FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to Group 1 Automotive 2010 third quarter financial results conference call. Please be advised that this call is being recorded. I would now like to turn the call over to Mr. Lance Parker. Group One's Vice President and Corporate Controller. Please go ahead, Mr. Parker.

Lance Parker - *Group 1 Automotive - VP, Corporate Controller*

Thank you, Leah. Good morning, everyone, and welcome to today's call. Before we begin, I would like to make some brief remarks about forward-looking statements and the use of non-GAAP financial measures. Except for historical information mentioned during the conference call, statements by management of Group 1 Automotive are forward-looking statements that are made pursuit to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve both known and unknown risks and uncertainties, which may cause the Company's actual results and future periods to differ materially from forecasted results. Those risks include, but are not limited to, risks associated with pricing, volume, and the conditions of the market. Those and other risks are described in the Company's filings with the Securities and Exchange Commission of the last 12 months. Copies of these filings are available from both the SEC and the Company.

In addition, certain non-GAAP financial measures as defined under SEC rules, may be discussed on this call. As required by applicable SEC rules, the Company provides reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures on its website. Participating on today's call are Earl Hesterberg, our President and Chief Executive Officer, John Rickel, our Senior Vice President and Chief Financial Officer, and myself. I will now hand the call over to Earl.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thank you Lance, and good morning, everyone. I'm pleased to report this our results for the third quarter of 2010 were extremely positive in almost every area. Most noteworthy, is the continuation of very powerful sales performance in almost area of our business. This sales performance generated an overall revenue increase of more than 17% for the quarter, which continues to leverage the aggressive cost reduction actions our Company took last year. I'm also pleased at our major balance sheet improvements throughout the first nine months of this year. Our current cash position is extremely strong for our company of our size, and our long-term debt to equity position is one of the best in our recent corporate history. John will provide more details during his presentations.

As I just mentioned, our sales performance remains strong in the third quarter. The retail used vehicle and parts and services performances were exceptional and well beyond our projections. In the current challenging economic conditions, many customers see more value in used vehicles. We have been capitalizing on this trend, as evidenced by our third quarter retail used vehicle revenue increase of 33.7%. 29% on a same store basis. This substantial increase was driven by a 24% lift in retail used vehicle unit sales on a consolidated basis, and 21% more unit sales on a same store basis.

Although our new vehicle sales increase was not as impressive on a percentage basis, we must remember that the third quarter last year was inflated by the government's Cash For Clunkers program. With that comparison in mind, industry retail sales actually decreased slightly during the third quarter, whereas our new vehicle unit sales increased on 2% on same store basis and 5.3% on a consolidated basis. After nine months in the calendar year, our new vehicle revenues are up 17.5% on a same store basis.

The one area of our performance which is below our targets, relates to vehicle sales margins. Both new and used vehicle retail margins are lower than we would like to see. New vehicle margins were 5.7% for the quarter, equivalent with second quarter levels, but down 100 basis points from last year's strong third quarter results. The biggest factors currently affecting these margin levels are the overall competitiveness of the market, and extremely low vehicle margins for several volume brands.

Our used vehicle retail margin of 9.1% was also a bit soft, due to a continuing need to supplement our inventory with outside purchases, as well as our focus on volume increases. We would anticipate retail vehicle margins to return to more normal levels as new vehicle sales rebound. The strong new and used vehicle retail sales performance was complimented by a nice increase by finance and insurance penetration to $1,037 per retail vehicle profit. This is an $83 per unit improvement from the same period last year, and reflects significantly improved penetration rates for both financing and service contracts.

And perhaps the most impressive facet of our sales performance in the third quarter was our same store parts and service growth of more than 7%. In a market where any year over year growth was a decent accomplishment giving declining units in operation, we're very pleased with performance of our operating teams in this key area of our business. Additionally, our parts and service margins increased on both a year over year and sequential basis, coming in at 54.3%. This increase in parts and service sales was driven across all categories, including higher sales in customer pay, warranty, collision, and wholesale parts sales.

Driven by the overall strong selling performances I just mentioned, our same store selling, general and administrative expenses as a percent of gross profit reflected further improvement on a year over year and sequential basis, with 75.9%. Our third quarter same store operating margin remained flat with the second quarter at 3.2%. These operating results drove an overall 15% growth in adjusted net income, and John will have more color on that item in just a moment.

Turning back to our third quarter new vehicle business, some additional details on our consolidated brand mix, or 37% of our unit sales were from our Toyota Scion Lexus dealers. Nissan and Infiniti remained our second best seller with 14%. BMW moved up into third place with 12% of unit sales. And Honda Acura came right behind with 11.8%. Rounding out our brand sales were Ford with 7%, Mercedes-Benz at 6% and GM and Chrysler representing 4% and 3% of our unit sales respectively.

In total, luxury and import sales gained share in the quarter, accounting for 86% of our new vehicle unit sales. Our new vehicle inventory increased slightly to 62 days supply at quarter end. Generally we're comfortable with our new vehicle inventory levels given the current and projected selling environment. Looking at the used vehicle business, as I mentioned earlier, our used vehicle sales have continued to strengthen, including our certified pre-owned business that accounted for nearly 35% of our third quarter used retail unit sales. Used vehicle inventory was at a 30-day supply, at quarter end.

With that, I will now turn the call over to our CFO, John Rickel, to go over our financial results in more detail. John?

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you, Earl. Good morning, everyone. For the third quarter of 2010, our adjusted net income increased to $19.3 million or $0.84 per diluted share. This result excludes $1 million after tax non-cash asset impairment charges, and a $761,000 after tax gain on the sale of non-operating real estate holding.

On a comparable basis, adjusted net income increased $2.5 million or 14.6%, from $16.8 million in the third quarter of 2009, which excludes the following. A $461,000 non-cash after tax impairment charge primarily related to our real estate holdings that are held for sale, a $393,000 after tax gain on the reduction of a portion of our 2.25 convertible notes and $1.6 million after tax gain for an income tax benefit related to tax collections that reduced the tax liability to the prior period items. As a reminder, comparisons to the third quarter of 2009 for most of our operating metric remain tougher by the significant impact of the US Government sponsored Cash For Clunkers program had on our results for last year. For example, the Cash For Clunkers program drove heavy new and used retail vehicle volumes and significantly skewed the mix of vehicles sold toward small cars. The additional incentive money and the short-term spike in demand, also significantly inflated new and used margins during the program period.

During the third quarter, on a consolidated basis, revenues increased $215 million or 17.2% to $1.5 billion compared to the same period a year ago, reflecting increases in each of our business segments. Specifically our new vehicle revenues improved 12.9% to $822.1 million, on 5.3% more units, and use the vehicle retail revenues increased 33.7%, to $340.6 million on 24.2% more units. New and used vehicle retail gross margins declined 100 and 130 basis points respectively. Given the difficult comparison from the Cash For Clunkers program that I just described we were particularly pleased with these results.

We're also very pleased with the continued strong growth with parts and service revenue, which increased 7.1% from the prior year. In addition, parts and service gross margin improved 60 basis points to 54.3% from the year ago period and also improved sequentially. Overall, our gross margin declined 130 basis points to 15.7%, primarily reflecting the change in mix as new and used vehicle revenue increases outpace the rest of the business. Our gross profit increased $16.8 million from the third quarter a year ago to $228.8 million. Adjusted SG&A expense as a percent of gross profit was unchanged from the comparable results from the third quarter 2009 at 76.6%, but improved 140 basis points sequentially as we continue to leverage our cost base.

Floor plan interest expense increased $1.5 million or 19.9% in the third quarter 2010 to $9 million, as compared with the same period a year ago. This increase primarily reflects a $264.6 million increase in weighted average floor plan borrowings during the quarter. At September 30, 2010, our new vehicle inventory stood at 17,402 units,

With a value of $537.6 million, compared to 9,206 units with a value of $298.7 million a year ago. The inventory levels at the end of 2009 third quarter were abnormally low, primarily because of reduced manufacturer production earlier that year, coupled with the sales surge from the Cash For Clunkers program that depleted our inventory and inventories throughout the dealer network.

Other interest expense decreased $400,000 to 5.8% for $6.9 million in the third quarter of 2009, primarily reflecting interest earned on cash and investments, which continue to build. Our consolidated interest expense includes non-cash discount amortization of $2.1 million related to our convertible notes. Manufacturers' interest assistance, which we record as a reduction of new vehicle cost of sales at the time the vehicles are sold, covered 72.2% of total floor plan interest expense, 170 basis point improvement from the second quarter. Assistance was down from the prior year period, primarily as a result of the quick inventory turns that occurred during the Cash For Clunkers program.

Now turning to the third quarter same store results. In the third quarter, we reported revenues of $1.39 billion, which was a 14% increase in the 2009 period. Our new vehicle retail sales improved 9.4%, to $783.8 million on 2% more units, which as Earl stated, outpaced the overall industry results. On a per unit basis, our average new vehicle selling prices increased more than $2,000 or 7.2%, to $31,158, reflecting a shift in car truck mix back toward trucks as well as a higher mix of luxury brand sales.

Our used business was very strong this quarter, with retail used vehicles revenues increasing 29.2%, to $321.3 million on 20.8% more units. On a per unit basis, retail used vehicle revenues were up $1,200 or 6.9% from 2009 levels to $19,305. We also experienced an increase in our wholesale used vehicle revenues of $11.9 million, on 667 more units. While wholesaling more vehicles seems inconsistent with our need for more used vehicle, most of vehicles that we're sending to auction are relatively low value, higher mileage and older age.

Besides the outstanding results in our used vehicle business this quarter, the other significant highlight was the strength in our parts and service business. Parts and service revenues grew 7.3%, reflecting a 4.9% increase in our customer pay parts and service revenues. 9.2% growth in our wholesale parts business. A 10% increase in our collision business, and a 9.9% improvement in our warranty business. While the Toyota recalls announced earlier this year continued to bolster our parts and service revenues for the quarter, the positive impact only accounted for 1 percentage point of the overall improvement.

It's also important to note that our parts and service revenues are not bolstered by increases in internal business. This varies across the sector as some of our competitors account for internal work differently. We realized improvements in customer pay revenues in each of major brands that we represent, as new initiatives focused on customers, products and processes continued to build momentum and generate results.

We're also seeing strong growth in our domestic brand stores that are benefiting from the recent domestic dealership closures in their respective markets. Increases in our wholesale parts and collision businesses are primarily attributable to our recent focus on enhancing business processes, and extending our footprints in these segments. Our wholesale part sales also have benefited from the closure of competing dealerships as well as the impact of the stabilizing economy that's helped to strengthen our wholesale parts customers' credit availability.

Our F&I revenues were up $6.7 million or 18.2% compared to the same period a year ago on higher retail sales. In addition to the positive impact from the increase in new and used retail unit sales our F&I revenues were bolstered by increases in our finance, vehicle service contracts, and leased penetration rates to 70.4%, 35.4%, and 19.3% respectively, as well as an 11.8% increase in finance income per contract. Overall, our F&I income per retail unit increased $83 to $1,037 from the same period a year ago.

Compared to the Cash For Clunkers fueled results a year ago our same store new vehicle gross profit declined 9% on a per unit basis to $1,770 resulting in a 100-basis point decline on gross margin to 5.7%. Retail used vehicle margin declined 120 basis points to 9.1% as compared to the third quarter 2009. Even though we've begun to get a better flow of trade ins from the increase in new vehicle sales, the demand for quality used vehicles has outpaced our new vehicle growth, requiring us to continue to source a higher proportion of our used vehicle inventory by auction at a higher cost for the inventory.

New vehicle trade ins are our best source of quality used vehicles. Our same store parts and service margin grew 40-basis points to 54.3%, primarily reflecting the impact of increased internal work, which was driven by the higher new and used retail sales volumes. We also experienced margin improvement in our warranty and collision businesses. As we anticipated, SG&A and in particular personnel costs, has grown in line with the increase in vehicle sales volumes.

Coupled with our gross profit improvement, the leverage on our cost structure resulted in a 20 basis improvement in SG&A's percent of gross profit to 70.9%. This is the lowest level we've reported since the third quarter 2007 when the industry SAAR was at 16 million units. In absolute dollars, SG&A increased $9.9 million from the third quarter a year ago to $167.6 million. Personnel expenses increased $7.6 million, and advertising expenses grew $2 million as we continue to focus on capturing market share and stimulating parts and service activity.

Now, turning to liquidity and capital structure. During the third quarter of 2010, we generated cash flow from operations on an adjusted basis of $54.6 million. As of September 30, 2010, we had $96.2 million of cash on hand and another $57.9 million that was invested in our floor plan offset account. Bringing immediately available funds to a total of $154.1 million. In addition, we had $137.5 million available on our acquisition line, that can also be used for general corporate purposes.

As such, our total liquidity at September 30, 2010, was $291.7 million. During the quarter, we used $7.5 million to acquire 294,000 shares of our outstanding stock at an average price of $25.56 per share. Which brought weighted average diluted shares outstanding to $22.9 million for the three months ended September 30th. We continued to remain focused on strengthening our balance sheet by reducing debt levels and lengthening maturities. Since the end of 2007, we have reduced our non-floor plan debt by $159 million, and as a result, we have reduced our debt to total capitalization ratio by approximately eight percentage point over that same period to 36.7%, which is one of the best in our sector.

We've updated financial covenant calculations within each of our debt agreements, and as September 30th, we were in compliance with all such covenants. Based on our industry outlook and projected earnings for 2010 and 2011, we expect to remain complaint for the foreseeable future.

With regards to our real estate investment portfolio, we own $319.2 million of land and buildings at quarter end, which respects approximately one-third of our total real estate. To finance these holdings we have utilized our mortgage facility and executed borrowings under other real estate specific debt agreements. During the third quarter, we executed three notes with Toyota Financial Service for an aggregate principal of $12.8 million, financed the purchase of two real estate parcels to be utilized in the relocation of existing Toyota dealership and refinanced borrowings under our mortgage facility for an existing Toyota dealership facility.

As September 30th, we had $157.4 million outstanding under our mortgage facility and $78.3 million of other real estate debt, including capital leases. The execution of these three note agreements with Toyota Financial Services is the first step in our strategy to replace the existing syndicated mortgage facility, which matures in March 2012, with separate mortgage loans with tenders of five to seven years through several of our manufacturer partners and a smaller group of our banking partners. We expect to complete the execution of this strategy by the end of this year.

We used $5.6 million for capital expenditures during the quarter, to construct new facilities, purchase equipment and improve existing facilities. We will continue to critically evaluate all planned capital spending and work with our manufacturer partners to maximize the return on our investments. We anticipate that our full year capital spending now will be less than $30 million in 2010. For additional details regarding our financial condition, please refer to the schedules of additional information attached to the news release, as well as the investor presentation posted on our website. With that, I'll now turn it back over to Earl.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks, John. We think the industry is still on track for a full year seasonally adjusted selling rate of 11.5 million units, but we're continuing to plan accordingly. As you have heard on this call, we're confident that we've made the appropriate changes to position the Company strategically for growth. Expenditures are down, improved processes are in place, we're continuing to generate cash, new vehicle sales are picking up slowly, and our balance sheet is well positioned.

Our team has worked hard during the last two years to make these improvements and is looking forward to demonstrating the full leverage of these efforts as sales increase in the coming years. That concludes our prepared remarks. I'll now turn the call over to the operator to begin the question and answer session. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, the question and answer session will be conducted electronically. (Operator Instructions). We'll here first from John Murphy with Banc of America.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Good morning.

John Murphy - *BofA Merrill Lynch - Analyst*

Just had a question on new vehicle gross margins, and the margins have remained pretty depressed and we've been hearing from other dealers and throughout the industry that there has been some pricing pressure at the dealer level and there hasn't been a whole lot of help from automakers, I am just wondering if you guys were seeing the same kind of stuff, and with dealers closing, if that competitive environment among the dealership base may ease over time and these margins may increase as demand increases in next year?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I think the margins will increase as demand increases, but there is -- the dealer base that still exists is now reasonably healthy, and back on an aggressive footing, so with the combination of Internet shopping, a lot of value conscious shoppers and the remaining dealers being strong and aggressive, there's a lot of margin pressure right now on new vehicles. And the near term, I don't see that going away, but as, as we would get back toward, 14 and 15 million unit industries, the margins would clearly come up.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. And then a question on used, which is a business that seems to be remain reasonably strong, as demand seems to be increasing there, I'm just wondering what you're seeing from these used car buyers and ultimately if this rise in demand for used cars ultimately will trip in new vehicles that consumer transferring that demand for travel utility into buying a new vehicle, in you're seeing these consumers coming in wavering between buying a used car and new car, are they just opting for the used car right now and at some point in the future they might start buying these new cars, or is it just really sort of this core used car buyer that's coming in and supporting this market?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

No, I think the, the assumption you applied is true, over time some of this used demand will morph back into the new vehicle market and price relativities will push some of that as well as increasing consumer confidence, but right now, consumers are just very cautious and very practical, and there are a lot of very good high quality customers that are opting for used instead of new right now, because of economic uncertainty or housing issues or unemployment issues, or whatever the major macroeconomic factors are. But over time, I think clearly some of that demand will get back over on a new vehicle side.

John Murphy - *BofA Merrill Lynch - Analyst*

And then just one last question on a parts and service. You guys had a good performance in the quarter, and it was, I think, a lot better than some of your peers to date. I was just curious, what you're seeing in your local markets versus competition and if competition has really been taken out as dealership have been closed? Because it appears there's been a drastic reduction in the number of service days, even though there might be an aggregate reduction in parts and service business, the cars per service fee may have gone up in some of the markets you operate in, have you seen anything like that, or what else, are there any other, sort of exogenous factors that are explaining this strength in your parts and service business?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes, we have, in areas where dealer count has been reduced, and an adjacent or nearby dealer of the same brand has closed or gone out of business, that's the one area where we do see an immediate pick up. It tends to be, of course, on warranty business in particular, and to a lesser degree on customer pay. So that is, that is a benefit that large groups such as Group 1 have and will receive as dealer counts are reduced. But unfortunately, customers are very price sensitive in the aftermarket as well, in parts and service in the customer pay area, and so we've had to market very aggressively against not just other dealers, but aftermarket competitors, and we're going to have to continue to do that, so that part of the market is very competitive also, which is one of the reasons we're very happy with that 7% growth in parts and service, because that market is very challenging right now also.

John Rickel - *Group 1 Automotive - SVP, CFO*

And I would add to that, not only the 7% growth but also group margins in what is the competitive market that Earl describes. 54.3%, to be able to grow the margins 60 basis points on a sequential basis, we feel pretty good about that.

John Murphy - *BofA Merrill Lynch - Analyst*

Right. Thank you very much, guys.

Operator

Our next question comes from Rick Nelson with Stephens.

Rick Nelson - *Stephens Inc. - Analyst*

Thank you. Good morning.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Good morning.

Rick Nelson - *Stephens Inc. - Analyst*

Good morning. Kind of really nice quarter. Can you, Earl, comment on the acquisitions and how you evaluate that versus alternatives of debt pay down, et cetera?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, right now acquisitions would re-maun our preferred way to invest our cash and grow the company and there are a significant number of dealerships in the market for sale, but unfortunately we just haven't been able to find anything recently that meets our hurdle rate. As you know, we're also a share buy back program under authorization from our Board, but our preference would continue to be to grow the Company through acquisitions. We just at this point in time haven't found anything that fits our strategy and our financial return requirements.

Rick Nelson - *Stephens Inc. - Analyst*

Thank you. Where do you stand with Toyota today on the acquisition front, the green light there?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, we thought we had the green light once before and didn't. If we find a Toyota dealership that meets our requirements, we won't be deterred.

Rick Nelson - *Stephens Inc. - Analyst*

Curious about October sales as well, we're hearing in the sector that things are picking up a bit versus October a year ago, any comments?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, actually, I've been reading that as well, Rick, so I checked our latest traffic and sales data yesterday, so through the weekend sales, and I'd have to say that our data confirms what you've been reading, in particular JD Powers has projected a retail SAAR of 10.2 million, which would be up 17% from last year. And, and our data would be generally consistent with that, October appears to be off to a very good start with, I guess what 80% or more of the month already behind us.

Rick Nelson - *Stephens Inc. - Analyst*

What do you think is driving that? I mean, more aggressive --

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Earl Hesterberg - *Group 1 Automotive - President, CEO*

No actually they're not, Rick, at least not that I can tell, and I'm a bit surprised by it, because the demand in the third quarter was fairly consistent for us. There wasn't any evidence in the third quarter of any renewed consumer strength. So I don't really have a good explanation for you other than we're appreciative and optimistic now after, after 24 or 5 days of October.

Rick Nelson - *Stephens Inc. - Analyst*

On the used car side, we've now seen four consecutive quarters of double digit same store growth, do you think that sort of growth is sustainable as we look to the final quarter?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, I don't think that type of percentage growth is sustainable for us, Rick, just because we will lap ourselves eventually in the comparisons, and the comparisons will be against much, much higher numbers, but I do think that we can certainly grow at or above market growth levels, and I think we all see growth on the horizon in the overall economy, the new vehicle market and I think that takes the used vehicle market with it, and as I mentioned to John Murphy a few minutes ago, I do think there will be a little bleeding of used demand toward new over time as the economy recovers, but we're still very bullish on the used car market overall, and on our used car business in particular, so I wouldn't expect to be able to do 30% increases quarter after quarter, but we certainly will keep shooting for double digit increases.

Rick Nelson - *Stephens Inc. - Analyst*

Margin on used cars, do you think we've bottomed out there?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I would hope so. I would hope so. The issue still seems to be the supply of good used vehicles. And there's a lot of us competing at auctions and so forth to supplement the line we get in from trade ins. Now we will get more trade ins as the new vehicle market improves and that should help us, but it will be some time before the off lease vehicle supply can improve us again. It does appear that rental companies and fleets are buying a lot more cars all of a sudden, and that could put a little softness into some parts of the used vehicle pricing market. But overall, I would hope we could hold at a minimum somewhere close to the current margins we have and work it up from there.

Rick Nelson - *Stephens Inc. - Analyst*

All right. Thanks a lot. And good luck.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes. Thank you.

Operator

Our next question comes from [Eddie O'Brien], with Goldman Sachs.

Eddie O'Brien - *Goldman Sachs - Analyst*

Hi, guys, congrats on a great quarter.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thank you.

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you.

Eddie O'Brien - *Goldman Sachs - Analyst*

I just had a quick question on used margins just following up on some of the previous comments that you have made. So is it fair to say that acquisition, high acquisition costs is the only thing that is holding you guys from the double digit margins that you guys used to post a few quarters back on the used side?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I wouldn't say it's the only thing. It's the primary thing, but as we have mentioned throughout the first nine months of this year, we came out in January with a more aggressive selling posture in our Company on new and used vehicles in particular, and so clearly, you don't generate a 20% to 30% sales increase in this market without giving up a little margin for volume, so I think there's a component of that in our business results also.

Eddie O'Brien - *Goldman Sachs - Analyst*

Got it. And on the collision business, your collision business was up 10% year on year. Is it, are you guys seeing some deferred maintenance in that, in that segment coming back?

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes, I think it's fair to say that in the deepest part of the recession, it is likely that there were more customers holding onto checks from insurance companies and not repairing their vehicles. But I believe the bigger factor for us is that we have put much more focus on managing our collision repair shops and very early this year, we put a dedicated experienced person in charge of day-to-day managing operation of our largest shops and we've seen results from that.

Eddie O'Brien - *Goldman Sachs - Analyst*

So, in other words, it's not only the deferred maintenance but some of the actions you took, so we can expect some further growth in this business as we head into 2011?

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes. That would be our, that would be our goal and our priority.

Eddie O'Brien - *Goldman Sachs - Analyst*

Great. Thanks a lot, guys.

John Rickel - *Group 1 Automotive - SVP, CFO*

Thank you.

Operator

Our next question comes from the Matt Nemer with Wells Fargo.

Matt Nemer - *Wells Fargo Securities - Analyst*

Good morning, everyone. Congrats on the great quarter.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks Matt.

John Rickel - *Group 1 Automotive - SVP, CFO*

Thanks.

Matt Nemer - *Wells Fargo Securities - Analyst*

So my first question is, it seems like you're on a path where you've traded a little bit of margin for volume and it's worked out really well for you. Do you think you continue with that, I guess playbook for lack of a better word, you sort of focus on volume, willingness to give up a little bit on dollars per unit?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

For the short-term, yes, Matt. We've not changed any of the instructions to our operating people at this time. However, I'm not sure that I would remain comfortable with the new vehicle margins for an extended period of time.

Matt Nemer - *Wells Fargo Securities - Analyst*

Okay. And then turning to parts and service, which was really a great result. What do you think is the main factor that differentiates your warranty growth versus the group? Because I would assume, on a constant mix basis, they shouldn't be that far off from each other or does it have to do with consumer marketing or geography or something else?

John Rickel - *Group 1 Automotive - SVP, CFO*

Matt, this is John. I think it's a combination of those factors. I think Earl touched on one of them. We certainly have seen some nice upticks at some of our domestic brand stores had a have benefited from some of the neighboring dealers closing, so that's funneled some additional warranty business to us. Clearly because of our heavy Toyota mix, we have benefited from the Toyota recalls, which continued into the third quarter.

If you take the Toyota recalls out, instead of being up 9.9%, we were up probably more like 5%, probably half of it is driven by Toyota mix, but I think it's also, the third thing is just the job we're doing and the retention of the customers. The warranty work tends to get done where you're doing your own service work as we've improved retention rates, I think that's also helping.

Matt Nemer - *Wells Fargo Securities - Analyst*

And just remind us, are there any components in service that are variable related to the current quarter new and used vehicle business? i.e., TDI or anything like that?

John Rickel - *Group 1 Automotive - SVP, CFO*

Matt, this is John again. On a revenue basis, no. The only benefit within parts and service is, it did help improve the margin results, but there is no revenue impact for us.

Matt Nemer - *Wells Fargo Securities - Analyst*

Got it. And then just lastly, on the cash balance, is there a reason that some of the cash didn't flow into the floor plan offset account? Or should we expect you to run at a higher balance sheet, cash balance going forward.

John Rickel - *Group 1 Automotive - SVP, CFO*

It's basically just a mix, Matt, this is John again, of where we think we can get the best returns on the cash.

Matt Nemer - *Wells Fargo Securities - Analyst*

And actually if I can just smoke one more in -- sneak one more in. As we look at 2011, Earl, could you maybe give us a quick preview of what your strategic priorities are in terms of maybe operating changes or enhancements that you plan on making to the business?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well, at this point I don't think there's any dramatic difference from, from the course we've set. We're going to continue to put a lot of emphasis in the parts and service area, in both customer pay in terms of promotion and competitive price offers and growing the collision businesses as we've chatted with the previous caller. The question we'll have to answer is one that was just asked also, and that is, if we continue to trade off new vehicle margin for volume, and I won't be able to answer that until we get a little farther down the road.

Matt Nemer - *Wells Fargo Securities - Analyst*

Okay. Great. Congrats again. Good luck.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks.

Operator

Our next question comes from Scott Stember with Sidoti & Company.

Scott Stember - *Sidoti & Company - Analyst*

Good morning.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Good morning, Scott.

Scott Stember - *Sidoti & Company - Analyst*

Can you just talk about some of your bigger brands, how they performed in the quarter, such as Toyota, Nissan and BMW?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes. Scott, Toyota sales for the quarter were down 2.9% and were 10.2% for the year. Our best sales increases were Mercedes at 24.5%, General Motors at 20%, Ford at 13.4%, Nissan up 5%. Honda up 1.8%, BMW up 1.9%. Our Chrysler business was down 10.7%. That covers most of the major brands.

Scott Stember - *Sidoti & Company - Analyst*

Great. And can you talk about some of your geographies, namely Texas?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Texas overall, I would say, was strong with the exception of Houston, Houston's a little tougher this year. Obviously we're growing in Houston as well or we wouldn't be able to put these numbers on the board, but the Houston economy's a little bit sticky because of energy issues and the deep water drilling ban and so forth. So Houston is not as strong as the rest of Texas for us, but it's still pretty good business.

Scott Stember - *Sidoti & Company - Analyst*

John, I missed what the parts and services of the customer pay same store sales increase was?

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes, on a customer pay basis, we were up 4.9%.

Scott Stember - *Sidoti & Company - Analyst*

And just last question just going back to some of the things that you guys are doing in parts and service, obviously you're significantly out pacing the rest of the space here. Can you just maybe just talk about some of these process improvements, again that you've put in place just to better explain why you're doing so well.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Okay. In parts and service?

Scott Stember - *Sidoti & Company - Analyst*

Yes.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

We had an increase in collision, which was mentioned previously of 10%, and that's been actually, we started those efforts quite a while ago in focusing on that part of our business, but our wholesale parts sales were also up, I think, over 9%. Some of that is getting more aggressive again this year, but even more so, the wholesale customers that we have were not as creditworthy a year ago as they are now. These are very small businesses, and, and they're stronger now, and, and that dynamic is better, so there's been a wholesale parts increase as well, and the biggest thing that we control is the marketing efforts we do in the customer pay area, and our overall ad spend is up pretty much this year as a company, because as I mentioned we're trying to sell vehicles, new and used cars and trucks, but we also put more advertising money into parts and service this year, and our goal is to advertise more competitive prices to keep that traffic up in the face of declining units in operation, so it's probably as much a marketing effort as anything.

Scott Stember - *Sidoti & Company - Analyst*

Great. That's all I have. Thank you.

Operator

Our next question comes from Himanshu Patel with JPMorgan.

Himanshu Patel - *JPMorgan - Analyst*

Hi, good morning, guys.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Good morning.

Himanshu Patel - *JPMorgan - Analyst*

I'm wondering if you could go back a little bit to the discussion on used vehicle sales outlook going forward. If you sort of assume new vehicle sales do grow at a nice clip of 10% a year or so, is there a general rule of thumb that you're thinking about as to the pace of used car sales growth in that sort of context?

John Rickel - *Group 1 Automotive - SVP, CFO*

Himanshu, this is John. There was kind of a historical rule of thumb which tended to be about half of the used for every new. If you end up with 10% new growth you'd have 5% used, and conversely on the downside. You tend to see a bit more stability in used, so if new sales were off 10%, you'd see only about 5% decline in used. I think what we're seeing in this period, though is that rule is kind of getting blown out of the water. Now some of that's, I think the factors that Earl talked about, people being a little more conservative when they do need to replace a vehicle, taking a certified pre-owned instead of maybe a new, but I think over time, the history is still maybe that, that half or one is the best thing I could point you to.

Himanshu Patel - *JPMorgan - Analyst*

Okay. And then separate question, any shift in the last quarter or even in the last couple of months in how deep the various captives are starting to buy now?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Not that I, not that I have, have been aware of, so the credit performance in the third quarter and so far this month has been fairly stable with our brands. So clearly much better than it was a year ago, but no step function changes that I have witnessed.

Himanshu Patel - *JPMorgan - Analyst*

Yes. And, I guess Earl, maybe, you could just elaborate on the subprime opportunity. Do you feel like, as it particularly pertains to the new car market, is that a segment where the customer's just under served right now and should someone get into that market more aggressively, could that help some of the volumes you see on the new car side?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes. That market's absolutely underserved right now. There's some question as to whether or not it was overserved once upon a time, but I'm not sure about that. But, yes, there are always more new vehicles sales out there for any manufacturer or lender who wants to dig deeper, and buy deeper into the lower quality credit score or the lower numerical credit scores, it's still 10% or 15% of our business I would guess. We take that as a given now, we don't focus much on pushing that. It's settled in, there are still subprime lenders and everyone still does a certain amount of subprime business and some captives still do some, but that is stabilized very much, and those customers will be out there for any lending institution who wants to get more aggressive, but right now, we're not enjoying as much of that business as we did in the days of the $17 million unit industries.

Himanshu Patel - *JPMorgan - Analyst*

Okay. Thank you.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks.

Operator

Our next question comes from Ravi Shanker with Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks. Good morning, everyone. I think for me the most impressive part of this quarter was the SG&A performance. Do you think of this as something, I mean, different that you've done in this quarter or it's just you guys getting more traction as sales pick up, or I mean, what I'm trying to figure out is how sustainable is it because in the past, I think you've had in the 3Q being a pretty good quarter and SG&A come up a little bit. Are we looking at mid-70s now or is it going to be back to the high 70s?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

What the overwhelming factor was the gross profit we put on the books, and again some of it was not done at a margin percentage rate, but it was, it was being able to sell, have 30% revenue increases on used and 13% on new, and so forth. That was the real key, while not adding the expense back in quite as quickly. I'll let John talk to the sustainability.

John Rickel - *Group 1 Automotive - SVP, CFO*

Yes Ravi, this is John Rickel. I do think that the actions we've taken, as we have described over the last 18 months that those improvements are sustainable. Now, bear in mind, though that when you look from any quarter to quarter, you do have to take into account seasonality. Second and third are our strongest quarters, it's the strongest quarters for the sector.

First and fourth tend to be a little weaker, I think it would be fair to anticipate that on a sequential basis fourth quarter probably goes up from the third, just because of the weakening of the sales environment that happens seasonality. I think if you look over a period of time you should see us to continue to leverage these results and you should continue to expect to see further improvement in SG&A as a percentage of growth as the sales return. That's been our assumption and the track record we've been delivering over the last couple of quarters now.

Ravi Shanker - *Morgan Stanley - Analyst*

Right. And then something you said early in this call is you own about a third of your real estate right now. Do you have a long-term target there, and how do you see that evolving in the next few years?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Yes, I don't know that we've set a specific numerical target. As we get the opportunity, either with acquisitions or leases come up for renewal, we're going to continue to look at it. Our preference is where it makes sense to own the real estate, so we would anticipate over time, that percent will continue to, to move up, but we haven't set a firm target of 50% or 75%. That's basically kind of where the circumstances take us to, but certainly the, the preference would be to continue to own more.

Ravi Shanker - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

We do have a follow-up question from Eddie O'Brien with Goldman Sachs.

Patrick Archambault - *Goldman Sachs - Analyst*

Sorry, can you hear me? This is Pat Archambault here from Goldman. Just wanted to follow up actually on the geography question. Could you just give us a little bit an overview how California, sort of Florida, you did mention Texas already, but how, I guess the eastern region, Florida and California also trended?

Earl Hesterberg - *Group 1 Automotive - President, CEO*

I can't really state with much authority on Florida. We only have one dealership there and it's in the panhandle in Pensacola, but California we can speak with some degree of knowledge on. In the third quarter, new vehicle sales were up 14.6% in the State of California. A little unclear to me how much is retail and how much is fleet, so it would appear that there is some, some automotive sales recovery in California, and we are seeing that, again, this month, so I wouldn't, I wouldn't over say it in terms of saying it's dramatic but it appears to be performing better than the US market as a whole, there is something positive in California at least from what the State Dealer Association reports and what we see in our business. The northeast, where we do a lot of business, Boston and say New York-New Jersey up, that is one of the areas that's really had a lot of margin competition. It appears to me that they're performing about on par in terms of volume with the market, but you have dealers very closely clustered in those metro areas in the northeast, and there's a lot of, a lot of selling combat going on in terms of margin pressure in the northeast right now.

John Rickel - *Group 1 Automotive - SVP, CFO*

Just, I guess to add a little flavor to that. This is John. We saw pretty good strength along the Atlantic coast, New York, and then the Gulf Coast. We saw a good strength in Tulsa in particular. Central Texas, Dallas and California which Earl mentioned, would be basically the markets I would highlight as areas of strength.

Patrick Archambault - *Goldman Sachs - Analyst*

Great. And actually one follow-up on, on used. I guess what's impressive in light of the subprime, I guess headwinds is that you're still seeing used sales, obviously very robust. Given that, tends to have you a much higher subprime proportion. Are you seeing, is it just that kind of, there's fewer people getting bought, but demand is still so overwhelming and what you guys are doing in that business is proving successful that it's offsetting that or are you seeing just a greater proportion of people coming in and willing to pay cash instead of taking on loans how is that factoring into what are obviously really good used results.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Well you make a very proper point relative to the need for retail financing support to generate 20 and 30% growth in used, in the used car business. The way I would describe that, though is, a third of our business or more is certified pre-owned vehicles and the captives buy those extremely well. The captives almost without exception are doing a great job and in many instances today they're subsidized interest rates, very attractive interest rates, but in that business beyond the word of captives we have three great commercial bank lenders, Banc of America, Chase and Wachovia, who do a super job in differing regions of the country for us, supporting our used vehicle retail sales. And so they are, they are a big part of what we're able to accomplish. Now deep their buying, for us, no bank has ever bought deep enough for us, but they do a very good job for us.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. Great. That's all I had. Thank you.

Operator

And there are no further questions at this time. Mr. Hesterberg, I'll turn the call back over to you.

Earl Hesterberg - *Group 1 Automotive - President, CEO*

Thanks everyone for joining us today. We look forward to updating you on our 2010 fourth quarter earnings results in February. Have a good day

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Operator

Ladies and gentlemen, that will conclude today's presentation, thank you so much for your attendance. Have a great day.
