Board of Directors, independence qualifications and whether prospective nominees have relevant business and financial experience, have industry or other specialized expertise, and have high moral character.

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

Stockholders or a group of stockholders may recommend potential candidates for consideration by the Nominating/Governance Committee by sending a written request to our Corporate Secretary at our principal executive offices, 800 Gessner, Suite 500, Houston, Texas 77024 at least 70 days but not more than 90 days prior to the anniversary date of the preceding year's annual meeting. For additional information, see Stockholder Proposals for 2009 Annual Meeting.

The stockholder recommendation procedures described above do not preclude a stockholder of record from making nominations of directors or making proposals at any annual stockholder meeting; provided that they comply with the requirements described in the section entitled Stockholder Proposals for 2009 Annual Meeting.

In addition, our Board of Directors has entrusted the Nominating/Governance Committee with the responsibility for establishing, implementing and monitoring the compensation for our directors. The Nominating/Governance Committee establishes, reviews and approves the compensation of our directors and makes appropriate adjustments based on company performance, duties and responsibilities and competitive environment. The Nominating/Governance Committee's primary objectives in establishing and implementing director compensation are to:

- ensure the ability to attract, motivate and retain the talent necessary to provide qualified Board leadership; and
- use the appropriate mix of long-term and short-term compensation to ensure high Board/committee performance.

In 2007, the Nominating/Governance Committee reviewed the compensation of our Board of Directors and determined that no changes would be made for 2008, with the exception of an increase in the annual retainer for the Chairman of the Audit Committee.

All members of the Nominating/Governance Committee are independent as that term is defined in the New York Stock Exchange's listing standards. The Nominating/Governance Committee, consisting of Mr. Lataif (Chairman), Mr. Adams, Mr. Quinn, Ms. Raff and Mr. Watson, held six meetings during fiscal year 2007.

**Finance/Risk Management Committee**

Pursuant to its charter, the purposes of our Finance/Risk Management Committee are to:

- review, oversee and report to our Board of Directors regarding our financial status and capital structure, debt and equity financings, cash management and other banking activities, compliance with covenants of material debt instruments, investor/stockholder relations, relationships with various financial constituents, securities repurchase activities and dividend policy, and authorize transactions within limits prescribed by our Board of Directors;
- review and assess risk exposure and insurance related to our operations and authorize transactions within limits prescribed by our Board of Directors; and

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review capital expenditures and other capital spending plans, including significant acquisitions and dispositions of business or assets, and authorize transactions within limits prescribed by our Board of Directors.

In connection with these purposes, the Finance/Risk Management Committee reviews periodically our financial status and capital structure and can authorize finance-related activities within limits prescribed by our Board of Directors. The Finance/Risk Management Committee also consults with management on matters that could have a significant financial impact on us and reviews our financial policies and procedures, its compliance with material debt instruments and its significant banking relationships. In addition, the Finance/Risk Management Committee reviews and assesses periodically our risk exposure and plans and strategies for insurance programs, and authorizes risk management-related activities within limits prescribed by our Board of Directors. The Finance/Risk Management Committee also provides direction for the assessment of future capital spending and acquisition opportunities and reviews capital expenditure plans, including significant acquisitions and dispositions of businesses and assets and other specific capital projects.

The Finance/Risk Management Committee, consisting of Mr. Quinn (Chairman), Mr. Adams, Mr. Hesterberg, Mr. Strange and Mr. Watson, held five meetings during fiscal year 2007.

### **Stock Ownership Guidelines**

In November 2004, our Board of Directors approved certain stock ownership guidelines for our non-employee directors. Under the guidelines, each director is required to maintain ownership of a minimum of 3,000 shares of our common stock. The minimum ownership is required to be achieved within three years of election to our Board of Directors or, in the case of our current directors, by November 2007, with the exception of Ms. Raff. Ms. Raff, who was elected to our Board of Directors in June 2007, must achieve ownership of 3,000 shares of our common stock by June 2010. Restricted stock or phantom stock units granted to our directors as part of their annual retainer will count toward such minimum ownership requirement without regard to the vesting or other liquidity provisions related thereto.

### **Communications with Directors**

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

c/o Group 1 Automotive, Inc.  
800 Gessner, Suite 500  
Houston, Texas 77024

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

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

John L. Adams, Louis E. Lataif, Beryl Raff, J. Terry Strange and Max P. Watson, Jr. served on the Compensation Committee in fiscal year 2007. None of the directors who served on the Compensation Committee in fiscal year 2007 has ever served as one of our officers or employees. During fiscal year 2007, none of our executive officers served as a director or member of the Compensation Committee (or other committee performing similar functions) of any other entity of which an executive officer served on our Board of Directors or Compensation Committee.

**Table of Contents****TRANSACTIONS WITH RELATED PERSONS*****Transactions***

Set forth below is a description of certain transactions entered into between our company and our executive officers, directors and 5% stockholders.

We generally seek to enter into lease agreements permitting us to maintain control of the leased facilities for up to 30 years. The lease agreements are typically nonrenewable at our option at various times during the lease term. We lease our facilities at what are believed to be market terms. Pursuant to the terms of the lease agreements, we are generally required to pay all applicable property taxes, maintain adequate insurance and, if necessary, perform certain repairs as provided in the leases. In the event of loss, we may be required to use our insurance proceeds to repair or replace the leased buildings.

We have some lease agreements in Oklahoma with Robert E. Howard II, a former member of our Board of Directors. Mr. Howard resigned as a member of our Board of Directors during 2007. During 2007, we made total lease payments of \$4,382,606 to Mr. Howard pursuant to leases that are described in more detail below.

North Broadway Real Estate, an Oklahoma limited liability company owned 50% by Mr. Howard and 50% by an unrelated third party leases to us the real estate and facilities of one of our collision repair centers in Edmond, Oklahoma. This lease provides for a monthly rental rate of \$14,849 and expires on March 31, 2012.

REHCO East, L.L.C., an Oklahoma limited liability company owned 90% by Mr. Howard and 10% by an unrelated third party, leases to us the property used by South Pointe Chevrolet, an automobile dealership in Tulsa, Oklahoma. The lease relating to this property provides for monthly rental payments of \$90,000 and expires on December 31, 2032. We can terminate this lease on December 31, 2017, December 31, 2022 and December 31, 2027, with six months prior written notification.

Bob Howard Pontiac-GMC, one of our subsidiaries, leases two properties owned by Mr. Howard and used by Bob Howard Pontiac-GMC and Bob Howard Dodge Chrysler Jeep as automobile dealerships in Oklahoma City, Oklahoma. These leases provide for monthly rental payments of \$91,185 and expire on December 31, 2027. We can terminate these leases on December 31, 2012, December 31, 2017 and December 31, 2022, with six months prior written notification.

Bob Howard Chevrolet, one of our subsidiaries, leases property owned by Mr. Howard and used by Bob Howard Chevrolet as an automobile dealership in Oklahoma City, Oklahoma. The lease relating to this property provides for monthly rental payments of \$51,507 and expires on December 31, 2027. We can terminate this lease on December 31, 2012, December 31, 2017 and December 31, 2022 with six months prior written notification.

Bob Howard Honda Acura, one of our subsidiaries, leases property owned by Mr. Howard and used by Bob Howard Honda Acura as an automobile dealership in Oklahoma City, Oklahoma. The lease relating to this property provides for monthly rental payments of \$44,376 and expires on December 31, 2027. We can terminate this lease on December 31, 2017 and December 31, 2022, with six months prior written notification.

Bob Howard Toyota, one of our subsidiaries, leased property owned by Mr. Howard and used by Bob Howard Toyota as an automobile dealership in Oklahoma City, Oklahoma. During 2007, Bob Howard Toyota assigned the lease to Bob Howard Nissan, one of our subsidiaries, under the same terms and conditions. The lease relating to this property provides for monthly rental payments of \$35,577 and expires on December 31, 2027. We can terminate this lease on December 31, 2012, December 31, 2017 and December 31, 2022, with six months prior written notification.

In July 2007, Bob Howard Toyota relocated to a new facility in Oklahoma City, Oklahoma. The lease for Bob Howard Toyota is with REHCO, LLC, an Oklahoma limited liability company, owned by Mr. Howard. The lease relating to the dealership location provided for monthly rental payments of \$20,265 during the construction period. After relocation, the monthly payments increased to \$72,641. The lease expires on July 31, 2037. We can terminate this lease on July 31, 2022, July 31, 2027 and July 31, 2032, with six months prior written notification.

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***Policies and Procedures***

We review all relationships and transactions in which we and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. Our General Counsel's office is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether we or a related person has a direct or indirect material interest in the transaction. As required under the SEC's rules, transactions that are determined to be directly or indirectly material to us or a related person are filed with the SEC when required, and disclosed in our proxy statement.

Our Code of Conduct prohibits all conflicts of interest. Under the Code of Conduct, conflicts of interest occur when private or family interests interfere in any way, or even appear to interfere, with the interests of our company. Our prohibition on conflicts of interest under the Code of Conduct includes related person transactions.

We have multiple processes for reporting conflicts of interests, including related person transactions. Under the Code of Conduct, all employees are required to report any actual or apparent conflict of interest, or potential conflict of interest, to their supervisors and all related person transactions involving our regional or market executives must be communicated in writing as part of their quarterly representation letter. This information is then reviewed by our Audit Committee, our Board of Directors or our independent registered public accounting firm, as deemed necessary, and discussed with management. As part of this review, the following factors are generally considered:

the nature of the related person's interest in the transaction;

the material terms of the transaction, including, without limitation, the amount and type of transaction;

the importance of the transaction to the related person;

the importance of the transaction to us;

whether the transaction would impair the judgment of a director or executive officer to act in the best interest of our company;

whether the transaction might affect the status of a director as independent under the independence standards of the New York Stock Exchange; and