PUBLIC SERVICE ENTERPRISE GROUP INC
Form DEF 14A
March 09, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. _)

Filed by the Registrant x 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))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under §240.14a-12

PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED

(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):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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:

¨ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

(2) Form Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Public Service Enterprise Group Incorporated

80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

AND PROXY STATEMENT

Date	April 21, 2015 at 1:00 P.M.
Location	The Robert Treat Hotel 50 Park Place Newark, New Jersey 07102
Items of Business	1. Elect ten members of the Board of Directors to hold office until the Annual Meeting of Stockholders in 2016, each until his or her respective successor is elected and qualified; 2. Consider and act upon an advisory vote on the approval of executive compensation; 3. Consider and act upon the ratification of the appointment of Deloitte & Touche LLP as independent auditor for 2015; and 4. Transact such other business as may properly come before the meeting or any adjournment or postponement thereof.
Record Date	Stockholders entitled to vote at the meeting are the holders of Common Stock of record on February 20, 2015.

Scan this ***QR Code*** to view the 2015 PSEG Proxy Statement

By order of the Board of Directors,

and Annual Report on your mobile device.

M. Courtney McCormick

Secretary

March 3, 2015

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on April 21, 2015: The Proxy Statement and Annual Report to Stockholders are available at www.ezodproxy.com/pseg/2015/ar

IMPORTANT!

YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE SIGN, DATE AND MAIL THE ACCOMPANYING PROXY CARD OR VOTING INSTRUCTION FORM PROMPTLY. YOU MAY ALSO VOTE VIA THE INTERNET OR BY TELEPHONE. PLEASE USE THE INTERNET ADDRESS OR TOLL-FREE NUMBER SHOWN ON YOUR PROXY CARD OR VOTING INSTRUCTION FORM.

YOU MAY HAVE MULTIPLE ACCOUNTS AND THEREFORE RECEIVE MORE THAN ONE PROXY CARD OR VOTING INSTRUCTION FORM AND RELATED MATERIALS. PLEASE VOTE EACH PROXY CARD AND VOTING INSTRUCTION FORM THAT YOU RECEIVE. THANK YOU FOR VOTING.

The approximate date on which this Proxy Statement and the accompanying proxy card were first sent or given to security holders and made available electronically via the Internet was March 9, 2015.

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HOW TO USE THIS PROXY STATEMENT

Public Service Enterprise Group Incorporated (we, us, our, PSEG or the Company) is distributing this Proxy Statement in connection with our 2015 Annual Meeting of Stockholders.

Go Green with Electronic Delivery

You can help us and the environment by choosing to receive future proxy statements and related documents such as the Annual Report and Form 10-K by electronic delivery. Doing so will save us the expense of printing and mailing copies to you. It will also help us fulfill our commitment to reduce our environmental impact. You may sign-up for future electronic delivery at the website below, depending on the nature of your ownership. Please note that these are not the same sites to use for voting. For further information about how to vote, see pages 1 and 7.

If you are a stockholder of record, please go to www.proxyconsent.com/peg.

For shares held in the Employee Stock Purchase Plan (ESPP), go to https://enroll.icsdelivery.com/peg.

For shares held in Employee Benefit Plans, go to www.proxyconsent.com/peg.

If your shares are held by a bank or broker, please go to https://enroll.icsdelivery.com/peg.

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Forward-Looking Statements

The statements contained in this Proxy Statement about our and our subsidiaries future performance, including, without limitation, future revenues, earnings, strategies, prospects, consequences and all other statements that are not purely historical, are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Although we believe that our expectations are based on information currently available and on reasonable assumptions, we can give no assurance they will be achieved. There are a number of risks and uncertainties that could cause actual results to differ materially from any forward-looking statements made herein. A discussion of some of these risks and uncertainties is contained in our Annual Report on Form 10-K and subsequent reports on Form 10-Q and Form 8-K filed with the Securities and Exchange Commission (SEC), and available on our website: http://investor.pseg.com/sec-filings. These reports address in further detail our business, industry issues and other factors that could cause actual results to differ materially from those indicated in this Proxy Statement. In addition, any forward-looking statements included herein represent our estimates only as of the date hereof and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if our internal estimates change, unless otherwise required by applicable securities laws.

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PROXY STATEMENT SUMMARY

OUR COMPANY

PSEG is a holding company that directly owns five subsidiaries:

- **Public Service Electric and Gas Company (PSE&G)**, an operating electric and gas utility in New Jersey;
- **PSEG Power LLC (Power)**, an electric generation and wholesale energy trading company;
- **PSEG Long Island LLC (PSEG LI)**, an operator of an electric utility transmission and distribution system in New York under a contract with the Long Island Power Authority;
- **PSEG Energy Holdings L.L.C. (Energy Holdings)**, an owner of energy-related investments; and
- **PSEG Services Corporation (Services)**, which provides management and administrative services to us and our subsidiaries.

ANNUAL MEETING PROPOSALS

Proposals	Board Recommendation	Page Number for More Information
1. **Election of Directors** vote to elect ten director nominees to serve one-year terms.	***FOR***	**9**
2. **Approval of Executive Compensation** advisory vote to approve the executive compensation of the named executive officers.	***FOR***	**32**
3. **Ratification of Auditor** ratification of the appointment of Deloitte & Touche LLP as independent auditor for 2015.	***FOR***	**67**

VOTING AND PROCEDURES

Voting is strongly encouraged. We urge you to sign, date and return the accompanying proxy card or voting instruction form whether or not you plan to attend the Annual Meeting. For stockholders of record, we have provided several alternative voting methods, including voting via the Internet or the toll-free telephone number listed below. For shares held by a bank or broker, including those in the various stockholder and employee plans that we offer, please follow the voting instructions you receive from your bank, broker or plan administrator. Most banks and brokers are likely to provide you with methods for internet or toll-free telephone voting.

Annual Meeting of Stockholders

Date and Time	April 21, 2015 at 1:00 P.M.
Location	**The Robert Treat Hotel, 50 Park Place, Newark, NJ.**
Record Date	February 20, 2015
	Holders of Common Stock outstanding on the record date will have one vote per share.

Voting Methods for Stockholders of Record

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PROXY STATEMENT SUMMARY

To Submit Proposals for 2016 Annual Meeting

Final Date	November 10, 2015 (last day for receipt by us)
Contact	Corporate Secretary, PSEG, 80 Park Plaza, T4B, P.O. Box 1171 Newark, New Jersey 07101-1171

NOMINEES FOR ELECTION AS DIRECTOR

Name	Age	Director Since	Primary Occupation	Committee Memberships
Albert R. Gamper, Jr.	73	2000	Retired Chairman of the Board and CEO of CIT Group	Lead Director, A, E, F
William V. Hickey	70	2001	Retired Chairman of the Board and CEO of Sealed Air Corporation	F(Chair), FG, NG, O
Ralph Izzo	57	2006	Chairman of the Board, President and CEO of PSEG	E (Chair)
Shirley Ann Jackson	68	2001	President of Rensselaer Polytechnic Institute	E, F, FG (Chair), NG (Chair), O
David Lilley	68	2009	Retired Chairman of the Board, President and CEO of Cytec Industries	A (Chair), F, O
Thomas A. Renyi	69	2003	Retired Executive Chairman of The Bank of New York Mellon	A, CG (Chair), O
Hak Cheol (H.C.) Shin	57	2008	Executive Vice President International Operations of 3M Company	A, F, FG, NG
Richard J. Swift	70	1994	Retired Chairman of the Board, President and CEO of Foster Wheeler	CG, E, FG, NG, O (Chair)
Susan Tomasky	62	2012	Retired President AEP Transmission of American Electric Power Corporation	A, CG
Alfred W. Zollar	60	2012	Retired General Manager Tivoli Software Division of IBM Corporation	CG, FG, NG

A=Audit CG=Corporate Governance E=Executive F=Finance FG=Fossil Generation NG=Nuclear Generation O=Organization and Compensation

We believe that our directors are a diverse group of highly qualified leaders with a broad range of business, industry, academic and public service experience. Their skills in the areas of accounting, finance, construction, consumer products, sales, government, law, operations, management, science, technology and risk management serve us well. For additional information about individual skills and qualifications of each individual, please refer to the chart on page 22 and biographical data on pages 23 to 27.

CORPORATE GOVERNANCE

We have adopted what we believe are strong corporate governance standards and practices to assure effective management by our executives and oversight by our Board of Directors (Board). We are committed to good governance because it promotes the long-term interests of stockholders, as well as accountability and trust in our company. These measures include the following:

Independent Directors	Board Leadership	Risk Management	Code of Ethics
Established standards for director independence are set forth in our Corporate Governance Principles (Principles). All of our current directors and nominees are independent under our Principles and the requirements of the New York Stock Exchange (NYSE), except Ralph Izzo, our Chairman of the Board, President and Chief Executive Officer (CEO), who is an employee of the Company.	Our Board leadership structure consists of a Chairman (who is also our CEO), a Lead Director, who is elected by the independent directors, and strong committee chairs. This provides for independent Board leadership, while ensuring that the individual managing day-to-day operations is responsible for leading the Board discussions on key business and strategic issues.	Risk management is a key part of our strategic planning and business operations. We believe that we have an effective system of risk management with appropriate controls and Board oversight.	We are committed to operating in accordance with the highest ethical and legal standards. Our Standards of Integrity (Standards) establish a set of common expectations for behavior to which each director and employee must adhere.

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PROXY STATEMENT SUMMARY

Corporate Governance Highlights			
		ü	Succession Planning
ü	Annual Election of Directors		
ü	Majority Voting for Directors	ü	Risk Oversight by the Board and Committees
ü	Independent Board (all but CEO)	ü	Standards of Integrity
ü	Independent Lead Director	ü	Stockholders Right to Call Special Meetings
ü	Regular Executive Sessions of Independent Directors	ü	Stockholder Engagement
ü	Independent Committee Chairs and Members	ü	No Poison Pill (Stockholder Rights Plan)
ü	Annual CEO Evaluation	ü	Commitment to Sustainability
		ü	Annual Political Contributions Report
ü	Annual Board and Committee Self-Evaluations		

BUSINESS PERFORMANCE

Our business plan is designed to achieve growth while managing the risks associated with fluctuations in commodity prices and changes in consumer demand. In 2014, we continued our focus on operational excellence, financial strength and disciplined investment. These guiding principles have provided the base from which we have been able to execute our strategic initiatives, including:

- Growing our utility operations and improving reliability through continued investment in transmission and distribution infrastructure projects with greater diversity of regulatory oversight; and

Maintaining a diverse, reliable and flexible generation fleet to allow us to capitalize on opportunities as they arise in the locations in which we operate.

For a comprehensive assessment of the Company s performance, please review the entire Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2014 (Form 10-K), which can be found on our website http://investor.pseg.com/sec-filings and on the SEC s website www.sec.gov. A copy of our Form 10-K has been provided to each person solicited by means of this Proxy Statement.

Financial Highlights

Dollars in Millions, except per share amounts	2014 ($)	2013 ($)
Total Revenues	10,886	9,968
Income from Continuing Operations	1,518	1,243
Net Income	1,518	1,243
Total Assets	35,333	32,522
Earnings Per Share (EPS) - Diluted		
Income from Continuing Operations	2.99	2.45
Net Income	2.99	2.45
Dividends Paid per Share	1.48	1.44
Market Price per Share - Year-end	41.41	32.04

EXECUTIVE COMPENSATION

Compensation Philosophy

We have designed a competitive executive compensation program benchmarked against our peers that we believe helps us recruit and retain top talent while closely linking pay to performance with the ultimate goal of aligning our leadership team with stockholders interests. Our incentives put a significant portion of our executives pay, including that of our CEO and Named Executive Officers (NEOs), at risk based on performance. These pay-at-risk incentives are targeted to pay out at approximately the median of our peer group when we deliver on our pre-established financial and operating goals.

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PROXY STATEMENT SUMMARY

In overseeing executive compensation, our Board utilizes an independent compensation consultant which provides only compensation services to the Board. A detailed discussion of our executive compensation program, including its elements, the factors we use in determining compensation and our governance features, appears in the CD&A. The key components of our executive compensation program are:

Fixed	Base Salary	Experience, performance and competitive market.
Performance-Based	Annual cash incentive under our Senior Management Incentive Compensation Plan (SMICP)	Emphasis on EPS as the corporate financial objective with additional operational metrics. Payment from zero to 150% of target percentage of salary, and up to 200% for exceptional performance.
Performance-Based	Equity-based incentive awards under our Long-Term Incentive Plan (LTIP)	60% performance share units (PSUs) with payment, if any, measured over a three-year period based upon Return on Invested Capital (ROIC) vs. our business plan and peers and relative Total Shareholder Return (TSR), with the opportunity to earn between zero and 200% of target based on performance. 40% restricted stock units (RSUs), which cliff vest at the end of three years.
	Market-based retirement and post-employment benefits	Double trigger change-in-control provisions. No excise-tax gross-ups.

We have adopted executive compensation governance measures that we believe support good governance practices and further align our executives interests with those of stockholders while discouraging executives from taking excessive risk.

Compensation Governance Highlights

ü	Pay for Performance Alignment	ü	No Hedging or Pledging
ü	Annual Compensation Risk Assessment	ü	Clawback Provisions
ü	Stock Ownership and Retention Policies	ü	Common Stock Trading Pre-Clearance

Pay for Performance

For 2014, the target annual and long-term incentive pay, representing pay at risk, for our CEO and other NEOs as a group was 86% and 70%, respectively, of targeted total direct compensation, as discussed in the CD&A under Compensation Philosophy-Pay Mix.

We compared our recent financial performance with the compensation of our CEO and NEOs relative to our peer companies. The financial measures we examined were above the median of our peer group of companies and our executive compensation was at the peer median. Thus, we have concluded that our performance and executive compensation are appropriately aligned.

Further, performance is reflected in the actual value paid upon vesting of the one-year annual cash incentive payments and the three-year equity incentive compensation awards:

Approved SMICP payments for 2014 were above target relative to internal goals, which were heavily weighted towards earnings;

For the PSUs granted under the LTIP for the three-year performance period ended December 31, 2014, actual payout was above target, based on our TSR compared to peer companies and ROIC in relation to target.

These compensation amounts reflect the effect on earnings of our strategic initiatives and the rebalancing of our business mix. The following table provides highlights of the compensation for our CEO and other NEOs in 2014 as reported in the 2014 Summary Compensation Table in this Proxy Statement. For the complete details of compensation, please review the entire Proxy Statement.

NEO	Base Salary 2014 ($)	Equity Incentive Plan Compensation 2014 ($)	Non-Equity Incentive Plan Compensation 2014 ($)	Total Compensation 2014 ($)[1]
Ralph Izzo	1,142,307	5,723,686	1,636,100	11,014,644
Caroline Dorsa	673,006	1,249,737	625,200	3,856,787
William Levis	669,540	2,100,614	583,600	4,225,784
Ralph A. LaRossa	640,866	1,000,178	604,800	2,988,434
J. A. Bouknight, Jr. [2]	308,643	851,182	244,800	1,581,767
Tamara L. Linde [3]	397,010	438,705	305,100	1,618,374

(1) Reflects all compensation, including change in pension value and all other, as reported in the 2014 Summary Compensation Table.
(2) Retired on July 1, 2014.
(3) Elected to position effective July 2, 2014.

Key Recent Executive Compensation Actions

In overseeing our executive compensation program, our O&CC, working with its consultant, continued to emphasize our results-oriented philosophy. During 2014, we:

- Reviewed our compensation philosophy and all key elements of our executive compensation program in light of our strategy and objectives, as well as the results of the 95% approval of the Say-on-Pay vote received at the 2014 Annual Meeting of Stockholders;

- Confirmed the pay for performance alignment of executive compensation with financial results and approved benchmarked salaries, incentive awards and payouts in accordance with established criteria; and

- Added relative ROIC compared to peers as a third factor in measuring three-year performance to determine PSU payouts under the LTIP.

For a more comprehensive discussion, see our CD&A.

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ANNUAL MEETING, VOTING AND PROCEDURES

ANNUAL MEETING, VOTING AND PROCEDURES

Proxy Statement

This Proxy Statement is provided by us on behalf of the Board. A proxy is a person you have legally designated to vote the stock you own. We are asking you to designate as proxies the individuals named by us on the proxy card, voting instruction form or electronic instruction associated with this Proxy Statement to vote at the 2015 Annual Meeting of Stockholders scheduled to be held on April 21, 2015 and at all adjournments or postponements of that meeting. For instructions on how to vote, please see Proxy Card and Voting of Shares section below.

The mailing address of our principal executive offices is 80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171, telephone (973) 430-7000. Our Internet website is www.pseg.com.

Annual Report on Form 10-K

We have provided without charge to each person solicited by means of this Proxy Statement a copy of our Form 10-K for 2014, which has been filed with the Securities and Exchange Commission (SEC), including a list briefly describing the related exhibits. You may request copies of the exhibits by writing to: Vice President-Investor Relations, Public Service Enterprise Group Incorporated, 80 Park Plaza, T6B, P.O. Box 1171, Newark, New Jersey 07101-1171. The Form 10-K is also available on our website http://investor.pseg.com/sec-filings.

Delivery of Documents and Internet Availability

We use several different methods to deliver the proxy statement and voting materials to you, including the U.S. Mail and the Internet. Each stockholder receives his or her own proxy card, voting instruction form or electronic instructions for voting. For detailed information on how to vote, see Proxy Card and Voting of Shares below.

One Copy per Household

We have sent only a single copy of our Annual Report to Stockholders, including our Form 10-K, and Proxy Statement, to any household with two or more stockholders having the same last name and address unless one of the stockholders has requested individual copies. This householding saves our company printing and delivery costs. If you share an address with another stockholder and receive only a single copy of one of those documents, you may request an additional copy by writing to the above address or contacting us at (973) 430-6566.

Electronic Delivery

Stockholders may choose to no longer receive printed copies of our Annual Report, Form 10-K and Proxy Statement and instead receive and view them electronically over the internet. If you would like to receive these documents, as well as other stockholder communications and materials, electronically in the future and save us the cost of printing and mailing them to you, you may do so by following the instructions at the websites shown on page (i) above, under

Go Green with Electronic Delivery. If your shares are held in the name of a bank or broker, please follow that organization s instructions for electronic delivery. You may also follow the instructions provided for future electronic delivery if you vote via the Internet.

If you receive our future Proxy Statements, Annual Reports and Forms 10-K electronically over the Internet, you will receive each year an e-mail message containing the Internet address to access these documents. The e-mail will also include instructions for voting via the Internet as you will not receive a separate proxy card.

Annual Meeting

This year we will be holding our Annual Meeting at a new location, the Robert Treat Hotel, in Newark, New Jersey. Please note the new address, 50 Park Place, Newark, New Jersey 07102.

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ANNUAL MEETING, VOTING AND PROCEDURES

Holders of record of the 506,361,758 shares of Common Stock outstanding on February 20, 2015 will have one vote per share. A quorum will consist of the holders of Common Stock entitled to cast a majority of the votes at the Annual Meeting, present in person or represented by proxy. All votes cast by proxy or in person will be counted. Abstentions and broker non-votes will not be counted, except for the purpose of establishing a quorum. All votes will be tabulated by an independent inspector of elections.

Election of directors under Proposal 1 is subject to our majority vote requirement described below. The say-on-pay vote presented in Proposal 2 is advisory and non-binding, whether or not approved by a majority of the votes cast. A majority of the votes cast is needed for ratification of the appointment of the auditor under Proposal 3.

Proxy Card and Voting of Shares: How to Vote

Stockholders of Record

Every vote is important. We urge you to vote whether or not you plan to attend the Annual Meeting. You may specify your choices by marking the appropriate boxes on the enclosed proxy card. Once done, kindly sign, date and return the accompanying proxy card, or you may vote your proxy using the toll-free telephone number listed on the proxy card or via the Internet at the electronic address provided above and also listed on the proxy card. When a proxy card is returned properly dated and signed, or properly voted telephonically or electronically, the shares represented by the proxy will be voted by the persons named as proxies in accordance with the voting stockholder s directions. If you are a stockholder of record, your shares will not be voted unless you provide a proxy by return mail, telephonically or electronically or vote in person at the Annual Meeting.

Shares Held in Plans

Enterprise Direct: The proxy card includes any shares registered in the names shown on the proxy in Enterprise Direct (our dividend reinvestment and stock purchase plan). If a proxy card is dated, signed and returned without specifying choices, the shares will be voted as recommended by the Board. If you vote telephonically or electronically, you should follow the directions given during the call or on the computer screen. If no instructions are received from you with respect to any shares held in Enterprise Direct, the administrator of the plan will vote those shares in accordance with the recommendations of the Board.

PSEG ESPP: If you are a participant in the ESPP, you will receive a separate voting instruction form from the administrator of the plan. If no instructions are received from you with respect to any shares held in the ESPP, the administrator of the plan may vote those shares in accordance with the recommendations of the Board.

PSEG Employee Benefit Plans: If you are a participant in the Thrift and Tax-Deferred Savings Plan or the Employee Savings Plan of PSEG (PSEG Savings Plans) or either of the two Incentive Thrift Plans (Incentive Thrift Plans) of Long Island Electric Utility Servco LLC, a subsidiary of PSEG LI, you will receive a separate

proxy card from the respective plan s trustee for shares that have been allocated to your accounts. The trustee will vote the shares of Common Stock beneficially owned by you under the respective plan in accordance with your instructions. If no instructions are received with respect to the PSEG Savings Plans, the shares will not be voted. If no instructions are received with respect to the Incentive Thrift Plans, the respective trustee will vote your shares in the same proportion as those shares as to which it receives instructions from other participants in the plan in which you participate.

Shares Held by Banks or Brokers

If your shares are held in the name of a bank or broker, you should follow the voting directions on the instruction form received from your bank or broker. For such shares, while the availability of telephone or Internet voting will depend on the processes of your bank or broker, we believe that most will make such voting methods available. In accordance with the rules of the NYSE, if no instructions are received from you by a bank or broker with respect to such shares, the bank or broker may use its discretion to vote your shares that are held by it only in regard to Proposal 3, Ratification of the Appointment of Independent Auditor and the shares will not be voted on the other proposals presented in this Proxy Statement.

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ANNUAL MEETING, VOTING AND PROCEDURES

Revoking a Proxy

You may revoke a proxy given in the form of the card which accompanies this Proxy Statement or a vote made telephonically or electronically. However, by law, your presence at the Annual Meeting will not revoke a proxy you have given unless you file a written notice of such revocation with the Secretary of PSEG prior to the voting of the proxies at the Annual Meeting or you vote the shares subject to the proxy by written ballot. The Secretary s mailing address appears below.

Solicitation

The cost of soliciting proxies in the form accompanying this Proxy Statement will be borne by us. In addition to solicitation by mail, proxies may be solicited by our directors, officers and employees, none of whom will be directly compensated for such services, in person or by telephone, electronically or by facsimile. We have also retained Morrow & Co. to assist in the distribution and solicitation of proxies from brokers, bank nominees, other institutional holders and certain large individual holders. The anticipated cost of such services is approximately $15,000, plus reimbursement of expenses.

Date for Submission of Stockholder Proposals

In accordance with SEC rules, stockholders may submit proposals intended for inclusion in the Proxy Statement in connection with our 2016 Annual Meeting of Stockholders. Such proposals should be sent to: Corporate Secretary, Public Service Enterprise Group Incorporated, 80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171, and must be received by November 10, 2015.

Discretionary Proxy Voting Authority

If any matters not described in this Proxy Statement are properly presented at the Annual Meeting, the persons named in the enclosed proxy card or their substitutes will vote proxies so given in respect of any such matters in accordance with their best judgment. As of the date of this Proxy Statement, the Board and management did not know of any other matters which might be presented for stockholder action at the Annual Meeting.

If we are not notified by January 26, 2016 of any proposal intended to be presented for consideration at the 2016 Annual Meeting of Stockholders, then the persons named by us shall have discretionary voting authority with respect to such proposal if presented at that Annual Meeting.

Voting Tabulation Results

Proxies and ballots will be received and tabulated by an independent inspector of elections. We will announce preliminary voting results at the Annual Meeting. We will disclose the final voting results in a Current Report on Form 8-K to be filed with the SEC on or before April 27, 2015. The Form 8-K will be available on our website at http://investor.pseg.com/sec-filings and on the SEC s website at www.sec.gov.

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Proposal 1

ELECTION OF DIRECTORS

You are being asked to vote on the election of ten individuals nominated by your Board to serve as the Directors of our Company. Below, we have provided information about the Board, director independence, our leadership structure, risk management oversight, Board committees, code of ethics and related matters of corporate governance. We also describe our provisions for majority voting, our director qualifications, diversity and retirement criteria and each nominee s specific experience, skills and qualifications. We also report to you information about security ownership and director compensation. All of the nominees currently serve as directors of the Company and were elected to their positions by the stockholders. **As recommended by the Board, we ask you to vote FOR all nominees.**

CORPORATE GOVERNANCE

Board of Directors

Our business and affairs are managed by or under the direction of the Board, which delegates certain responsibilities to its committees and to management consistent with our By-Laws. The Board has adopted and operates under the Principles which reflect our current governance practices in accordance with applicable statutory and regulatory requirements, including those of the SEC and the NYSE. The Principles provide written guidelines for directors and management to effectively pursue and support the Company s business objectives. The Principles are reviewed periodically by the Corporate Governance Committee, which recommends appropriate changes to the Board. You can request copies of our By-Laws and Principles or view them at http://investor.pseg.com/corporate-governance.

The Board provides direction and oversight of the conduct of our business by management. In fulfilling these responsibilities, the Board performs the following principal functions:

- Approves corporate strategy, major management initiatives and significant investments;
- Monitors and provides oversight of financial and business integrity and performance, including risk management;
- Selects, evaluates the performance of, and approves succession plans for the CEO and other senior executives;
- Selects nominees for election to the Board; and

Evaluates Board processes and performance.

The Board has full and free access to all members of management and may hire its own consultants and advisors as it deems necessary.

Independence

Under our Principles and the requirements of the NYSE, the Board must consist of a majority of independent directors. The Board has established standards for director independence, which are set forth in the Principles.

Communications with the Board

You, as a stockholder, and other interested parties may communicate directly with the Board, including the independent directors, by writing to:

M. Courtney McCormick, Secretary

Public Service Enterprise Group Incorporated

80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171

and indicating who should receive the communication. Unless the context otherwise requires, the Secretary will provide the communication to the Lead Director and to the Chair of the Board committee most closely associated with the nature of the request. The Secretary has the discretion not to forward communications that are commercial advertisements, other forms of soliciting material or billing complaints. All communications are available to any member of the Board upon his or her request.

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CORPORATE GOVERNANCE

The Board annually reviews other commercial relationships of directors and determines whether any of those relationships are material relationships that impair a director s independence.

The Board has determined that all of the current directors, all of whom are nominees for election, are independent under our Principles and the requirements of the NYSE, except Ralph Izzo, our Chairman of the Board, President and CEO. These determinations were based upon a review of the responses submitted by each director to questionnaires we provided to them, relevant business records, publicly available information and applicable SEC and NYSE requirements.

Leadership Structure

Under our By-Laws, our senior leadership may include a Chairman of the Board, a President and a CEO, which positions may be held by one person or may be divided between two different people. As provided in its charter, the Corporate Governance Committee has the responsibility to assess the structure of the Board and periodically evaluate the Board s governance practices as well as the Principles. Building on the advice of the Corporate Governance Committee, the Board applies its experience and knowledge of our business to establish what it believes to be the most effective form of organization. In doing so, it utilizes its understanding of the challenges and opportunities we face and its evaluation of the individuals who are involved.

Based on that analysis and evaluation, the Board has determined that, at the present time and given our present officers and personnel, it is in the best interests of the Company and stockholders for a single individual to hold all three positions of Chairman of the Board, President and CEO. The Board believes that this strikes a desirable balance allowing us to benefit from the advantages of efficiency, coordination and accountability. Ralph Izzo currently holds these positions. As such, he has plenary powers of supervision and direction of our business and affairs and he also presides at all meetings of the Board and of stockholders. The Board believes that Mr. Izzo possesses the attributes of experience, judgment, vision, managerial skill and overall leadership ability essential for our continued success. Mr. Izzo s in-depth knowledge and understanding of our strategy, operations, risk profile, regulatory and environmental circumstances and financial condition best position him to head our Board and provide leadership to management, employees, investors, customers, officials and the public. The diverse experience and independence of the other directors allows the Board to maintain effective oversight of operations, long-range planning, finances and risk management.

Lead Director

In addition to the Chairman, President and CEO, our leadership structure is designed to rely on the contributions of our Lead Director. The Lead Director provides the independent directors with a key means for collaboration and communication regarding Board agendas and the information directors receive from management. Importantly, all directors play an active role in overseeing the company s business both at the Board and committee levels, bringing fresh and differing viewpoints. The Lead Director coordinates with the Chairs of our various Board committees in setting agendas for committee meetings. Albert R. Gamper, Jr. currently serves as Lead Director. In that capacity, he complements the talents and contributions of Mr. Izzo and promotes confidence in our governance structure by providing an additional perspective to that of management.

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The Lead Director is an independent director designated annually by the independent directors with the expectation that he or she will typically serve in that capacity for four years. The Lead Director may be appointed to serve up to twelve additional months beyond the four years if approved by a majority of the independent directors. Mr. Gamper was designated as our Lead Director in April 2014 for a term expiring at the first meeting of directors after the 2015 Annual Meeting of Stockholders. Mr. Gamper has served as Lead Director since April 2011. The Corporate Governance Committee expects to make a recommendation regarding the individual to serve as Lead Director at its first meeting following the 2015 Annual Meeting, in accordance with our policy.

The Board believes that our leadership structure has been designed with the appropriate controls to support the efficacy of this arrangement without jeopardizing the integrity of the governance process. As discussed below, our Principles also set forth various expectations and criteria for Board membership. All directors must adhere to our Standards and exercise their responsibilities in a manner consistent with our best interests and those of our stockholders and their fiduciary duties established by applicable law.

Risk Management Oversight

The Board is responsible for the oversight of risk at PSEG, both as a whole and through delegation to Board committees, which meet regularly and report back to the full Board. All committees play significant roles in carrying out the risk oversight function. In particular:

The Audit Committee oversees risk related to the Company s financial statements, the financial reporting process, accounting and legal matters. The Audit Committee provides oversight on legal and business compliance, financial reporting, disclosure controls and procedures and risk management controls, as well as policies with respect to risk assessment and risk management. Our Chief Risk Officer and Chief Financial Officer report on risk management to the Audit Committee at its meetings and, through the reports of the Audit Committee Chair, to the Board.

The Finance Committee oversees financing transactions and approves appropriate commodity portfolio risk tolerance limits. Compliance is monitored through regular reporting to the Board. The Finance Committee is responsible for monitoring risk related to our investments in our pension and post-retirement benefits and nuclear decommissioning trusts and receives periodic reports on their performance at least annually.

The Fossil Generation Operations Oversight Committee and the Nuclear Generation Operations Oversight Committee monitor and evaluate risks associated with our electric station operations, including risks associated with environmental, safety and other compliance and personnel and performance matters.

The O&CC considers the risks and rewards associated with our compensation and human resources philosophy and programs. As discussed below, the O&CC has reviewed our compensation policies and practices as they

relate to risk management and seeks to administer our compensation plans so as to appropriately balance the incentive nature of the compensation with mechanisms that serve to mitigate risk.

The Corporate Governance Committee evaluates Board and committee performance, monitors composition of the Board and the qualifications of the Board members and nominees, assists the Board in administering corporate governance practices and oversees our political participation activities and expenditures. In doing so, the Corporate Governance Committee seeks to ensure our governance and leadership structure is appropriately designed to mitigate reputational risk.

Risk Management Policy

Risk management is also a key part of our strategic planning and business operations. The Board has approved a Risk Management Policy and it reviews and adopts the Company s Financial Risk Management Practice. In accordance with the Risk Management Policy, we maintain and execute a Risk Management Program for identifying, quantifying, monitoring, managing and reporting on our risks, including emerging issues such as cybersecurity. The Financial Risk Management Practice serves to define the major roles, responsibilities and procedures, including controls and reporting, necessary to actively manage our financial risk exposure consistent with our business plans. It is reviewed annually and approved by the Audit Committee and the Finance Committee and recommended to the Board for its approval.

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CORPORATE GOVERNANCE

Risk Management Committee

Under the Risk Management Policy, we have established a Risk Management Committee (RMC) consisting of senior executives. The RMC is charged with, among other things:

- Establishing the framework for implementing the Risk Management Policy;
- Establishing limits and controls and managing risk within established tolerances; and
- Considering and addressing major implications to our generation, transmission and distribution businesses that have a bearing on the management of risks that could impact financial results.

In addition, our Capital Review Committee, which also consists of senior management employees, provides oversight and reviews proposed capital projects. Investments above a stated amount require approval of our Board or our respective subsidiary s board, as applicable. Our Compliance Committee of senior management personnel reviews various compliance issues, including the approval of our Standards, and regularly reports to the Audit Committee.

Our Delegation of Authority provisions set forth the respective authority levels at which management and employees are authorized to conduct business.

The Board believes that we have an effective system of risk management practices with appropriate controls and Board oversight.

Talent Management and Succession Planning

Our business planning process includes key aspects of workforce development. We believe that we utilize a rigorous and disciplined process to evaluate talent and provide for succession planning in relation to our business objectives. This starts at the local level and continues through senior management, with direct involvement of our CEO and Board. We periodically review our workforce challenges, progress on achieving our commitment to diversity and effectiveness of our organizational structure and staffing.

The Board takes very seriously its responsibility to provide for an orderly process of succession within the ranks of our senior management. Periodically, at least annually, the O&CC reviews with the CEO succession plans for key leadership positions to assure that highly qualified candidates are available should the need arise to fill vacancies. We seek to maintain a continuity of management through appropriate recruitment and retention methods, including market-based and performance-measured compensation and career advancement and training opportunities.

Director Orientation and Continuing Education

New directors receive an orientation program and materials, which includes visits to our facilities and presentations by senior management to familiarize them with our strategic plans, operations, significant financial, accounting, regulatory and risk management issues, compliance programs, the Standards, principal officers and internal and independent auditors. During each year, continuing education is provided to all directors on topics of importance to our business.

Meetings of the Board, Committees and Stockholders

The Board holds regularly scheduled meetings and meets on other occasions when circumstances require. Board and committee meetings are scheduled over most of an entire work day and usually begin on the prior afternoon or evening. Each committee executes its responsibilities, as described below, and the Board receives reports from the committee Chairs on the significant matters considered and actions taken. A Board meeting typically focuses on the strategic and more important issues facing us. Directors spend additional time preparing for Board and committee meetings they attend and they are called upon for counsel between meetings.

Our Principles provide that the Board will meet at least six times each year and in executive session without management in attendance at every meeting, unless waived by the Board. When the Board meets in executive sessions, the Lead Director presides. In addition, each Board committee, except the Executive Committee, meets in executive session at each of its meetings, unless waived by the respective committee.

Special meetings of the Board of Directors may be called by the Chairman of the Board, CEO, or a majority of the directors by written request at anytime. Special meetings of the stockholders may be called at any time by the Board of Directors or by the CEO or upon the written request of the holders of a majority of the capital stock entitled to cast votes.

2014 Meetings and Executive Sessions

Board/Committee	Meetings	Executive Sessions
PSEG Board	9*	8
PSE&G Board	6	6
Audit	8	6
Corporate Governance	4	2
Executive	1	0
Finance	4	0
Fossil Generation Operations Oversight	3**	2
Nuclear Generation Operations Oversight	3***	2
O&CC	5	4

* Includes all-day Business Strategy Session and two special meetings

** One meeting held at a generating station

*** One meeting held at the site of nuclear generating stations we operate

Attendance

Under our Principles, each director is expected to attend all Board meetings and all meetings of committees of which such director is a member, as well as the Annual Meeting of Stockholders. Meeting materials are provided to Board and Committee members in advance of each meeting, and members are expected to review such materials prior to each meeting. During 2014, each director attended at least 75% of the aggregate number of meetings of the Board and the committees on which he or she served. All of the directors except two attended the 2014 Annual Meeting of Stockholders.

Board Committee Responsibilities

The Board committees, their principal functions, membership requirements and minimum number of meetings held are described below. Each committee has open and free access to all Company information, may require any of our officers or employees to furnish it with information, documents or reports that it deems necessary or desirable in carrying out its duties, is empowered to investigate any matter involving us and may retain appropriate resources to assist it in discharging its responsibilities.

Each committee, other than the Executive Committee, operates pursuant to a charter that defines its roles and responsibilities and annually conducts a performance evaluation of its activities and a review of its charter. The authority of the Executive Committee is set forth in our By-Laws. The committee charters and our By-Laws are posted on our website, www.pseg.com/info/investors/governance/committees.jsp. We will send you a copy of any or all of them upon request.

Each committee reports its activities to the Board. Each committee Chair is appointed annually with the expectation that he or she will typically serve in that capacity for four years. A Chair may be appointed to serve up to twelve additional months beyond the four years if approved by a majority of the independent directors.

A list of current committee membership requirements can be found below:

Committee	Membership Requirements
Audit	Consists of three or more independent directors, in accordance with SEC and NYSE rules, who must meet NYSE requirements for financial literacy. At least one member must have accounting or financial management expertise. The committee meets at least four times per year. Members may receive no direct or indirect compensation from us or our subsidiaries, other than as a director or committee member, and may not be affiliated with us or our subsidiaries. Under our Principles, without Board approval, a director may not serve as a member of our Audit Committee if he or she serves on the Audit Committee of more than three public companies, including ours.
Corporate Governance	Consists of three or more independent directors who meet at least two times per year.
Executive	Consists of the Chairman of the Board, the Lead Director and at least one additional independent director.
Finance	Consists of three or more independent directors who meet at least three times per year.
Fossil Generation Operations Oversight	Consists of three or more independent directors who meet at least three times per year.
Nuclear Generation Operations Oversight	Consists of three or more independent directors who meet at least three times per year.

Organization & Compensation	Consists of three or more independent directors in accordance with SEC and NYSE rules, who meet at least two times per year.

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CORPORATE GOVERNANCE

Each Committee of the Board is responsible for the following activities:

Audit Committee

Assisting the Board in fulfilling its responsibility for oversight of the integrity of our financial statements and the quality and integrity of our accounting, auditing and financial reporting practices;

Appointing, terminating, compensating, including preapproving all services and fees, and overseeing the work of the independent auditor, which reports directly to the Audit Committee;

Reviewing the independence of the independent auditor, as well as Public Company Accounting Oversight Board (PCAOB) and peer review reports of the independent auditor s performance;

Reviewing with the independent auditor, management and internal auditors our annual audited and quarterly financial statements and the acceptability and quality of our financial statements and our accounting, reporting and auditing practices;

Reviewing with the independent auditor any audit issues or difficulties and management s response, and resolving disagreements which may arise between management and the independent auditor regarding financial reporting;

Providing oversight to our internal audit and environmental, health and safety audit functions and legal and business conduct compliance program;

Reviewing the status of pending material litigation;

Reviewing risk management controls and disclosure controls and procedures;

Reviewing earnings press releases, financial information and earnings guidance provided to analysts and rating agencies; and

Recommending to the Board the inclusion of the audited financial statements in our Form 10-K.

The Audit Committee Report appears below under Proposal 3. Ratification of the Appointment of Independent Auditor in this Proxy Statement.

Corporate Governance Committee

Assisting the Board in administering the corporate governance practices of the Board and its committees;

Monitoring the composition of the Board to assure a reasonable balance of professional interests, business experience, financial expertise, diversity and independence;

Considering the qualifications of Board members and evaluating prospective nominees, including those identified by the Committee or by other Board members, management, stockholders or other sources, and recommending to the Board membership changes and nominees;

Making a recommendation to the Board as to whether to accept the tendered resignation of any director who fails to receive a majority of votes cast for that director s election in an uncontested election;

Recommending to the Board the chairs and members of Board committees;

Evaluating performance of the Board and its committees, including a review of the size, structure and composition of the Board and its committees and their governance practices, including interactions with management;

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- Making recommendations to the Board to improve effectiveness of the Board and its committees;
- Overseeing the directors orientation and continuing education;
- Reviewing and making recommendations to the Board with respect to compensation of directors;
- Providing input to the O&CC regarding the performance of the CEO as Chairman of the Board;
- Periodically reviewing the Charters of the Board committees and recommending appropriate changes; and
- Reviewing our political participation activities and expenses.

The nomination process and criteria utilized are described below under Nominees and Election.

Executive Committee

Except as otherwise provided by law, the Executive Committee may exercise all the authority of the Board when the Board is not in session.

Finance Committee

- Reviewing and making recommendations to the Board regarding corporate financial policies and processes and significant financial decisions;
- Reviewing and recommending to the Board annually our financial plan;
- Reviewing and making recommendations to the Board regarding our dividend policy and capital structure;
- Discussing with management the application and effects of our policies with respect to risk assessment and risk management, including the limits and authorities contained in the Financial Risk Management Practice;
- Reviewing and recommending to the Board authorizations with respect to the issuance, sale and redemption of securities by us and our subsidiaries;

Reviewing with the Chairs of the Thrift and Pension and the Nuclear Decommissioning Trust Investment Committees, and monitoring, the investment guidelines for and investment performance of the respective trust funds;

Reviewing with management our cash management policies and practices; and

Reviewing with management credit agency ratings and analyses.

Fossil Generation Operations Oversight Committee

Evaluating the effectiveness of our fossil generation operations, focusing on safety, plant performance, regulatory matters, large construction projects and improvement in operations;

Reviewing labor and human relations, environmental, health and safety and legal and compliance issues related to our fossil generation operations; and

Reviewing the results of major inspections, evaluations and audit findings by external oversight groups and management s response.

Nuclear Generation Operations Oversight Committee

Evaluating the effectiveness of our nuclear generation operations, focusing on safety, plant performance, regulatory matters, large construction projects and improvement in operations;

Reviewing labor and human relations, environmental, health and safety and legal and compliance issues related to our nuclear generation operations; and

Reviewing the results of major inspections, evaluations and audit findings by external oversight groups and management s response.

Organization and Compensation Committee (O&CC)

Reviewing, approving and modifying, as necessary, our executive compensation policy, programs, plans and awards;

Reviewing the stockholder advisory vote on say-on-pay and considering any action it deems appropriate in light of that vote;

Reviewing executive compensation levels and targets for consistency and alignment with compensation policy and strategic and operating objectives;

Reviewing the risk to us of our compensation policies and practices;

Retaining, compensating, overseeing and annually reviewing the performance of its advisors, including its compensation consultant;

Reviewing the independence of its compensation consultant and advisors;

Reviewing and making recommendations to the Board concerning corporate organization in general and executive compensation including incentive plans and equity-based plans;

Administering our incentive compensation plans;

Reviewing and approving corporate goals and objectives relevant to CEO compensation;

Evaluating the CEO s performance in light of those goals and objectives and, with the independent Board members, determining and approving the CEO s compensation based on such evaluation;

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CORPORATE GOVERNANCE

Annually reviewing performance of certain other key members of management;

Annually reviewing management succession and development plans;

Monitoring compliance with the Stock Ownership and Retention Policy; and

Reviewing the CD&A and providing its report in this Proxy Statement.

The O&CC Report on Executive Compensation appears below under Proposal 2. Advisory Vote on the Approval of Executive Compensation.

Compensation Consultant

The O&CC has the authority to retain advisors and compensation consultants, with sole authority for their hiring and firing. The O&CC is directly responsible for such appointment, compensation and oversight in accordance with the applicable SEC requirements and NYSE standards. Since September 2009, the O&CC has retained Compensation Advisory Partners LLC (CAP) as its independent compensation consultant to provide it with information and advice that is not influenced by management. CAP is an executive compensation consulting firm that does not perform any other services for us or our subsidiaries. CAP provides advice to the O&CC on executive compensation and may also provide advice to the Corporate Governance Committee on matters pertaining to compensation of directors who are not executive officers. CAP may not perform any other services for us without obtaining the prior approval of the Chair of the O&CC.

In furtherance of CAP s independence, management receives copies of certain materials provided by CAP to the O&CC only after the materials have been provided to the O&CC. The scope of CAP s assignment is to provide general advice relating to all aspects of executive compensation, including the review of our current compensation programs and levels, benefit plans, provision of comparative industry trends and peer data and the recommendation of program and pay level changes. Responsibility for assignment to and evaluation of work by CAP is solely that of the O&CC and, with respect to the compensation of non-employee directors, the Corporate Governance Committee.

We pay the fees of any compensation consultant retained by the O&CC. Additional information regarding any such services performed in the past year is included in the CD&A below. The O&CC also utilizes the services of our internal compensation professionals.

Determination of Compensation Consultant s Independence

The SEC and NYSE require compensation committees to assess the independence of their advisors and determine whether any conflicts of interest exist. In July 2014, the O&CC reviewed CAP s independence relative to the following factors: (i) CAP s provision of other services to the Company; (ii) the amount of fees CAP receives from the Company

as a percentage of CAP s total revenue; (iii) the policies and procedures of CAP that are designed to prevent conflicts of interest; (iv) any business or personal relationship between O&CC members and CAP or its compensation consultants; (v) any PSEG stock owned by CAP or its compensation consultants; (vi) any business or personal relationship between our executive officers and CAP or any of its compensation consultants; and (vii) other factors that would be relevant to CAP s independence from management. On the basis of such review, the O&CC concluded that CAP is independent and no conflicts of interest exist.

Compensation Committee Interlocks and Insider Participation

During 2014, each of the following individuals served as a member of the O&CC: William V. Hickey, Shirley Ann Jackson, David Lilley, Thomas A. Renyi, and Richard J. Swift (Chair). No member of the O&CC was an officer or employee or a former officer or employee of any PSEG company. None of our officers served as a director of or on the compensation committee of any of the companies for which any of these individuals served as an officer. No member of the O&CC had a direct or indirect material interest in any transaction with us.

Code of Ethics

The Standards are posted on our website, www.pseg.com/info/investors/governance/documents.jsp. We will send you a copy on request.

We will post on that website:

- Any amendment (other than one that is technical, administrative or non-substantive) that we adopt to the Standards; and

- Any grant by us of a waiver from the Standards that applies to any director, principal executive officer, principal financial officer, principal accounting officer or Controller, or persons performing similar functions, for us or our direct subsidiaries noted above, and that relates to any element enumerated by an applicable SEC requirement.

A waiver of any provision of the Standards may be granted in exceptional circumstances, but only for substantial cause. A waiver for any director or executive officer may be made only by the Board and, if granted, must be promptly disclosed to our stockholders. In 2014, we did not grant any waivers to the Standards.

Political Contributions

As a highly regulated company whose operations can be significantly impacted by public policies, it is essential that PSEG takes an active role in the political process. PSEG regularly communicates with government officials on issues affecting our business, participates in trades associations that focus on policies which may influence our company and makes political contributions that align with the long-term interests of PSEG and its stockholders.

Our Practice and Board Oversight

We are committed to participating in an ethical manner and in full compliance with all federal, state and local laws. We have established a Corporate Political Participation Practice that sets forth a controls process pursuant to which our senior management monitors, assesses and approves certain political contributions. The Corporate Governance Committee also oversees our political activities and contributions in accordance with the Practice. We believe this Practice allows us to minimize reputational and political risks and continue to focus on our operational excellence. Stockholders may view our Practice at www.pseg.com/info/investors/governance/documents.jsp.

Annual Political Contributions Report

PSEG continues to value thoughtful stockholder engagement. Based on our communications with stockholders, we have expanded our level of disclosure by creating an annual political contributions report to be published in 2016. The

report will include our corporate contributions to candidates, trade associations and other political and social welfare organizations. PSEG will request that trade associations to which it paid total annual payments of $50,000 or more identify the portion of dues or payments received from PSEG that were used for expenditures or contributions that, if made directly by PSEG, would not have been deductible under Section 162(e)(1)(B) of the Internal Revenue Code (IRC). The report will be made available on our website.

NOMINEES AND ELECTION

Transactions with Related Persons

There were no transactions during 2014, and there are no transactions currently proposed, in which we were or are to be a participant and the amount involved exceeded $120,000 and in which any related person (director, nominee, executive officer or their immediate family members) had or will have a direct or indirect material interest.

Our policies and procedures with regard to transactions with related parties, including the review, approval or ratification of any such transactions, the standards applied and the responsibilities for application are set forth in our Principles, our Business Conduct Compliance Program (Compliance Program) and the Standards. These are our only written policies and procedures regarding the review, approval or ratification of transactions with related persons.

The Principles provide that a director must notify the Chair of the Corporate Governance Committee if he or she encounters a conflict of interest or proposes to accept a position with an entity which may present a conflict of interest, so that the issue may be reviewed. Potential conflicts of interest include positions that directors or immediate family members hold as directors, officers or employees of other companies with which we do business or propose to do business and charitable and other tax-exempt organizations to which we contribute or propose to contribute.

The Compliance Program establishes an organizational structure and validates the Standards and its mandated procedures, practices and programs. The Audit Committee has overall responsibility for oversight of the Compliance Program and has delegated to our Compliance Committee overall responsibility for the design, implementation and execution of the Compliance Program. The Compliance Committee s duties include assurance that we take all reasonable steps to coordinate organization-wide ethics and compliance activities, consistent enforcement of the Standards, including the detection and prevention of wrongdoing as a result of compliance investigations and otherwise foster a culture for ethical behavior and a commitment to legal compliance. The Compliance Committee, comprised of members of senior management, is chaired by our Executive Vice President and General Counsel, who has overall responsibility for administering the Compliance Program.

The Standards establish a written set of common expectations of behavior for all directors, officers and employees regarding business relationships, personal conduct (including, among other things, corporate opportunities, conflicts of interest and supplier, competitor and governmental relations), safeguarding of Company property, business controls and compliance with regulatory requirements. In addition, the Standards mandate procedures for seeking ethical guidance, reporting concerns, investigation and discipline. Our Executive Vice President and General Counsel has overall responsibility for administering the Standards.

Our written management practices provide that any capital investment with a non-PSEG entity or its affiliate, for which one of our directors or officers serves as a director or executive officer, must be approved by our Board.

Election

Directors elected at each annual meeting are elected to serve one-year terms. Directors whose terms are to expire are eligible for re-nomination and will be considered by the Corporate Governance Committee in accordance with its policies and the retirement policy for directors, which are summarized in this Proxy Statement. Each of the current directors has been nominated for re-election.

Our By-Laws currently provide that the Board shall consist of not less than three nor more than 16 directors as shall be fixed from time to time by the Board. The number of directors is currently fixed at ten.

The nominees listed below were selected by the directors upon the recommendation of the Corporate Governance Committee. As discussed above under Annual Meeting, Voting and Procedures, proxies will be voted in accordance with your instructions as indicated on the enclosed proxy card, voting instruction form or when voting by telephone or Internet.

If at the time of the 2015 Annual Meeting any of the nominees listed below should be unable to serve, which is not anticipated, it is the intention of the persons designated as proxies to vote, in their discretion, for other nominees, unless the number of directors constituting a full Board is reduced.

Majority Voting for Election of Directors

Our By-laws provide that in an uncontested election, each director shall be elected by a majority of the votes cast with respect to the director. A majority of votes cast means that the number of shares cast for a director s election exceeds the number of votes cast against that director. We do not include as votes cast (i) shares which are marked withheld, (ii) abstentions and (iii) shares as to which a stockholder has given no authority or direction.

As provided in our Principles, the Board has adopted a policy whereby any incumbent director receiving a majority vote against must promptly tender an offer of resignation. As a result, in uncontested elections, the Board will nominate for election or re-election as a director only candidates who have agreed promptly to tender a letter of resignation in the event that the number of shares voted for that director does not exceed the number of shares voted against that director. If an incumbent director fails to receive the required majority vote, the Corporate Governance Committee will consider the matter and then make a recommendation to the Board as to whether or not to accept the resignation. The Board will make the determination on whether or not to accept the recommendation of the Corporate Governance Committee.

Failure to Receive a Majority Vote

The Principles further provide that no director who fails to receive a majority vote in an uncontested election shall participate in either the recommendation of the Corporate Governance Committee or the determination of the Board with respect to his or her resignation letter or that of any other director in regard to that year s Annual Meeting election. Any such director may, however, participate in any and all other matters of the Board and its various committees to the fullest extent to which he or she would otherwise be permitted in accordance with applicable law and the Principles. If a majority of the Corporate Governance Committee fails to receive a majority vote, then the remaining independent directors will determine whether to accept one or more of the applicable resignations. If three or fewer independent directors do not receive a majority vote in the same election, then all independent directors may participate in any discussions or actions with respect to accepting or rejecting the resignation offers (except that no director will vote to accept or reject his or her own resignation offer).

In evaluating tendered resignations, the Corporate Governance Committee and the Board may consider all factors they deem relevant, including, but not limited to, the stated reason(s) for the against vote, the impact that the acceptance of the resignation would have upon our compliance with applicable law or regulation, the potential triggering of any change in control or similar provision in contracts, benefit plans or otherwise, the qualifications of the director and his or her past and anticipated future contributions to us.

The Corporate Governance Committee and the Board may consider possible remedies or actions to take in lieu of or in addition to accepting or rejecting of the resignation, such as development and implementation of a plan to address and cure the issues underlying the failure to receive a majority vote.

Following the Board s determination, we will publicly disclose the decision and, as applicable, the reasons for accepting or rejecting the resignation. To the extent that the Board accepts one or more resignations, the Corporate Governance Committee may recommend to the Board, and the Board will then determine, whether to fill any vacancy.

Ability, Diversity and Independence of Directors

The Board believes that a nominee for director should be selected on the basis of the individual s ability, diversity of background and experience and soundness of judgment, from among candidates with an attained position of leadership in their field of endeavor. As noted above, a majority of the Board must consist of independent directors in accordance with our Principles and NYSE requirements.

The Board is guided by its consideration of how to best enhance its capability to oversee the affairs of the Company. It does not believe that adopting arbitrary or inflexible policies will achieve that purpose. Rather it looks to promote better governance through a more dynamic examination and understanding of its members abilities to meet evolving challenges. It values the mix of skills and experience, independence from management, fresh perspectives and seasoned knowledge that collectively help to guide the Company.

Director Qualifications and Availability

In addition, it is the Board s policy that a nominee recommended initially for election be able to serve at least five years, consistent with the Board s retirement policy. The Board believes that the ability of a director to serve for at least five years is a reasonable expectation in order for us to receive an appropriate benefit from the individual s abilities. This is especially so in light of the time invested by a director to become knowledgeable about our complex business operations. The Board believes that these age and service limitations provide it with a means for achieving a reasonable balance of veteran and new directors.

The Corporate Governance Committee also considers the amount of time that a person will likely have to devote to his or her duties as a director, including non-PSEG responsibilities as an executive officer, board member or trustee of business or charitable institutions and the contributions by directors to our ongoing business. The Corporate Governance Committee considers the qualifications of incumbent directors and potential new nominees, as well as the continuity of service and the benefit of new ideas and perspectives, before making recommendations to the Board for

election or re-election. The Board then selects nominees based on the Corporate Governance Committee s recommendation.

The Corporate Governance Committee does not believe it is appropriate to set absolute term limits on the length of a director s term. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and understanding of our history, policies and objectives. In selecting individuals for our Company, with its long investment horizon, the Corporate Governance Committee weighs the need for both director refreshment and institutional memory.

Prior to accepting an invitation to serve as a director of another public company, the CEO and any directors must submit a letter to the Corporate Governance Committee so as to allow it to review potential conflicts and time demands of the new directorship. Any director who undertakes or assumes a new principal occupation, position or responsibility from that which he or she held when he or she was elected to the Board must submit a letter to the Corporate Governance Committee volunteering to resign from the Board. The Board does not believe that in every instance a director who undertakes or assumes a new occupation, position or responsibility from that which he or she held when the director joined the Board should necessarily leave the Board. The Corporate Governance Committee reviews the relevant details of such director s new position and determines the continued appropriateness of Board membership under the circumstances.

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NOMINEES AND ELECTION

The Corporate Governance Committee and the Board believe that the experience gained through other directorships provides us with a breadth of valuable knowledge and insight. Exposure to other industries, management and issues gives a director a perspective not necessarily otherwise available to him or her from a more limited range of experience. The Corporate Governance Committee carefully monitors the attendance and participation of each director to assure that he or she demonstrates an appropriate level of commitment and effort in serving on our Board. In renominating the current directors, the Corporate Governance Committee and the Board determined that each director had successfully balanced the demands on his or her time and attention in meeting the fiduciary obligations to us.

Nominees and Nomination Process

The present terms of all ten directors, **Albert R. Gamper, Jr., William V. Hickey, Ralph Izzo, Shirley Ann Jackson, David Lilley, Thomas A. Renyi, Hak Cheol Shin, Richard J. Swift, Susan Tomasky** and **Alfred W. Zollar**, expire at the 2015 Annual Meeting. Each director has been re-nominated. Each will be presented for election to serve until the 2016 Annual Meeting, or until his or her respective successor is elected and qualified. All nominees were elected to their present terms by our stockholders.

The Corporate Governance Committee on occasion may pay a fee to an executive search firm to assist it in identifying and evaluating potential director nominees meeting our criteria, which are described further above. Any such firm s function would be to assist the Committee in identifying potential candidates for its consideration. During 2014, we did not engage a third-party firm to conduct a search for potential candidates.

The Corporate Governance Committee will consider stockholders recommendations for nominees for election to the Board. Such recommendations must be submitted in writing to M. Courtney McCormick, Secretary, Public Service Enterprise Group Incorporated, 80 Park Plaza, T4B, P.O. Box 1171, Newark, New Jersey 07101-1171. Nominations must be made in compliance with the procedures set forth in our By-Laws and accompanied by the written consent of any such person to serve if nominated and elected and by biographical material to permit evaluation of the individual recommended. Our By-Laws require that stockholder nominations must be submitted at least 90 days in advance of an Annual Meeting of Stockholders.

The Corporate Governance Committee utilizes the same criteria to evaluate all potential nominees, including those recommended by stockholders or from other sources.

We show below for each nominee:

- The period of service as a director;
- Age as of the date of the Annual Meeting;
- Present committee memberships;

Business experience during at least the last five years; and

Other directorships during the past five years.

We also discuss the specific experience, qualifications, attributes and skills that led to the conclusion that he or she should serve as one of our directors. Each nominee s beneficial ownership of Common Stock is shown under Security Ownership of Directors, Management and Certain Beneficial Owners. Compensation for service as a director is shown in the Director Compensation Table and accompanying narrative.

As discussed above, the Corporate Governance Committee and the Board recommend and nominate for election those individuals they deem qualified and capable of serving as directors pursuant to the criteria they have set. Each of the nominees this year meets these standards.

Committee Membership

Current committee assignments are presented in the following table. From time to time, Committee assignments and chairs are changed to best utilize the talents of our directors. The last such changes occurred in April 2014. Ongoing committee assignments for all directors are expected to be made at the organizational meeting following the 2015 Annual Meeting of Stockholders.

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NOMINEES AND ELECTION

	Audit	Corporate Governance	Executive	Finance	Fossil Generation Operations Oversight	Nuclear Generation Operations Oversight	Organization & Compensation
Albert R. Gamper, Jr. **Lead Director**	ü		ü	ü			
William V. Hickey				Chair	ü	ü	ü
Ralph Izzo			Chair				
Shirley Ann Jackson			ü	ü	Chair	Chair	ü
David Lilley	Chair			ü			ü
Thomas A. Renyi	ü	Chair					ü
Hak Cheol Shin	ü			ü	ü	ü	
Richard J. Swift		ü	ü		ü	ü	Chair
Susan Tomasky	ü	ü					
Alfred W. Zollar		ü			ü	ü	

During 2014, Albert R. Gamper, Jr., Ralph Izzo, Shirley Ann Jackson and Richard J. Swift also served on the Board of Directors of PSE&G. Mr. Izzo also serves on the Boards of Directors of Power, Energy Holdings and Services.

Director Retirement

The Board seeks to maintain an orderly transition for retirement and proper succession planning. Under the Board s retirement policy, set forth in our Principles, directors who have never been employees of the PSEG group of companies may not serve as directors beyond the Annual Meeting of Stockholders held in the calendar year following their seventy-second birthday. If however, the Corporate Governance Committee and the Board determine that there is good cause to extend any such director s Board service, he or she may be re-nominated following the age of seventy-two, but in no event beyond the age of seventy-five, and remain in service for the full term until the next Annual Meeting of Stockholders held in the calendar year following his or her seventy-fifth birthday.

Mr. Gamper attained age 72 in March 2014. As provided in the Principles, he is eligible to serve beyond the expiration of his term at the 2015 Annual Meeting upon the determination of the Corporate Governance Committee and the Board. The Corporate Governance Committee and the Board have determined that Mr. Gamper s experience, especially his contributions as Lead Director for the past four years, are of particular value to us at this time and warrant an extension of his service for another year. Accordingly, he has been re-nominated for election.

Directors who are former PSEG CEOs may not serve as directors beyond the Annual Meeting of Stockholders following termination of active employment with the PSEG group of companies, unless otherwise determined by the Board, and may not serve beyond their seventy-second birthday. Directors who are former employees, other than CEOs, may not serve as directors beyond the Annual Meeting of Stockholders following termination of active employment with the PSEG group of companies.

Stock Ownership

Our Principles require that directors own shares of our Common Stock (including any restricted stock, whether or not vested, any stock units under the Directors Equity Plan and any phantom stock under the Directors Deferred Compensation Plan) equal to four times the annual cash retainer (currently $85,000) within five years after election to the Board. All incumbent directors currently meet this requirement. Additional details can be found in the table under Security Ownership of Directors, Management and Certain Beneficial Owners below.

Board Composition and Individual Qualifications

The Board is comprised of individuals with a diverse mix of knowledge, expertise and backgrounds. We have business leaders from industries including banking, science and technology, energy, consumer products and manufacturing as well as those who have excelled in academia and public service. As a group, they complement one another with a desirable mix of competencies and skills necessary to oversee our businesses. Our Board members have dealt widely with the types of issues facing us, including achieving optimal operational and financial performance, managing for growth, meeting regulatory, environmental and safety requirements, overseeing risk management and corporate governance, maintaining an engaged and diverse workforce and adapting to rapidly evolving business conditions.

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NOMINEES AND ELECTION

The Corporate Governance Committee and the Board periodically review the skills and qualifications that they determine are necessary for the proper oversight of the Company by the directors in furtherance of their fiduciary duties. The Committee and the Board remain focused on ensuring that the individual and collective abilities of the directors continue to meet the governance needs of the Company. They are committed to nominating individuals who satisfy the applicable criteria for outstanding service to our Company and who together comprise the appropriate Board membership composition in light of evolving business demands. The Board evaluates the effectiveness of each director in contributing to the Board s work and the potential of each new nominee.

Biographical Information for Nominees for Election as Director

Shown below is the relevant business and biographical information for each of the individuals nominated for election to the Board.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES

ALBERT R. GAMPER, JR., age 73

Director since 2000

Experience

Lead Director since April 2011.

Director of PSE&G.

Chairman of the Board of CIT Group, Inc., Livingston, New Jersey, a commercial insurance company, from July 2004 until December 2004; Chairman of the Board and Chief Executive Officer of CIT Group, Inc. from September 2003 to July 2004; Chairman of the Board, President and Chief Executive Officer from June 2002 to September 2003; President and Chief Executive Officer from February 2002 to June 2002; Chairman of the Board, President and Chief Executive Officer from January 2000 to June 2001; President and Chief Executive Officer from December 1989 to December 1999. President and Chief Executive Officer of Tyco Capital Corporation from June 2001 to February 2002.

Trustee to the Fidelity Group of Funds.

Skills and Qualifications

Management/Finance/Risk Management Mr. Gamper acquired extensive management experience in financial services as Chairman of the Board, President and Chief Executive Officer of CIT Group, Inc. Moreover, in that role he had ultimate responsibility for financial matters and the overall operations of that company.

The Board values Mr. Gamper s background considering our capital structure, liquidity needs and need to assess and oversee credit and other risks. He brings perspective and

leadership to management and governance oversight.

WILLIAM V. HICKEY, age 70

Director since 2001

Experience

Chairman of the Board of Sealed Air Corporation, Elmwood Park, New Jersey, which manufactures food and specialty protective packaging materials and systems, from March 2013 until May 2013; Chairman of the Board and Chief Executive Officer from September 2012 to February 2013, President and Chief Executive officer from March 2000 to August 2012; President and Chief Operating Officer from December 1996 to February 2000.

Director of Sensient Technologies Corporation.

Skills and Qualifications

Manufacturing/Product Development/Consumer Products/ Accounting/Finance/Management/Technology Mr. Hickey has a strong industrial and commercial manufacturing background from his service as President and Chief Executive Officer at Sealed Air Corporation. He is also a Certified Public Accountant and, as CEO of Sealed Air Corporation, he had ultimate responsibility for financial matters and overall business performance.

Mr. Hickey s executive managerial experience with product innovation, development, production and marketing contributes to the Board s ability to oversee our Company and focus on operational excellence.

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NOMINEES AND ELECTION

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES

RALPH IZZO, age 57

Director since 2006

Experience

Chairman of the Board, President and Chief Executive Officer of PSEG since April 2007.

Chair of the Executive Committee.

Director of PSE&G, Power, Energy Holdings and Services.

President and Chief Operating Officer of PSEG from October 2006 to April 2007; President and Chief Operating Officer of PSE&G from October 2003 to October 2006.

Director of the Williams Companies, Inc.

Skills and Qualifications

Management/Strategic Planning/Finance/Industry Operations/Risk Management/Engineering/Technology/Scientific Research/Government During Dr. Izzo s tenure as our Chairman of the Board, President and CEO, he has developed broad experience in general management, strategic planning, finance and risk management, as well as a thorough understanding of our business operations and the challenges and opportunities of our industry.

Dr. Izzo s background as a research physicist is of much benefit to a company that deals with many technical and scientific matters. His prior service as an energy and policy analyst at the federal and state levels is a significant asset as we position ourselves as a

leader in the energy industry and public policy arena.

SHIRLEY ANN JACKSON, age 68

Director since 2001

Experience

Director of PSE&G.

President of Rensselaer Polytechnic Institute, Troy, New York, since July 1999.

Former director of PSEG from 1987 to 1995.

Chair, U.S. Nuclear Regulatory Commission (NRC) from July 1995 to July 1999.

Director of FedEx Corporation, IBM Corporation, Marathon Oil Corporation and Medtronic, Inc.

Former director of NYSE Euronext.

Skills and Qualifications

Management/Government/Science/Technology/Finance/Generating Plant Operations
Dr. Jackson is a distinguished scientist, who also brings an array of executive, governmental, scientific and academic experience from her years as Chair of the NRC and President of Rensselaer Polytechnic Institute. Her responsibilities as the head of a major university include financial matters.

We are a heavily regulated business which is very much affected by public policy and scientific developments, so Dr. Jackson s experience and continued involvement in energy policy, scientific research and development, technology and innovation, security and financial services industry oversight is highly valued by the Board. Her background as a nuclear physicist and former NRC Chair is important as we have extensive nuclear operations.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES

DAVID LILLEY, age 68

Director since 2009

Experience

Chairman of the Board, President and Chief Executive Officer of Cytec Industries, Inc., Woodland Park, New Jersey, a global specialty chemicals and materials company from January 1999 until December 2008; President and Chief Executive Officer from May 1998 to January 1999; President and Chief Operating Officer from January 1997 to May 1998.

Director of Rockwell Collins, Inc. and Tesoro Corporation.

Former director of Arch Chemicals, Inc.

Skills and Qualifications

Product Development/Manufacturing/Sales/Finance/Management Mr. Lilley has experience in product development, manufacturing and sales, gained from his years as Chairman of the Board, President and Chief Executive Officer at Cytec Industries. In this role he also had ultimate responsibility for financial matters and overall business performance.

Mr. Lilley s leadership is very important to us in light of the Board s oversight of our operations and adherence to safety and environmental requirements.

THOMAS A. RENYI, age 69

Director since 2003

Experience

Executive Chairman of The Bank of New York Mellon Corporation, New York, New York, a provider of banking and other financial services to corporations and individuals, from July 2007 until August 2008.

Chairman of the Board and Chief Executive Officer of The Bank of New York Company, Inc. and The Bank of New York from February 1998 to July 2007.

Director of Hartford Financial Services Group, Inc. and Royal Bank of Canada.

Former director of RiskMetrics Group.

Skills and Qualifications

Finance/Management/Customer Satisfaction/Risk Management Mr. Renyi had a long career with The Bank of New York Mellon and its predecessor, The Bank of New York, where he served as Chairman of the Board and Chief Executive Officer. In that capacity, he had substantial responsibility for the successful implementation of two major mergers. As a result, he brings to us a deep knowledge of finance, as well as significant experience in oversight of the operations of a major enterprise and meeting customer expectations.

The Board views Mr. Renyi s background as highly valuable in the oversight of risk management and our continued focus on financial strength, disciplined investment and operational excellence.

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NOMINEES AND ELECTION

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES

HAK CHEOL (H.C.) SHIN, age 57

Director since 2008

Experience

Executive Vice President International Operations, of 3M Company, St. Paul, Minnesota, a diversified technology company, with product lines in consumer and office, healthcare electronics, industrial, graphics, transportation, safety and telecommunications markets, since May 2011.

Executive Vice President-Industrial and Transportation Business of 3M Company from January 2006 to May 2011; Executive Vice President-Industrial Business from June 2005 to January 2006; Division Vice President-Industrial Adhesives and Tapes Division from July 2003 to June 2005; Division Vice President-Electronics Markets Materials Division from October 2002 to June 2003; Division Vice President-Superabrasives and Microfinishing Systems Division from March 2001 to October 2002.

Skills and Qualifications

Technology/Manufacturing/Consumer Products/Customer Satisfaction/Management Mr. Shin brings diversified experience in the areas of technology, manufacturing, consumer products and customer satisfaction acquired through various senior positions at 3M Company, a company noted for innovation and operational excellence.

Mr. Shin s skills are important as we seek operational excellence and invest in renewable energy technology, while satisfying customer expectations and maintaining reliability.

RICHARD J. SWIFT, age 70

Director since 1994

Experience

Lead Director from February 2010 until April 2011.

Presiding Director from June 2007 until February 2010.

Director of PSE&G.

Former Chairman of the Financial Accounting Standards Advisory Council from January 2002 to December 2006.

Chairman of the Board, President and Chief Executive Officer of Foster Wheeler, Ltd., Clinton, New Jersey, which provides design, engineering, construction, manufacturing, management, plant operations and environmental services, from April 1994 until October 2001.

Director of CVS Caremark Corporation, Hubbell Incorporated, Ingersoll-Rand Limited and Kaman Corporation.

Skills and Qualifications

Management/Engineering/Construction/Generating Plant Operations/Finance/Manufacturing/ Risk Management Mr. Swift is a licensed professional engineer who brings a strong managerial background in engineering, construction and generating plant operations as CEO at Foster Wheeler, Ltd. Mr. Swift also served as Chairman of the Financial Accounting Standards Advisory Council and brings us finance and risk management experience.

The Board believes that we benefit significantly from Mr. Swift s experience as we are heavily engaged in similar endeavors in our generation and utility businesses. While CEO at Foster Wheeler, he had ultimate responsibility for financial matters.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES

SUSAN TOMASKY, age 62

Director since 2012

Experience

President-AEP Transmission of American Electric Power Corporation, Columbus, Ohio, an electric utility holding company with generation, transmission and distribution businesses, from May 2008 to July 2011.

Executive Vice President Shared Services of American Electric Power Corporation from September 2006 to May 2008; Executive Vice President and Chief Financial Officer from September 2001 to September 2006; Executive Vice President and General Counsel and Corporate Secretary from July 1998 to September 2001.

Former General Counsel, U.S. Federal Energy Regulatory Commission (FERC), from March 1993 to June 1997.

Director of Tesoro Corporation and Summit Midstream Partners, LP.

Skills and Qualifications

Industry Operations/Management/Finance/Legal/Government/Risk Management
Ms. Tomasky has broad electric industry executive experience having served in key leadership positions involving transmission operations, services, finance, law and governance at one of the largest utility holding companies in the United States. Her service at the FERC is highly valuable to us as several of our businesses are subject to that agency s regulation.

The Board views Ms. Tomasky s background as providing a valuable resource and perspective on utility management, finance, law, risk management and governmental regulation.

ALFRED W. ZOLLAR, age 60

Director since 2012

Experience

Executive Partner, Siris Capital Group, LLC, a private equity firm, since February 2014; General Manager Tivoli Software division of International Business Machines Corporation (IBM), Armonk, New York, a worldwide information technology and consulting company, from July 2004 to January 2011; General Manager eServer iSeries from January 2003 to July 2004; President and Chief Executive Officer Lotus Software division from January 2000 to 2003; Division General Manager Network Computer Software division from 1996 to 2000.

Director of Chubb Corporation.

Skills and Qualifications

Management/Technology/Product Development/Customer Satisfaction Mr. Zollar brings a wealth of knowledge from his executive leadership, product development and information technology experience. He has served in various leadership roles, including senior management positions, in every IBM software group division.

The Board believes that Mr. Zollar s executive and managerial experience in business development and technology greatly contributes to our oversight of operational excellence, customer satisfaction and cybersecurity.

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SECURITY OWNERSHIP

SECURITY OWNERSHIP OF DIRECTORS, MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of February 20, 2015, beneficial ownership of our Common Stock by the directors, nominees and currently serving executive officers named in the 2014 Summary Compensation Table. None of these amounts exceeds 1% of our Common Stock outstanding. The table also sets forth, as of such date, beneficial ownership in shares by any person or group known to us to be the beneficial owner of more than five percent of our Common Stock. According to the schedule 13G filed by the respective owner with the SEC, these securities were acquired and are held in the ordinary course of business and not for the purpose of changing or influencing the control of the Company.

Name	Owned Shares (#)[1]	Restricted Stock (#)[2]	Stock Units/ Restricted Stock Units (#)[3]	Phantom Shares (#)[4]	Deferred Equity Shares (#)[5]	Stock Options (#)[6]	Amount of Beneficial Ownership of Common Stock (#)	Percent of Class
Directors:								
Albert R. Gamper, Jr.	9,079	9,600	27,786	25,500	-	-	71,965	<1%
William V. Hickey	6,332	9,600	27,786	20,092	-	-	63,810	<1%
Shirley Ann Jackson	5,604	9,600	27,786	-	-	-	42,990	<1%
David Lilley	-	-	21,646	19,868	-	-	41,514	<1%
Thomas A. Renyi	-	8,800	27,786	41,461	-	-	78,047	<1%
Hak Cheol Shin	-	-	24,663	-	-	-	24,663	<1%
Richard J. Swift	304	14,400	27,786	49,571	-	-	92,061	<1%
Susan Tomasky	-	-	10,196	-	-	-	10,196	<1%
Alfred W. Zollar	-	-	10,020	-	-	-	10,020	<1%
NEOs:								
Caroline Dorsa	83,651	-	47,546	-	-	127,400	258,597	<1%
Ralph Izzo	473,257	-	230,723	-	280,125	1,274,100	2,258,205	<1%
Ralph A. LaRossa	59,846	-	73,471	-	45,260	215,400	393,977	<1%
William Levis	50,474	-	80,615	-	-	115,500	246,589	<1%
Tamara L. Linde	22,648	-	12,662	-	-	-	35,310	<1%
All Directors, NEOs and Executive Officers of the Company as a Group (16 Persons):	750,752	52,000	670,117	156,492	325,385	1,732,400	3,687,146	<1%

Certain Beneficial Owners:								
Blackrock, Inc. [7]	-	-	-	-	-	-	35,094,885	6.9%
Vanguard Group, Inc. [8]	-	-	-	-	-	-	28,989,266	5.7%
State Street Corporation [9]	-	-	-	-	-	-	25,873,909	5.1%

(1) Includes all shares, if any, held directly, in brokerage accounts, under the Thrift and Tax-Deferred Savings Plan (401(k) Plan), Enterprise Direct, ESPP, shares owned jointly by or with a spouse and shares held in a trust or a custodial account. Beneficial ownership is disclaimed as to 360 shares by an executive officer.

(2) Includes restricted stock granted to directors under the former Stock Plan for Outside Directors.

(3) Includes restricted stock units granted to executive officers under the LTIP and stock units granted to directors under the Equity Compensation Plan for Outside Directors (Directors Equity Plan), with no voting rights.

(4) Includes phantom shares accrued under the Directors Deferred Compensation Plan for those individuals who have elected to have the earnings on their deferred payments calculated based upon the performance of our Common Stock, with no voting rights.

(5) Includes shares deferred under the Equity Deferral Plan, with no voting rights.

(6) Stock options granted under the LTIP, all of which are exercisable currently. Unexercised stock options have no voting rights.

(7) As reported on Schedule 13G/A filed February 9, 2015. Address: 55 East 52nd Street, NY, NY 10022.

(8) As reported on Schedule 13G/A filed on February 10, 2015. Address: 100 Vanguard Blvd., Malvern, PA 19355.

(9) As reported on Schedule 13G filed on February 11, 2015. Address: One Lincoln Street, Boston, MA 02111.

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Section 16(a) Beneficial Ownership Reporting Compliance

During 2015, none of our directors or executive officers was late in filing a Form 3, 4 or 5 in accordance with the requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended (Exchange Act), with regard to transactions involving our Common Stock.

DIRECTOR COMPENSATION

2014 DIRECTOR COMPENSATION TABLE

	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(3)	Total ($)
Albert R. Gamper, Jr.	128,750	120,004	-	-	-	150	248,904
William V. Hickey	114,375	120,004	-	-	-	150	234,529
Shirley Ann Jackson	120,000	120,004	-	-	-	-	240,004
David Lilley	123,750	120,004	-	-	-	150	243,904
Thomas A. Renyi	112,500	120,004		-	-	-	232,504
Hak Cheol Shin	113,750	120,004	-	-	-	-	233,754
Richard J. Swift	128,125	120,004	-	-	-	5,150	253,279
Susan Tomasky	100,000	120,004	-	-	-	-	220,004
Alfred W. Zollar	101,875	120,004	-	-	-	-	221,879

(1) Includes all meeting fees, chair/committee retainer fees and the annual retainer as described below. Includes the following amounts deferred pursuant to the Directors Deferred Compensation Plan, described below:

Gamper ($)	Hickey ($)	Jackson ($)	Lilley ($)	Renyi ($)	Shin ($)	Swift ($)	Tomasky ($)	Zollar ($)
-	114,375	120,000	123,750	112,500	-	-	-	-

(2) For each the grant date fair value of the award on May 1, 2014, equated to 2,966 stock units, rounded up to the nearest whole share, based on the then current market price of the Common Stock of $40.46. In addition, each individual s account is credited with additional stock units on the quarterly dividend dates at the then current dividend rate.

The following table shows outstanding stock units granted under the Directors Equity Plan and restricted stock granted under the prior Stock Plan for Outside Directors, as of December 31, 2014:

	Gamper (#)	Hickey (#)	Jackson (#)	Lilley (#)	Renyi (#)	Shin (#)	Swift (#)	Tomasky (#)	Zollar (#)
Stock Units	27,786	27,786	27,786	21,646	27,786	24,663	27,786	10,196	10,020
Restricted Stock	9,600	9,600	9,600	-	8,800	-	14,400	-	-

(3) Consists of charitable contributions made by us on behalf of each individual and under our educational matching gift program.

Director Fees and Plans

A director who is an employee of a PSEG Company receives no additional compensation for services as a director. Mr. Izzo receives no compensation as a director. His compensation as an employee is shown in this Proxy Statement in the executive compensation tables and CD&A.

Directors are compensated in accordance with the schedule below. All amounts are paid in cash, except the equity grant, which is paid in Common Stock units equal to the amount shown. All payments to the Chairs and Committee members, as indicated, are per assignment and incremental to the annual retainer and equity grant.

In December 2013, the Board s Compensation Consultant, CAP, provided an analysis of director compensation using the executive compensation peer group. Based on its recommendation, the Corporate Governance Committee recommended and the Board approved changes effective May 1, 2014, as set forth in the table below:

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DIRECTOR COMPENSATION

	Fee Schedule 1/1/2014-4/30/2014 ($)	Fee Schedule 5/1/2014-12/31/2014 ($)
Annual Retainer	70,000	85,000
Annual Equity Grant	110,000	120,000
Lead Director	25,000	30,000
Audit Committee Chair	25,000	30,000
O&CC Chair	15,000	30,000
Other Committee Chair	12,500	12,500
Audit Committee Member	10,000	12,500
Other Committee Member	5,000	7,500

Directors Equity Plan

The Directors Equity Plan is a deferred compensation plan and, under its terms, each outside director is granted an award of stock units each May 1st (in an amount determined from time-to-time by the Board) which is recorded in a bookkeeping account in her/his name and accrues credits equivalent to the dividends on shares of our Common Stock. If a director fails to remain a member of the Board (other than on account of disability or death) until the earlier of the succeeding April 30th or the next Annual Meeting of Stockholders, the award for that year will be prorated to reflect actual service. Distributions under the Directors Equity Plan are made in shares of our Common Stock after the director terminates service on the Board in accordance with distribution elections made by her/him, which may be either in a lump-sum payment or, with respect to grants made prior to 2012, in annual payments over a period of up to ten years.

Under the Directors Equity Plan, with respect to grants made beginning in 2012, directors may elect to commence distribution of a particular year s deferrals either upon termination of service or after a specified number of years thereafter. A director may elect to receive distribution of such deferrals in the form of a lump-sum payment, or annual

installments over a period of three to fifteen years. Distribution elections must be made prior to the date that services giving rise to the awards are performed.

Shares granted under the prior Stock Plan for Outside Directors are subject to forfeiture if a director leaves service prior to age 72, except after a change-in-control or if waived by non-participating directors.

Directors Deferred Compensation Plan

Under the Directors Deferred Compensation Plan, directors who are not employees may elect to defer any portion of their cash retainer by making appropriate elections in the calendar year prior to the year in which the services giving rise to such compensation being deferred is rendered. At the same time he/she elects to defer such compensation, the participant must make an election as to the timing and the form of distribution from his/her Directors Deferred Compensation Plan account. Distributions are made in cash or, at the election of the participant in the case of amounts credited with earnings by reference to the performance of our Common Stock, in shares of Common Stock.

For amounts deferred prior to 2012, distributions may commence (a) on the thirtieth day after the date he/she terminates service as a director or, in the alternative, (b) on January 15th of any calendar year following termination of service elected by him/her, but in any event no later than the later of (i) January of the year following the year of his/her 71st birthday or (ii) January following termination of service. Participants may elect to receive the distribution of their Directors Deferred Compensation account in the form of one lump-sum payment, or annual distributions over a period selected by the participant, up to 10 years.

With respect to compensation deferred beginning in 2012, directors may elect to commence distribution of a particular year s deferrals, either (a) within 30 days of termination of service, or (b) a specified number of years following termination of service. They may elect to receive distribution of such deferrals in the form of a lump-sum payment, or annual installments over a period of three to fifteen years.

Participants may make changes of distribution elections on a prospective basis. Participants may also make changes of distribution elections with respect to prior deferred compensation as long as any such new distribution election is made at least one year prior to the date that the commencement of the distribution would otherwise have occurred and the revised commencement date is at least five years later than the date that the commencement of the distribution would otherwise have occurred.

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Investments

Participants may choose to have amounts deferred under the Directors Deferred Compensation Plan credited with earnings based on (i) the performance of one or more of pre-mixed lifestyle investment portfolio funds, (ii) at the rate of Prime plus 1/2%, capped at 120% of the applicable federal long-term rate, or (iii) by reference to the performance of our Common Stock, in such percentages designated by the participant. These are the same investment options offered under our 401(k) plan to employees (except the Schwab Personal Choice Retirement Account). A participant who fails to provide a designation will accrue earnings on his/her account at the rate of Prime plus 1/2%, capped at 120% of the applicable federal long-term rate. A participant may change fund selection daily, except for the Common Stock Fund, for which selection may be made only prior to deferral.

The one-year rates of return as of December 31, 2014 for the offered funds as computed by the recordkeeper for the Directors Deferred Compensation Plan were as follows:

Rates of Return			
Pre-Mixed Portfolios		**Target Retirement Funds**	
Conservative Portfolio	4.72%	Target Retirement Income	5.62%
Moderate Portfolio	4.84%	Target Retirement 2010	5.91%
Aggressive Portfolio	5.58%	Target Retirement 2015	6.57%
Funds		Target Retirement 2020	7.14%
Stable Value	1.82%	Target Retirement 2025	7.16%
Diversified Bond	5.76%	Target Retirement 2030	7.16%
Fidelity Intermediate Bond[(1)]	0.92%	Target Retirement 2035	7.16%
Large Company Stock Index	13.61%	Target Retirement 2040	7.20%
Mid-Cap Index	13.73%	Target Retirement 2045	7.16%
Institutional Developed Markets Index	-5.65%	Target Retirement 2050	7.16%
Small Cap Index	7.48%	Target Retirement 2055	7.20%
Enterprise Common Stock	36.73%	Target Retirement 2060	7.16%
Other			
Prime Plus 1/2%	3.64%		

(1) Partial year rate of return from date added to choices available to participants.

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EXECUTIVE COMPENSATION

Proposal 2

ADVISORY VOTE ON THE APPROVAL OF EXECUTIVE COMPENSATION

Say-On-Pay

As required by Section 14A of the Exchange Act, we are providing you with an opportunity to cast an advisory vote on our executive compensation programs as described in this Proxy Statement. This is commonly referred to as say-on-pay. We plan to do this each year, in accordance with the applicable rules of the SEC.

This vote is advisory and, thus, it is non-binding on us and the Board. However, management, the O&CC and the Board intend to carefully review the voting results and take them into consideration when making future decisions regarding our executive compensation. In accordance with applicable SEC requirements, we will disclose to you in our future proxy statements how our compensation policies and decisions have taken into account the results of the most recent stockholder advisory vote on our executive compensation.

95%

of stockholders voted in favor of say-on-pay proposal

At our 2014 annual meeting, stockholders showed significant support for our executive compensation program, with approximately 95% voting in favor of our say-on-pay proposal.

We strongly encourage investor feedback and will continue to review and make changes to our executive compensation program in recognition of investor concerns, evolving trends and best practices.

We were gratified by this say-on-pay result and believe this demonstrated strong support for our executive compensation policies and practices and our approach to aligning pay and performance. In furtherance of our pay for performance philosophy, we continuously review and make changes to our executive compensation program in recognition of investor concerns, evolving trends and best practices. We annually review and adjust, as necessary, the compensation of our executives in light of their performance, their role in our management, our business results and our financial condition. Based on this review, we made individual determinations about the compensation of our CEO and the other NEOs, as discussed below. We did not make any significant changes to our program for 2014.

We have disclosed in this Proxy Statement an overview of the philosophy and elements of our executive compensation program, as well as the details of the individual compensation paid or awarded to each of our NEOs and

our process for making those determinations. We have provided below the Report of our O&CC, the CD&A and the compensation tables. In our CD&A, we have explained the reasons supporting our executive pay decisions as reported in the various tables and accompanying narrative included in this Proxy Statement.

We believe our executive compensation is reasonable and appropriate, reflecting market conditions. We are asking you to indicate your support of our executive compensation program as described in this Proxy Statement. This vote is not intended to address any specific item of compensation or any specific individual. Rather, it is an indication of your agreement with the overall philosophy, policies, practices and compensation of our executive officers as described in this Proxy Statement. Accordingly, as recommended by the Board, we ask for you to vote in favor of the following resolution:

Resolved, that the stockholders hereby approve, on an advisory basis, the compensation of the NEOs, as disclosed in the Company s Proxy Statement for the 2015 Annual Meeting of Stockholders pursuant to the applicable rules of the SEC, including the CD&A, compensation tables and narrative discussion.

The Board of Directors recommends a vote FOR the resolution in this proposal.

COMPENSATION COMMITTEE REPORT

The Organization and Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management and with Compensation Advisory Partners LLC, the Committee s compensation consultant. Based on such review and discussions, the Organization and Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Members of the Organization and Compensation Committee:

Richard J. Swift, Chair
William V. Hickey
Shirley Ann Jackson
David Lilley
Thomas A. Renyi

February 17, 2015

COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

This CD&A explains our executive compensation philosophy, the material elements of our executive compensation program and the decisions made regarding the compensation of our CEO and the NEOs in this Proxy Statement. We have provided an Executive Summary consisting of an overview of the key aspects of our program and recent actions followed by a more detailed analysis and specific information concerning compensation, including:

- **Compensation Philosophy;**
- **Elements of Executive Compensation; and**
- **Executive Compensation Governance Features and Controls.**

We provide an explanation of the data reported in the tables in this Proxy Statement, with respect to pay for performance, say-on-pay, compensation risk, the components of our compensation, calculations as to SMICP and LTIP incentive payouts and certain compensation policies.

In the CD&A Executive Summary we specifically address those areas which we believe are of utmost interest to our stockholders. A complete reading of the CD&A provides a more thorough description of our compensation program and explanation of our recent activities:

- The mix of salary, cash incentive compensation and equity incentive compensation;
- The weighting of performance measures used to determine compensation;
- The criteria used for target pay positioning;
- The reasons for selecting particular companies as peers for benchmarking compensation;
- The manner in which equity awards are determined; and
- The rationale for severance and change-in-control arrangements.

We have designed this CD&A to be forthcoming and transparent in demonstrating that our executive compensation program is based on well-established principles thoughtfully carried out under the oversight of the O&CC for the long-term benefit of our stockholders.

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CD&A EXECUTIVE SUMMARY

CD&A Executive Summary

Executive compensation is governed under the direction and authority of the O&CC. The O&CC is made up of directors who are independent under NYSE rules and our requirements for independent directors. The O&CC receives advice from its independent compensation consultant, CAP, which provides only compensation consulting services to the Board and not to management.

Executive Compensation Philosophy - Pay Mix and Peer Group

Our executive compensation program is designed to closely link pay and performance and align the interests of our executives with stockholders. We have structured our program to tie executive compensation to the successful execution of our strategic plans, meeting our financial and operational goals and delivery of strong returns while balancing the concerns of our multiple stakeholders. This translates into higher compensation in years of strong performance and stockholder returns and lower compensation when performance is not as strong. We provide a peer-competitive compensation package to attract and retain exceptional executive talent needed for long-term success, with incentives for our executives to achieve outstanding individual performance and business results. Our senior management team, headed by our NEOs, continues to provide strategic and management leadership as we focus on operational excellence, financial strength and disciplined investment.

The O&CC annually reviews and evaluates the philosophy, objectives, design and effectiveness of our compensation program, including the performance of the NEOs. The O&CC maintains the flexibility to make decisions about the program and actual compensation levels and awards based on achievement of our business objectives and relevant circumstances affecting our Company. In addition to the established performance measures, these may include economic, market and competitive conditions, regulatory and legal requirements, internal pay equity considerations and peer group best practices. The O&CC and the entire Board seek to assure alignment of pay with performance in order to create value without encouraging excessive risk taking. Our directors are committed to acting in the best interest of stockholders as responsible stewards overseeing our executive compensation program.

Our compensation consists primarily of the following components:

Base Salary: We pay a base salary which is determined based on position responsibilities, individual experience, performance, internal equity and the competitive market for the position. This is reviewed annually and adjusted when appropriate.

Annual Cash Incentive: We provide an opportunity for an annual cash incentive through our SMICP with actual payment determined by the achievement of key financial and operating goals (at the individual, business unit and PSEG level) using multiple performance measures, with a strong emphasis on EPS and with the O&CC exercising overall judgment. Individual payments are generally capped at 150% of target, with the potential for up to 200% in circumstances of exceptional performance.

Equity-Based Incentive Awards: Equity-based awards are provided under our LTIP, consisting of PSUs (60%), as well as RSUs (40%). Payout of PSUs, if any, is dependent on achievement of long-range financial targets measured

by ROIC as compared to both our three-year plan and relative to peers and the market performance of our Common Stock with reference to TSR relative to our peers. LTIP PSU payouts may be as low as zero and are capped at 200% of target. The value of RSUs, which cliff vest after three years, is dependent on the market price of our Common Stock.

Retirement and Post-Employment Benefits: We provide benefits that are comparable to those of companies with whom we compete for executive talent.

We benchmark executive compensation, including that of the NEOs, to a peer group of companies in our industry. To most effectively evaluate executive compensation, we believe that an analysis of the pay mix , or Total Direct Compensation (base salary plus target annual incentive and target long-term incentive) is a better measure for evaluating executive compensation as opposed to focusing on each of the elements individually. We target Total Direct Compensation at the median of the industry peer group within a range that recognizes differences in roles, performance, job scope, tenure and volatility of market data from year to year:

We consider a range of +/-20% in relation to a comparable position to be within the competitive benchmark median;

In determining the mix of the elements of Total Direct Compensation, we exercise judgment, using the competitive analysis as a general guideline;

The overwhelming amount of our CEO s and NEOs compensation is performance-based and tied to stockholders interests rather than to base salary; and

For 2014, the target percentage of incentive compensation, both annual and long-term, constituted 86% of targeted Total Direct Compensation for our CEO and 70% for our other NEOs as a group.

Executive Compensation Practices

The table below highlights our executive compensation practices which remain consistent with our compensation philosophy. The left column outlines the practices we believe are conducive to encouraging sound performance by our senior executives and the right column describes those practices that we have chosen not to implement because we do not believe they further our stockholders long-term interests.

2014 PSEG Performance Highlights

Our long-range strategy, with its emphasis on business fundamentals, helped to drive performance. Earnings for 2014 were improved compared to the prior year and above our targeted range. This was due primarily to higher transmission revenue at PSE&G, Power s access to and management of natural gas supplies as well as lower costs primarily related to pension and post-employment benefits. These factors were partially offset by lower volumes of electricity sold at lower average pricing, lower capacity prices and higher generation cost at Power. The price of our Common Stock was significantly higher at year-end compared to the prior year. Financial highlights are included in the Executive Summary to this Proxy Statement on page 3 above. You can find a more comprehensive discussion of our 2014 business and financial performance in our Form 10-K.

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CD&A EXECUTIVE SUMMARY

Pay for Performance

We focus on operational excellence, financial strength and disciplined investment to achieve growth while managing risk. Our strategy has been to emphasize utility investment, mitigate merchant generation risk and operate in a cost-efficient manner. We have aligned our compensation structure with the performance results we expect our executives to attain in carrying out this strategy. We show below a chart comparing the relative contributions to earnings of PSE&G and Power over the past five years, together with the percentage increase of capital expenditures (CapEx) at PSE&G compared to total investment in our Company. Also shown is the comparison of Compound Annual Growth Rate (CAGR) at PSE&G and Power over the five-year period. We believe that this graph demonstrates the value to stockholders of our business strategy and the success we have achieved under our NEOs leadership of the Company. This impact on our earnings is reflected in the realized pay of our NEOs, since our executive compensation program links incentive payouts to earnings measures over multiple time frames.

The analytical judgment and operational and managerial abilities that we expect of our senior executives are critical factors in positioning us for the future. Their performance in improving our operating efficiencies, actively influencing legislative and regulatory policies and adjusting our business mix by shifting investment to best take advantage of emerging opportunities for growth, particularly in connection with utility rate-regulated returns, have led to the accomplishments noted above. While these activities are not easily measured over the short-term by reference solely to current EPS and stock price in comparison to the levels in the recent past, the ability of our management team to address these challenges successfully are vital skills on which we place significant value in setting total compensation for our NEOs. We believe that our performance-based compensation programs have and will continue to deliver the appropriate compensation based on our results relative to both our business plan and our peers, helping us manage through an evolving business environment. As a result of the continued focus on operational excellence, financial strength and disciplined investment, the O&CC believes that our management team has effectively responded to challenging conditions.

Say-On-Pay, Stockholder Engagement and Transparent Disclosure

We provide our stockholders with an annual opportunity to cast an advisory say-on-pay vote. We believe that this voting opportunity can provide valuable insights into our stockholders views on our compensation programs.

At the 2014 Annual Meeting, our stockholders voted approximately 95% in favor of our say-on-pay proposal, demonstrating their concurrence that our programs reflect our strong pay for performance philosophy.

We have a long-standing practice of engaging in constructive dialogue with our stockholders on various matters of interest to them. We do this by meeting periodically with our major stockholders and groups of investors as well as by regular written communications. These interactions help us to understand your needs and concerns and provide us with valuable insights. In recent years, we have enhanced our efforts with regard to matters of executive compensation and corporate governance to keep pace with evolving investor priorities and expectations. The O&CC considered the 2014 say-on-pay vote result, investor input and current market practices as it evaluated whether any further changes to our executive compensation program were warranted.

We strive to be clear and transparent in the information we provide to investors in our Proxy Statement, Form 10-K and other reports filed with the SEC and in our investor communications. We believe our executive compensation disclosure addresses the issues considered most important to, and provides the useful information desired by, our stockholders, as evidenced by the feedback we receive at our meetings throughout the year. We always welcome your comments and suggestions and will continue to consider the outcome of the say-on-pay vote when making future compensation decisions regarding our NEOs.

Key O&CC Actions

The O&CC monitors trends and developments in the market, with the assistance of CAP, as they relate to executive compensation. The O&CC uses this information as an input as it makes decisions on executive compensation throughout the year. In 2014, the O&CC considered recommendations from CAP and management with regard to compensation design and effectiveness and reviewed competitive practices within our peer group. Based on the reviews and analyses undertaken by the O&CC, we did not make any significant changes to our programs with exception of incorporating relative ROIC into our PSU measure as further detailed below. The O&CC considered the

strong stockholder reinforcement of our compensation philosophy and program in determining to continue with our consistent results-oriented pay for performance approach. For 2014, the O&CC took the following actions related to executive compensation:

- Analyzed pay for performance by comparing our recent financial results with the compensation of our CEO and NEOs and found them to be appropriately aligned;
- Reviewed our total share usage and burn rate for the LTIP relative to the peer panel and found these levels relatively low compared to peers;
- Approved payouts under the SMICP and LTIP based on its assessment of CEO, NEOs and Company performance relative to pre-established goals for 2014 measured substantially on EPS, ROIC and relative TSR;
- Incorporated relative ROIC vs. our peers into the PSU measure under the LTIP;
- Approved incentive compensation awards having goals with a significant degree of difficulty;
- Approved salary increases for select NEOs, to reflect performance and achieve desired positioning vs. the market;
- Modified the peer group effective for 2014 to better align with our size and business mix;
- Determined that our compensation programs do not create a potential incentive for individuals to take excessive risks.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy

Pay for Performance

We believe it is important to link pay with performance and long-term stockholder value. We utilize compensation to further align the interests of our executives with those of our stockholders as well as other stakeholders. However, we believe that it is crucial to our stockholders long-term interests that we not measure performance too narrowly on merely a single year s results. Our compensation programs are designed to reward for performance over varying time horizons with our incentives linked to successful implementation of our corporate strategic objectives. Our SMICP focuses on financial and operating performance over a one-year period while our LTIP is focused on multi-year performance. Similarly, the goals of individual NEOs, including our CEO, place a high value on strategic initiatives, long-range planning and operational excellence which drive value and ensure we meet our responsibilities as a public utility. While the impact of this approach may not necessarily be seen in any single year, over time the actual value of compensation, especially equity grants, reflect our Company s performance and the O&CC reviews this alignment each year.

Our ability to effectively compete and reliably serve our customers, while adjusting to evolving industry and market factors is to a great degree dependent on our ability to appropriately attract, retain and reward exceptional talent, including our senior executives. When we establish performance targets, we consider internal and external factors and set stretch goals to reflect an appropriate degree of difficulty. Our incentive compensation payouts are determined based on measures that align CEO and NEO compensation with stockholder interests, as EPS, TSR and ROIC are used in calculating the amounts. Although these are important components for evaluating pay for performance, we do not believe it is particularly meaningful to merely compare EPS or Common Stock price at year-end with CEO and NEO reported compensation. For example, a meaningful pay for performance analysis entails more than a mere comparison of year-end quantitative measures such as TSR to compensation as reported. Among other things, the reported compensation, in particular the equity compensation shown in the tables in the Proxy Statement is based on an accounting valuation. These could differ significantly from what is ultimately earned by the executives depending on actual results of the performance measures and the value of equity awards at the time they are earned, if at all. The O&CC considers these factors when it assesses the pay for performance relationship.

If you would like additional information about our 2014 performance, including our financial statements and a more complete description of our business, please see our Form 10-K.

Peer Comparison and Benchmarking

As part of our pay for performance review during 2014, the O&CC considered relative financial performance data comparing us to those companies in our peer group for whom data was available, as discussed further below. With the assistance of CAP, we analyzed key performance metrics and compensation for 2013, the most recent year for which data was available. Included in the metrics were operating income margin, EPS growth, return on capital and TSR. The total cash compensation included base salary and SMICP and the total direct compensation included those two items plus the grant date fair value of LTIP awards, all of which are reported in our 2014 Summary Compensation Table. These performance metrics were broader than the measures we use in determining award payouts under the SMICP and LTIP. We believe they provide a more expansive view of our relative performance.

Viewing performance in this broad context, we believe the total compensation paid to senior executives and as structured for future payouts has achieved the desired results. In general, our delivered performance in 2014, relative to the degree of difficulty, was aligned with our pre-set goals and our business plan. We believe that our financial results reflect the current industry and Company circumstances as well as the continued focus of our CEO and NEOs on strategic responses and operational efficiencies to optimize earnings and returns while positioning us for continued success. In evaluating the compensation of the NEOs and in particular the CEO, we assessed the amount relative to the performance delivered and continue to conclude the two are aligned.

How We Chose Peers

Attracting and retaining top talent requires paying competitive compensation. We evaluate and set executive compensation to be competitive within an identified peer group which was developed to reflect similarly-sized energy companies with comparable businesses. We believe that these companies appropriately reflect the landscape of our industry and the market in which we compete for talent. We have included regulated utilities, independent power producers, and merchant generators and combined holding companies such as us. We have attempted to include a broad enough group to provide diversity for balanced comparison while selecting only those we think are sufficiently similar to provide a meaningful benchmark.

We consider Base Salary, Total Cash Compensation (base salary plus target annual incentive) and Total Direct Compensation (base salary plus target annual incentive plus target long-term incentive) as the elements of compensation within the peer group for purposes of benchmarking and assessing the market from which we draw executive talent as well as with whom we compete for investor capital. Each year, we re-evaluate the peer group to assess its continuing appropriateness. Effective for 2014, we added NiSource Inc., Northeast Utilities (now Eversource Energy), NRG Energy Inc. and Pepco Holdings Inc., which more closely aligns us to the peer median in revenue, consistent with our compensation philosophy of targeting the median.

Company Name	2013 Revenue *($Millions)*	2013 Net Income *($Millions)*	Market Cap at 12/31/13 *($Millions)*
Ameren Corporation	$5,625	$289	$8,774
American Electric Power Co., Inc.	$15,357	$1,480	$22,776
Consolidated Edison, Inc.	$12,354	$1,062	$16,191
Dominion Resources, Inc.	$13,120	$1,697	$37,548
DTE Energy Company	$9,661	$661	$11,738
Duke Energy Corporation	$23,996	$2,665	$48,721
Edison International	$12,581	$915	$15,085
Entergy Corporation	$11,391	$712	$11,282
Exelon Corporation	$24,888	$1,719	$23,471
FirstEnergy Corp.	$14,459	$392	$13,793
NextEra Energy, Inc.	$15,136	$1,908	$37,260
NiSource Inc.	$5,657	$532	$10,301
Northeast Utilities (now Eversource Energy)	$7,301	$786	$13,357
NRG Energy, Inc.	$11,295	($386)	$9,289
Pepco Holdings, Inc.	$4,666	($212)	$4,778
PG&E Corporation	$15,598	$814	$18,098
PPL Corporation	$11,860	$1,130	$18,964
Sempra Energy	$10,557	$1,001	$21,937
Southern Company	$17,087	$1,644	$36,248
Xcel Energy Inc.	$10,915	$948	$13,904

	2013 Revenue *($Millions)*	2013 Net Income *($Millions)*	Market Cap at 12/31/13 *($Millions)*
PSEG	$9,968	$1,243	$16,208
Peer Group 75th Percentile	$15,191	$1,521	$22,950
Peer Group Median	$12,107	$932	$15,638
Peer Group 25th Percentile	$10,333	$629	$11,624

How We Use Peer Data

The 2014 peer group was used as a reference point for setting pay levels for 2014. The O&CC targets the median (50th percentile) of the peer group for positions comparable to those of our officers for Total Direct Compensation. The peer group is also used for comparison in assessing our performance under our LTIP as well as an overall validation of the alignment between pay and performance.

Pay Governance LLC assists in analyzing the annual Towers Watson Energy Services Executive Compensation Survey U.S. assessment of the market using the peer companies. We use the peer group data to the extent each position is reported in the survey data. CAP also reviews the outcome of the competitive assessment. As shown in the table above, based on the most recently available fiscal year end data, as provided by CAP, our revenue is at the 25th percentile while net income and market capitalization exceeded the median.

Compensation Benchmark

The data used for the comparisons below are from the most recent data available for the companies in the peer group shown above. The O&CC considers a range of approximately +/- 20% of the 50th percentile of comparable positions to be within the competitive median.

Base salary, target Total Cash Compensation and target Total Direct Compensation of each of the NEOs included in this Proxy Statement as a percentage of the comparative median benchmark levels of the peer group are noted below. Decisions on salary, annual incentive target and other pay elements, except the LTIP, are typically made at the O&CC meeting each December. The target LTIP award is determined by the O&CC in February. However, Ms. Linde s compensation for her current position was determined by the O&CC in June 2014 in connection with her election to her current position.

COMPENSATION DISCUSSION AND ANALYSIS

Below is each executive s market positioning as of the time those decisions were made. Each NEO s Total Direct Compensation, except Ms. Linde s, was within +/-20% of the median, which is consistent with our philosophy. Ms. Linde was newly promoted to her position effective July 2, 2014.

% of Comparative Median Benchmark Levels (2014)						
	Izzo (%)	Dorsa (%)	Levis (%)	LaRossa (%)	Bouknight (%)	Linde (%)
Base Salary	91	104	111	110	100	86
Total Cash Compensation	98	107	111	114	100	86
Total Direct Compensation	111	103	107	116	96	72

Pay Mix

The final element of our compensation philosophy is a consideration of the total mix of pay. The O&CC believes that Total Direct Compensation is a better measure for evaluating executive compensation than focusing on each of the elements individually and it does not set a formula to determine the mix of the various elements. The mix of base salary and annual cash incentive for each of the executive positions is surveyed from the peer group. The reported pay structure from the competitive analysis is used as a general guideline in determining the appropriate mix of compensation among base salary, annual and long-term incentive compensation opportunity. However, we also consider that the majority of a senior executive s compensation should be performance-based and the more senior an executive is in the organization, the more his/her pay should be oriented toward long-term compensation.

The mix of base salary, target annual cash incentive and long-term incentives for 2014 are presented below for the CEO as well as for the other NEOs excluding the CEO. We have also provided a comparison of the targeted pay mix to that of the peer group.

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Elements of Executive Compensation

The main components of our executive compensation program, including those for our NEOs, are set forth in the following table. A more detailed description is provided in the respective sections below.

Compensation Element	Description	Objective
Base Salary	Fixed cash compensation	Provides compensation for the executive to perform his/her job functions Assists with recruitment and retention
Annual Cash Incentive	Variable cash compensation paid each year if warranted by performance, based on a percentage of base salary Opportunity to earn between zero and 150% of target, measured by financial and operating performance of the business, with up to 200% for exceptional individual performance Metrics and goals (typically earnings, operational and other) are established at the beginning of each year and the payout is made based on performance	Intended to reward for driving best-in-class operating and financial results over a one-year timeframe Creates a direct connection between business success and financial reward Provides strong line of sight by recognizing exceptional individual performance
Long-Term Incentive **(See Table under LTIP)**	Performance Share Units provide the opportunity to earn from zero to 200% of target at the end of the three - year performance period Restricted Stock Units generally vest at the end of three years	Rewards strong financial and stock price performance Provides for strong alignment with stockholders

		Assists with retention Intended to reward for driving financial results over a multi-year time frame
Deferred Compensation Plans	Permits participants to defer receipt of all or a portion of cash and equity compensation	Provides participants with the opportunity to more effectively manage their taxes Assists with retention
Other Compensation	Health and welfare programs Limited perquisites	To be competitive with peer companies Aids safety and efficiency Assists with recruitment and retention
Post-Employment Benefits/ Retirement Plans	Defined benefit pension plans Defined contribution 401(k) plan with a partial Company matching contribution Supplemental retirement benefits for certain employees beyond qualified plan benefits, in view of IRS limits Severance and change-in-control benefits	Provides retirement income in recognition of length of service Assists with recruitment and retention Assures the continuing performance of executives in the face of a possible termination of employment without cause Assists with retention

CEO Compensation

Mr. Izzo s compensation is designed to position his total pay around the median of the market. Mr. Izzo has demonstrated strong performance over his tenure as CEO and the O&CC believes this arrangement is appropriate. The changes to the key terms of Mr. Izzo s compensation in 2014 were as follows:

Base Salary: At his request, Mr. Izzo did not receive an increase in base salary for 2014.

Annual Cash Incentive*:* The CEO s annual incentive target for 2014 was 120% of salary. Taken together with his salary, this positioned the CEO s target cash compensation at approximately 98% of the market median.
Long-term Incentive*:* The CEO s grant of long-term incentive (in February 2014) was $5,725,000 (reported in the Summary Compensation Table below at grant date fair value), which, when combined with the CEO s salary and target bonus, positioned his total direct compensation for 2014 at 111% of the market median. The long-term incentive opportunity target level was determined so as to put a greater emphasis on long-term compensation for the CEO which is at risk based on performance. Consistent with our pay for performance approach, we believe this appropriately focuses him on the long-term success of the organization and driving stockholder value.

COMPENSATION DISCUSSION AND ANALYSIS

The CEO s compensation level is reflected above in the competitive positioning detailed in Total Direct Compensation. After meeting in executive session, without the CEO present, the O&CC determined CEO compensation in consultation with all the independent directors.

Mr. Izzo s salary, annual cash incentive and long-term incentive exceed that of the other NEOs due to his greater level of duties and responsibilities as the principal executive officer to whom the other NEOs report, and whom the Board holds fully accountable for the execution of corporate business plans.

Further detail regarding the CEO s compensation is set forth below.

Base Salary

As the reference point for competitive base salaries, the O&CC considers the median of base salaries provided to executives in the peer group who have duties and responsibilities similar to those of our executive officers. The O&CC also considers the executive s current salary and makes adjustments based principally on individual performance, including achievement of targets, and experience. Each NEO s base salary level is reviewed annually by the O&CC using a budget it establishes for merit increases and salary survey data provided by Pay Governance and reviewed by CAP. For 2014, the O&CC set the merit increase budget at 3.0%.

The NEOs individual performance and, other than the CEO, his/her business unit s performance are considered in setting salaries. Base salaries for satisfactory performance are targeted at the median of the relevant competitive benchmark data.

The O&CC considers base salaries and salary adjustments for individual NEOs, other than the CEO, based on:

Recommendations of the CEO: considering the respective NEO s level of responsibilities, experience in position, sustained performance over time, results during the immediately preceding year and the pay in relation to the benchmark median.

Performance metrics: as reflected in the CEOs recommendations, including achievement of financial targets, safety and operational results, customer satisfaction, regulatory outcomes and other factors.

Additional factors: leadership ability, managerial skills and other personal aptitudes and attributes. Salaries for the NEOs for 2014 were approved at the December 2013 meeting of the O&CC, except for Ms. Linde s salary, which was set in June 2014 in connection with her promotion to her current position. These amounts are shown in the table below. Salary decisions were based on each NEO s performance and appropriate alignment with the peer group. Mr. Izzo did not receive an increase, as noted above, nor did Mr. Bouknight, who retired in July 2014. For 2014, the increases for Messrs. Levis and LaRossa also reflected significant emphasis by the O&CC on internal pay equity considerations. Those two individuals have critical management responsibilities for our two largest operating subsidiaries, Power and PSE&G, respectively. In addition, the increase for Mr. LaRossa

reflected his added duties as Chairman of the Board of PSEG LI:

NEO	Base Salary 2014 ($)
Ralph Izzo	1,100,000
Caroline Dorsa	650,000
William Levis	650,000
Ralph A. LaRossa	625,000
J. A. Bouknight, Jr.[(1)]	545,900
Tamara L. Linde[(2)]	470,000

(1) Retired July 1 ,2014

(2) Elected to position effective July 2, 2014.

Annual Cash Incentive

The SMICP was approved by stockholders in 2002. It is an annual cash incentive compensation program for our most senior officers, including the NEOs. To support the performance-based objectives of our compensation program, corporate and business unit goals and measures are established each year based on factors deemed necessary to achieve our financial and non-financial business objectives. The corporate-level goals and those for the CEO are developed by the O&CC with input from the entire Board. The goals and measures are established by the CEO for the NEOs reporting to him, and for each other participant by the individual to whom he or she reports.

The SMICP sets a maximum award fund in any year of 2.5% of net income. The formula for calculating the maximum award fund for any plan year was determined at the time of plan adoption by reference to, among other things, similar award funds used by other companies and a review of executive compensation practices designed to address compliance with the requirements of IRC Section 162(m), which, as explained below, limits the federal income tax deduction for compensation in excess of certain amounts. If appropriate, the Board will recommend for stockholder approval any material changes to the SMICP required to align the plan with our compensation objectives.

The CEO s maximum award cannot exceed 10% of the award fund. The maximum award for each other participant cannot exceed 90% of the award fund divided by the number of participants, other than the CEO, for that year. For 2014 performance under the SMICP, these limits were $37,975,000 for the total award pool, $3,797,500 for the CEO s maximum award and $2,848,125 for each other participant s maximum award. Of the total award pool, $9,870,900 was awarded for 2014.

Subject to the overall maximums stated above, NEOs are eligible for annual incentive compensation. The beginning point in the process is a calculation based on a combination of the achievement of individual performance goals and business/employer performance goals, as well as overall corporate performance, as measured by the Corporate Factor. The Corporate Factor for 2014 was EPS from Continuing Operations. We believe sustained EPS is a significant driver of stockholder value and provides line-of-sight over a one-year period between individual actions of executives and company performance.

For the business units, we used operating earnings, which for Power excluded from Income from Continuing Operations gains or losses associated with our nuclear decommissioning trust, mark-to-market accounting and Superstorm Sandy costs, adjusted for interest variances from the business plan, and which for PSE&G were adjusted for interest variances from the business plan.

Impact of Company Performance on Incentive Compensation

For 2014, the O&CC increased the annual cash incentive targets for Ms. Dorsa to 75% (from 70%) and Mr. LaRossa to 75% (from 65%) in recognition of their significant impact on Company s ultimate performance and results.

We maintained the same overall annual incentive structure as we have had for the last several years as we believe it supports our objectives of rewarding strong financial performance driven by operational excellence. We believe that through outstanding operations we can deliver the greatest long-term financial returns to our stockholders. The maximum result of this calculation is a comparative performance of 1.5. The corporate factor in 2014 could range from zero to 1.5 based on pre-determined EPS goals. The payout factor and related targets for 2014 are illustrated below. If the actual EPS is between the points shown below, the Corporate Payout Factor is determined using linear interpolation. In addition, Messrs. Levis and LaRossa had business unit (BU) earnings and multiple BU scorecard (financial, operational and strategic) metrics and goals. Mses. Dorsa and Linde and Mr. Bouknight each had multiple BU scorecard metrics and goals. All participants had strategic metrics and goals: for Mr. Izzo, operational excellence, financial strength and disciplined investment; for Mses. Dorsa and Linde and Messrs. Levis, Bouknight and LaRossa, people strong (retention, inclusion, supplier diversity and employee engagement). Each factor is multiplied by the respective individual s weighting shown below. An illustration of the plan mechanics is provided below, which when added together results in an individual s payout as a percent of target incentive. The total payout is generally capped at 150% of target, increased to 200% for exceptional individual performance.

Weighting x Corporate EPS (0-150%)	+	Weighting x BU Earnings (0-150%)	+	Weighting x BU Scorecard (0-150%)	+	Weighting x Strategic Goals (0-150%)

The corporate performance goal targets and payout factors at each target performance level for 2014 are set forth below:

EPS from Continuing Operations	Corporate Payout Factor (#)

($)	
<2.57	0.00
2.57	0.50
2.68	1.00
2.78	1.50

The respective business unit performance goal targets and payout factors at each target performance level for 2014 for Power and PSE&G are set forth below:

Adjusted Operating Earnings		
Power	**PSE&G**	**Payout Factor**
($Millions)	($Millions)	(#)
<550.1	<705.2	0.00
550.1	705.2	0.50
574.2	733.4	1.00
610.0	745.0	1.50

The actual corporate and business unit results and corresponding payout factors for the performance levels achieved for 2014 are set forth below:

Factors	**Actual Results ($)**	**Indicative Payout Factor (#)**	**Adjusted Payout Factor (#)**
Corporate EPS	2.99	1.50	1.45
	($Millions)		
Power	641.7	1.50	1.45
PSE&G	717.1	0.71	0.90

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COMPENSATION DISCUSSION AND ANALYSIS

As shown above under Adjusted Payout Factor, the O&CC, upon the recommendation of the CEO, modified the payout factors for PSEG EPS and Power BU earnings after consideration of several unique circumstances affecting the Company in 2014. In the judgment of the O&CC, these earnings components, if not adjusted, would have resulted in payouts that did not appropriately reflect its assessment of Company performance. Specifically, the O&CC determined that aspects of our results driven by external factors would have had too great of an influence if not modified. At Power, a sharp, end of year drop in forward prices produced gains that swung Income from Continuing Operations strongly positive independently of our actions. Had this not happened, operational performance would have yielded lower results. Accordingly, the PSEG payout factor was adjusted, impacting the CEO and each of the NEOs and the Power payout factor was adjusted, impacting Mr. Levis. PSE&G grew its earnings by over 15% and met all project and capital expenditure targets in managing the largest capital program in its history. The O&CC concluded that the successful management achievements and robust earnings growth warranted an adjustment for PSE&G, impacting Mr. LaRossa.

Determination of Individual Payouts

Each element (corporate earnings, BU earnings, BU scorecard and strategic goals) is weighted based on an executive s role, with the intention of balancing business unit and individual performance with corporate performance. The weighting for each of the NEOs for 2014 is detailed below, together with the actual achievement factor attained in 2014:

NEO	Weight and Payout Factor	Corporate EPS	BU Earnings	BU Scorecard	Corporate Strategic Goals	Overall Achievement Factor
Ralph Izzo	*Weight*	75%	-	-	25%	
	Achievement	1.45	-	-	1.02	1.34
Caroline Dorsa	*Weight*	75%	-	15%	10%	
	Achievement	1.45	-	1.08	1.00	1.35
William Levis	*Weight*	60%	15%	15%	10%	
	Achievement	1.45	1.45	0.97	1.00	1.33
Ralph A. LaRossa	*Weight*	60%	15%	15%	10%	
	Achievement	1.45	0.90	1.24	1.00	1.29
J.A. Bouknight, Jr.	*Weight*	75%	-	15%	10%	
	Achievement	1.45	-	1.25	1.00	1.38
Tamara L. Linde (1)	*Weight*	75%	-	15%	10%	
	Achievement	1.45	-	1.25	1.00	1.38
	Weight	60%	-	30%	10%	
	Achievement	1.45	-	1.25	1.00	1.35

(1) Prior to her election to her current position, effective July 2, 2014, Ms. Linde participated in the Management Incentive Compensation Plan (MICP), an annual cash incentive plan for officers with similar performance metrics as the SMICP. We have provided information with respect to the SMICP followed by the MICP.

The final step in the process is for the O&CC to make an overall judgment as to the appropriate payout levels for each NEO taking into account the overall achievement factors along with other less quantifiable considerations, such as leadership and success in adapting to a changing external environment and the recommendations of the CEO.

The SMICP awards of the NEOs for 2014 are shown below and in the 2014 Summary Compensation Table. The O&CC made its determinations regarding SMICP awards for the 2014 performance year in February 2015, for payment that month. Based upon the executive s overall achievement factor, his/her current base salary and target annual incentive opportunity and any O&CC modifications, if applicable, each earned the following payout for 2014, as to which we also show the percent relative to salary:

NEO	Base Salary ($)	Target Annual Incentive Percentage (%)	Target Annual Incentive Dollars ($)	Overall Achievement Factor	Modification (if applicable)	Payout Earned[1] ($)	Percent of Salary (%)
Ralph Izzo	1,100,000	120	1,320,000	1.34	(132,700)	1,636,100	149
Caroline Dorsa	650,000	75	487,500	1.35	(32,900)	625,200	96
William Levis	650,000	75	487,500	1.33	(64,800)	583,600	90
Ralph A. La Rossa	625,000	75	468,800	1.29	-	604,800	97
J. A. Bouknight, Jr. [2]	545,900	65	354,800	1.38	-	244,800	
Tamara L. Linde [3]	470,000	65	305,500	1.38	-	210,900	
	310,000	45	139,500	1.35	-	94,200	

(1) Reflects rounding and, as applicable, proration.
(2) Salary paid and amount of payout earned were prorated in light of Mr. Bouknight s retirement in July 2014. Payout earned represents 90% of prorated salary.
(3) Reflects SMICP and MICP. Respective salary amounts paid and payouts earned were prorated for time in position. Payouts earned represent 90% and 61%, respectively, of prorated salary amounts.

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The O&CC believes that the 2014 goals established for the NEOs provided the appropriate degree of difficulty, based upon the overall economic environment and that the final award determinations are appropriate. The final payout factors for Mr. Izzo, Ms. Dorsa and Mr. Levis were reduced by the O&CC in connection with the matter that is currently subject to a pending FERC Staff investigation, as discussed in Note 12 of the Consolidated Financial Statements included in our Form 10-K. To ensure that pay and performance are aligned, the O&CC, with the assistance of CAP, assesses whether the payouts that are earned by the NEOs are consistent with our performance relative to peers.

Long-Term Incentive

NEOs, other officers as determined by the Committee and other key employees, as selected by the CEO within guidelines established by the O&CC, are eligible to participate in the LTIP. This plan is designed to attract and retain qualified personnel for positions of substantial responsibility, motivate participants toward achievement of long-range corporate goals, provide incentive compensation opportunities that are competitive with those of companies with whom we compete for talent and align participants interests with those of stockholders.

The LTIP, as amended and restated, was approved by our stockholders at the 2013 Annual Meeting. The LTIP provides for different forms of equity awards: restricted stock, RSUs, PSUs and stock options. The maximum number of shares that may be awarded under grants to any one individual under the LTIP is 500,000 during any calendar year. In general, since 2010, we have been granting PSUs and RSUs; however, some recipients of prior year LTIP awards still hold stock options that have not expired. The LTIP prohibits the repricing of stock options and the buy-out by us of underwater stock options for cash.

In recent years, our LTIP grants have consisted of the following:

	Description	**Objective**
Performance Share Units (PSUs)	Right to receive full value shares that are earned based upon independent metrics measured over a three-year period: 40% weighting on TSR relative to peers (rewarding management when we deliver value to stockholders in excess of our peers) 30% weighting on ROIC against our internal goals (rewarding	Rewards for strong financial and stock price performance over a longer time frame than annual rewards Full value shares assist with retention

	management for effective deployment of capital) 30% weighting on ROIC relative to peers (rewarding management for managing our business and capital better than our peers) Participants have the opportunity to earn from zero to 200% of their target award based on performance Dividend equivalents are accrued as declared and paid on earned shares	
Restricted Stock Units (RSUs)	Right to receive shares of full value stock at vesting dates Generally, cliff vest at the end of three years Dividend equivalents are accrued as declared and paid when underlying shares vest	Serves as retention device as recipient generally must remain an employee through vesting dates to earn payout

September 30, 2013

December 31, 2012

(dollars in thousands)
2.25% Convertible Senior Notes

$
158,283

$
152,363

3.00% Convertible Senior Notes

83,377

80,706

Mortgage Facility

48,757

56,677

Other Real Estate Related and Long-Term Debt

247,988

249,710

Capital lease obligations related to real estate, maturing in varying amounts through June 2034 with a weighted average interest rate of 10.6%

48,216

38,232

586,621

577,688

Less current maturities of mortgage facility and other long-term debt

26,194

22,672

$
560,427

$
555,016

Included in current maturities of long-term debt and short-term financing in the Company's Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 was $0.8 million and $8.7 million, respectively, of short-term financing that is due within one year of the respective balance sheet date.

Fair Value of Long-Term Debt

The Company’s outstanding 2.25% Convertible Senior Notes due 2036 (“2.25% Notes”) had a fair value of $240.8 million and $214.6 million as of September 30, 2013 and December 31, 2012, respectively. The Company’s outstanding 3.00% Convertible Senior Notes due 2020 (“3.00% Notes”) had a fair value of $247.2 million and $203.5 million as of September 30, 2013 and December 31, 2012, respectively. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of September 30, 2013 and December 31, 2012. The Company determined the estimated fair value of its long-term debt using available market information and commonly accepted valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on estimated fair values. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented. The carrying value of the Company’s variable rate debt approximates fair value due to the short-term nature of the interest rates.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2.25% Convertible Senior Notes

As of September 30, 2013 and December 31, 2012, the carrying value of the 2.25% Notes, related discount and equity component consisted of the following:

	September 30, 2013	December 31, 2012
	(In thousands)	
Carrying amount of equity component	$65,270	$65,270
Allocated underwriter fees, net of taxes	(1,475)	(1,475)
Allocated debt issuance cost, net of taxes	(58)	(58)
Total net equity component	$63,737	$63,737
Deferred income tax component	$8,750	$10,846
Principal amount of 2.25% Notes	$182,753	$182,753
Unamortized discount	(23,547)	(29,244)
Unamortized underwriter fees	(923)	(1,146)
Net carrying amount of liability component	$158,283	$152,363
Unamortized debt issuance cost	$37	$45

For the nine months ended September 30, 2013 and 2012, the contractual interest expense and the discount amortization, which is recorded as other interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Nine Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
Year-to-date contractual interest expense	$3,084	$3,084
Year-to-date discount amortization [(1)]	$5,590	$5,158
Effective interest rate of liability component	7.7%	7.7%

(1) Represents the incremental impact of the accounting for convertible debt as primarily codified in ASC 470, Debt.

The Company determined the discount using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 7.50% was estimated by comparing debt issuances from companies with similar credit ratings during the same annual period as the Company. The effective interest rate differs from the 7.50% due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount and are being amortized to interest expense through 2016. The effective interest rate may change in the future as a result of future repurchases of the 2.25% Notes. The Company utilized a ten-year term for the assessment of the fair value of its 2.25% Notes.

The 2.25% Notes are convertible into cash and, if applicable, common stock based on the then-applicable conversion rate under the following circumstances: (a) during any calendar quarter (and only during such calendar quarter) , if the closing price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the applicable conversion price per share (or $77.15 as of September 30, 2013); (b) during the five business day period after any ten consecutive trading day period in which the trading price per $1,000 principal amount for each day of the ten day trading period was less than 98% of the product of the last reported sale/bid price of the Company's common stock and the conversion rate on that day; and (c) upon the occurrence of specified corporate transactions set forth in the indenture governing the 2.25% Notes (the "2.25% Notes Indenture"). Upon conversion, a holder will receive an amount in cash and, if applicable, shares of the Company's common stock, determined in the manner set forth in the 2.25% Notes Indenture. The if-converted value of the 2.25% Notes exceeded the principal amount of the 2.25% Notes by $56.5 million at September 30, 2013.

The Company may redeem all or part of the 2.25% Notes if the last reported sale price of the Company's common stock is greater than or equal to 130% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date on which the Company mails the redemption notice. Subsequent to September 30, 2013, the 2.25% Notes qualified to be redeemed by the Company. However, the Company has not elected to redeem the 2.25% Notes.

As of September 30, 2013, the conversion rate was 16.8503 shares of common stock per $1,000 principal amount of 2.25% Notes, with a conversion price of $59.35 per share, which was reduced during the third quarter of 2013 as the result of

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

the Company's decision to pay a cash dividend in excess of $0.14 per share. As of September 30, 2013, the exercise price of the 2.25% Warrants, which are related to the issuance of the 2.25% Notes, was reduced to $80.20 due to the Company's decision to pay a cash dividend in excess of $0.14 per share during the third quarter of 2013. If any cash dividend or distribution is made to all, or substantially all, holders of the Company's common stock in excess of $0.14 per share in the future, the conversion rate will be further adjusted based on the formula defined in the 2.25% Notes Indenture.

Under the terms of the 2.25% Purchased Options, which become exercisable upon conversion of the 2.25% Notes, the Company has the right to receive a total of 3.1 million shares of its common stock at the conversion price then in effect. The exercise price of the 2.25% Purchased Options is subject to certain adjustments that mirror the adjustments to the conversion price of the 2.25% Notes (including payments of cash dividends in excess of $0.14 per share).

3.00% Convertible Senior Notes

As of September 30, 2013 and December 31, 2012, the carrying value of the 3.00% Notes, related discount and equity component consisted of the following:

	September 30, 2013	December 31, 2012
	(In thousands)	
Carrying amount of equity component (including temporary equity)	$25,359	$25,359
Allocated underwriter fees, net of taxes	(760)	(760)
Allocated debt issuance cost, net of taxes	(112)	(112)
Total net equity component	$24,487	$24,487
Deferred income tax component	$10,940	$11,844
Principal amount of 3.00% Notes	$115,000	$115,000
Unamortized discount	(29,974)	(32,505)
Unamortized underwriter fees	(1,649)	(1,789)
Net carrying amount of liability component	$83,377	$80,706
Unamortized debt issuance costs	$243	$264

For the nine months ended September 30, 2013 and 2012, the contractual interest expense and the discount amortization, which is recorded as interest expense in the accompanying Consolidated Statements of Operations, were as follows:

	Nine Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
Year-to-date contractual interest expense	$2,588	$2,588
Year-to-date discount amortization [1]	$2,410	$2,199
Effective interest rate of liability component	8.6%	8.6%

(1) Represents the incremental impact of the accounting for convertible debt as primarily codified in ASC 470, Debt.

The Company determined the discount using the estimated effective interest rate for similar debt with no convertible features. The original effective interest rate of 8.25% was estimated by receiving a range of quotes from the underwriters for the estimated rate that the Company could reasonably expect to issue non-convertible debt for the same tenure. The effective interest rate differs from the 8.25% due to the impact of underwriter fees associated with this issuance that were capitalized as an additional discount and are being amortized to interest expense through 2020. The effective interest rate may change in the future as a result of future repurchases of the 3.00% Notes. The Company utilized a ten-year term for the assessment of the fair value of its 3.00% Notes.

The 3.00% Notes are convertible into cash and, if applicable, common stock based on the then-applicable conversion rate under the following circumstances: (a) during any fiscal quarter (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the

applicable conversion price per share (or $48.61 as of September 30, 2013) (the "3.00% Stock Price Trigger"); (b) during the five business day period after any ten consecutive trading day period in which the trading price per $1,000 principal amount for each day of the ten day trading period was less than 98% of the product of the last reported sale/bid price of the Company's common stock and the conversion rate on that day; and (c) upon the occurrence of specified corporate transactions set forth in the indenture governing the 3.00%

Notes (the "3.00% Notes Indenture"). Upon conversion, a holder will receive an amount in cash and, if applicable, shares of the Company's common stock, determined in the manner set forth in the 3.00% Notes Indenture.

As a result of the 3.00% Stock Price Trigger on September 30, 2013, the 3.00% Notes are convertible at the option of the holders during the three months ending December 31, 2013. As such, the Company reclassified the redeemable equity portion of the 3.00% Notes to temporary equity from the additional paid-in capital component of permanent equity on the Consolidated Balance Sheet as of September 30, 2013. The debt portion of the 3.00% Notes continued to be classified as a long-term liability as of September 30, 2013, since the Company has the intent and ability to refinance any conversion of the 3.00% Notes with another long-term debt instrument. The combination of the debt portion and temporary equity portion represents the aggregate principal obligation of the 3.00% Notes redeemable at the option of the holders as of September 30, 2013. The if-converted value of the 3.00% Notes exceeded the principal amount of the 3.00% Notes by $123.9 million at September 30, 2013.

As of September 30, 2013, the conversion rate was 26.7419 shares of common stock per $1,000 principal amount of 3.00% Notes, with a conversion price of $37.39 per share, which was reduced during the third quarter of 2013 as the result of the Company's decision to pay a cash dividend. As of September 30, 2013, the exercise price of the 3.00% Warrants, which are related to the issuance of the 3.00% Notes, was reduced to $54.95 due to the Company's decision to pay a cash dividend during the third quarter of 2013. If any cash dividend or distribution is made to all, or substantially all, holders of the Company's common stock in the future, the conversion rate will be further adjusted based on the formula defined in the 3.00% Notes Indenture.

Under the terms of the 3.00% Purchased Options, which become exercisable upon conversion of the 3.00% Notes, the Company has the right to receive a total of 3.1 million shares of its common stock at the conversion price then in effect. The exercise price of the 3.00% Purchased Options is subject to certain adjustments that mirror the adjustments to the conversion price of the 3.00% Notes (including payments of cash dividends).

Real Estate Credit Facility

Group 1 Realty, Inc., a wholly-owned subsidiary of the Company, entered into a real estate credit facility with Bank of America, N.A. and Comerica Bank (as amended and restated, the "Mortgage Facility") providing the right for up to $83.4 million of term loans, of which $60.7 million had been used as of September 30, 2013. The term loans can be expanded provided that (a) no default or event of default exists under the Mortgage Facility; (b) the Company obtains commitments from the lenders who would qualify as assignees for such increased amounts; and (c) certain other agreed upon terms and conditions have been satisfied. This facility is guaranteed by the Company and substantially all of the domestic subsidiaries of the Company and is secured by the real property owned by the Company that is mortgaged under the Mortgage Facility. The Company capitalized debt issuance costs related to the Mortgage Facility that are being amortized over the term of the facility, $0.4 million of which were still unamortized as of September 30, 2013.

The interest rate is equal to (a) the per annum rate equal to one-month LIBOR plus 2.50% per annum, determined on the first day of each month; or (b) 1.45% per annum in excess of the higher of (i) the Bank of America prime rate (adjusted daily on the day specified in the public announcement of such price rate), (ii) the Federal Funds Rate adjusted daily, plus 0.5% or (iii) the per annum rate equal to the one-month LIBOR plus 1.05% per annum. The Federal Funds Rate is the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the business day succeeding such day.

The Company is required to make quarterly principal payments equal to 1.25% of the principal amount outstanding and is required to repay the aggregate amount outstanding on the maturity dates of the individual property borrowings, ranging, from December 29, 2015 through February 27, 2017. For the nine months ended September 30, 2013, the Company made no additional borrowings and principal payments of $7.9 million on outstanding borrowings from the Mortgage Facility. As of September 30, 2013, borrowings outstanding under the Mortgage Facility totaled $48.8 million, with $2.7 million recorded as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

The Mortgage Facility also contains usual and customary provisions limiting the Company's ability to engage in certain transactions, including limitations on the Company's ability to incur additional debt, additional liens, make investments, and pay distributions to its stockholders. In addition, the Mortgage Facility requires certain financial covenants that are identical to those contained in the Company's Revolving Credit Facility. As of September 30, 2013, the Company was in compliance with all applicable covenants and ratios under the Mortgage Facility.

Real Estate Related Debt

The Company, as well as certain of its wholly-owned subsidiaries, has entered into separate term mortgage loans in the U.S. with four of its manufacturer-affiliated finance partners – Toyota Motor Credit Corporation ("TMCC"), Mercedes-Benz Financial Services USA, LLC ("MBFS"), BMW Financial Services NA, LLC ("BMWFS"), FMCC and several third-party

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financial institutions (collectively, “Real Estate Notes”). The Real Estate Notes are on specific buildings and/or properties and are guaranteed by the Company. Each loan was made in connection with, and is secured by mortgage liens on, the real property owned by the Company that is mortgaged under the Real Estate Notes. The Real Estate Notes bear interest at fixed rates between 3.67% and 9.00%, and at variable indexed rates plus a spread between 2.25% and 3.35% per annum. The Company capitalized debt issuance costs related to the Real Estate Notes that are being amortized over the terms of the notes, $0.8 million of which were still unamortized as of September 30, 2013.

The loan agreements with TMCC consist of eight term loans. As of September 30, 2013, $52.0 million was outstanding under the TMCC term loans, with $7.0 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. The maturity dates vary from three to seven years and provide for monthly payments based on a 20-year amortization schedule. These eight loans are cross-collateralized and cross-defaulted with each other and are cross-defaulted with the Revolving Credit Facility.

The loan agreements with MBFS consist of three term loans. As of September 30, 2013, $45.9 million was outstanding under the MBFS term loans, with $1.7 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. The agreements provide for monthly payments based on a 20-year amortization schedule and have a maturity date of five years. These three loans are cross-collateralized and cross-defaulted with each other and are also cross-defaulted with the Revolving Credit Facility.

The loan agreements with BMWFS consist of 14 term loans. As of September 30, 2013, $71.1 million was outstanding under the BMWFS term loans, with $4.1 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. The agreements provide for monthly payments based on a 15-year amortization schedule and have a maturity date of 7 years. In the case of three properties owned by subsidiaries, the applicable loan is also guaranteed by the subsidiary real property owner. These 14 loans are cross-collateralized with each other. In addition, they are cross-defaulted with each other, the Revolving Credit Facility, and certain dealership franchising agreements with BMW of North America, LLC.

In addition, agreements with third-party financial institutions consist of 11 term loans for an aggregate principal amount of $59.4 million, to finance real estate associated with the Company’s dealerships. These loans are inclusive of the Company's one term loan with FMCC with $5.4 million outstanding and $0.2 million classified as a current maturity of long-term debt. The loans are being repaid in monthly installments that will mature by November 2022. As of September 30, 2013, borrowings under these notes totaled $52.4 million, with $3.0 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets. Nine of these loans are cross-defaulted with the Revolving Credit Facility. The other two loans, including the FMCC loan, are subject to separate restrictions and covenants. The Company was in compliance with all applicable covenants and ratios under the agreements.

The Company has also entered into separate term mortgage loans in the U.K. with another third-party financial institution which are secured by the Company’s U.K. properties. These mortgage loans (collectively, “Foreign Notes”) are being repaid in monthly installments that mature August 2027. As of September 30, 2013, borrowings under the Foreign Notes totaled $21.9 million, with $2.8 million classified as a current maturity of long-term debt in the accompanying Consolidated Balance Sheets.

10. FAIR VALUE MEASUREMENTS

Accounting Standards Codification (“ASC”) 820 defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; requires disclosure of the extent to which fair value is used to measure financial and non-financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date; establishes a three-level valuation hierarchy based upon the transparency of inputs utilized in the measurement and valuation of financial assets or liabilities as of the measurement date:

- Level 1 — unadjusted, quoted prices for identical assets or liabilities in active markets;

•Level 2 — quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation; and

•Level 3 — unobservable inputs based upon the reporting entity's internally developed assumptions that market participants would use in pricing the asset or liability.

The Company's financial instruments consist primarily of cash and cash equivalents, contracts-in-transit and vehicle receivables, accounts and notes receivable, investments in debt and equity securities, accounts payable, credit facilities, long-term debt and interest rate swaps. The fair values of cash and cash equivalents, contracts-in-transit and vehicle receivables,

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accounts and notes receivable, accounts payable, and credit facilities approximate their carrying values due to the short-term nature of these instruments or the existence of variable interest rates.

The Company periodically invests in unsecured, corporate demand obligations with manufacturer-affiliated finance companies, which bear interest at a variable rate and are redeemable on demand by the Company. Therefore, the Company has classified these demand obligations as cash and cash equivalents in the accompanying Consolidated Balance Sheets. The Company determined that the valuation measurement inputs of these instruments include inputs other than quoted market prices, that are observable or that can be corroborated by observable data by correlation. Accordingly, the Company has classified these instruments within Level 2 of the hierarchy framework.

The Company's derivative financial instruments are recorded at fair market value. See Note 3, "Derivative Instruments and Risk Management Activities" for further details regarding the Company's derivative financial instruments.

The Company evaluated its assets and liabilities for those that met the criteria of the disclosure requirements and fair value framework of ASC 820 and identified investments in marketable securities, debt instruments, and interest rate derivative financial instruments as having met such criteria. The respective fair values measured on a recurring basis as of September 30, 2013 and December 31, 2012, respectively, were as follows:

	As of September 30, 2013		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Interest rate derivative financial instruments	$—	$2,413	$2,413
Debt securities:			
Demand obligations	—	65	65
Total	$—	$2,478	$2,478
Liabilities:			
Interest rate derivative financial instruments	$—	$29,184	$29,184
Total	$—	$29,184	$29,184

	As of December 31, 2012		
	Level 1	Level 2	Total
	(In thousands)		
Assets:			
Debt securities:			
Demand obligations	$—	$616	$616
Total	$—	$616	$616
Liabilities:			
Interest rate derivative financial instruments	$—	$43,089	$43,089
Total	$—	$43,089	$43,089

11. COMMITMENTS AND CONTINGENCIES

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

chargebacks of recognized incentives and rebates are included in cost of sales in the Company's Consolidated Statements of Operations, while such amounts for manufacturer chargebacks of recognized warranty-related items are included as a reduction of revenues in the Company's Consolidated Statements of Operations.

Legal Proceedings

Currently, the Company is not party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's results of operations, financial condition, or cash flows, including class action lawsuits. However, the results of current, or future, matters cannot be predicted with certainty, and an unfavorable resolution of one or more of such matters could have a material adverse effect on the Company's results of operations, financial condition, or cash flows.

In December 2011, an adverse jury verdict was rendered against the Company in the San Diego County Superior Court, awarding $7.5 million to the plaintiff who sought reimbursement for medical expenses, lost wages and pain and suffering arising from an accident involving one of the Company's customer shuttle vans and the plaintiff's motorcycle. The Company's insurance covered any loss in excess of its $1.0 million self-insured retention relative to this matter. The Company fully accrued the amount of the award and the related insurance charge as a current account receivable and a current accrued expense, respectively, in the Consolidated Balance Sheet as of December 31, 2011. During the three months ended September 30, 2013, the insurance company settled this matter with the plaintiff, the Company paid its self-insured retention and the full amount of the current account receivable and current accrued expense was settled as originally anticipated.

Other Matters

The Company, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by the Company's subsidiaries of their respective dealership premises. Pursuant to these leases, the Company's subsidiaries generally agree to indemnify the lessor and other parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, the Company enters into agreements in connection with the sale of assets or businesses in which it agrees to indemnify the purchaser, or other parties, from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, the Company enters into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dealership dispositions, the Company's subsidiaries assign or sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such dealerships. In general, the Company's subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, the Company and its subsidiaries generally remain subject to the terms of any guarantees made by the Company and its subsidiaries in connection with such leases. Although the Company generally has indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, and the Company presently has no reason to believe that it or its subsidiaries will be called on to perform under any such assigned leases or subleases, the Company estimates that lessee rental payment obligations during the remaining terms of these leases were $27.2 million as of September 30, 2013. The Company's exposure under these leases is difficult to estimate and there can be no assurance that any performance of the Company or its subsidiaries required under these leases would not have a material adverse effect on the Company's business, financial condition, or cash flows. The Company and its subsidiaries also may be called on to perform other obligations under these leases, such as environmental remediation of the leased premises or repair of the leased premises upon termination of the lease. However, the Company does not have any known material environmental commitments or contingencies and presently has no reason to believe that it or its subsidiaries will be called on to so perform.

In the ordinary course of business, the Company is subject to numerous laws and regulations, including automotive, environmental, health and safety, and other laws and regulations. The Company does not anticipate that the costs of such compliance will have a material adverse effect on its business, consolidated results of operations, financial condition, or cash flows, although such outcome is possible given the nature of its operations and the extensive legal and regulatory framework applicable to its business. The Dodd-Frank Wall Street Reform and Consumer Protection

Act, which was signed into law on July 21, 2010, established a new consumer financial protection agency with broad regulatory powers. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers through its regulation of automotive finance companies and other financial institutions. In addition, the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, has the potential to increase the Company's future annual employee health care costs. Further, new laws and regulations, particularly at the federal level, may be enacted, which could also have a materially adverse impact on its business.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. INTANGIBLE FRANCHISE RIGHTS AND GOODWILL

The following is a roll-forward of the Company's intangible franchise rights and goodwill accounts:

	Intangible Franchise Rights	Goodwill
	(In thousands)	
BALANCE, December 31, 2012	$196,058	$582,384 (1)
Additions through acquisitions	99,965	125,466
Disposals	(5,826)	(6,333)
Currency Translation	(10,391)	(11,546)
Tax adjustments	—	(100)
BALANCE, September 30, 2013	279,806	689,871 (1)

(1) Net of accumulated impairment of $40.3 million

The increase in the Company's goodwill and intangible franchise rights was primarily related to the purchase of franchises in the U.K. and Brazil.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

13. ACCUMULATED OTHER COMPREHENSIVE LOSS
Changes in the balances of each component of accumulated other comprehensive loss for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30, 2013			
	Accumulated foreign currency translation loss	Accumulated gain (loss) on marketable securities	Accumulated (loss) gain on interest rate swaps	Total
	(In thousands)			
Balance, December 31, 2012	$(6,126)	$—	$(26,931)	$(33,057)
Other comprehensive income (loss) before reclassifications:				—
Pre-tax	(23,487)	—	7,998	(15,489)
Tax effect	—	—	(2,999)	(2,999)
Amounts reclassified from accumulated other comprehensive income to:				
Floorplan interest expense	—	—	7,390	7,390
Other interest expense	—	—	930	930
Tax effect	—	—	(3,120)	(3,120)
Net current period other comprehensive (loss) income	(23,487)	—	10,199	(13,288)
Balance, September 30, 2013	$(29,613)	$—	$(16,732)	$(46,345)

	Nine Months Ended September 30, 2012			
	Accumulated foreign currency translation gain (loss)	Accumulated gain (loss) on marketable securities	Accumulated (loss) gain on interest rate swaps	Total
	(In thousands)			
Balance, December 31, 2011	$(7,969)	$8	$(21,275)	$(29,236)
Other comprehensive income (loss) before reclassifications:				
Pre-tax	1,850	(13)	(19,606)	(17,769)
Tax effect	—	5	7,352	7,357
Amounts reclassified from accumulated other comprehensive income to:				
Floorplan interest expense	—	—	7,720	7,720
Other interest expense	—	—	856	856
Tax effect	—	—	(3,216)	(3,216)
Net current period other comprehensive (loss) income	1,850	(8)	(6,894)	(5,052)
Balance, September 30, 2012	$(6,119)	$—	$(28,169)	$(34,288)

14. SEGMENT INFORMATION
As of September 30, 2013, the Company had three reportable segments: (1) the U.S., (2) the U.K., and (3) Brazil. Each of the reportable segments is comprised of retail automotive franchises, which sell new vehicles, used vehicles, parts and automotive services, finance and insurance products, and collision centers. The vast majority of the Company's corporate activities are associated with the operations of the U.S. operating segments and therefore the

corporate financial results are included within the U.S. reportable segment.

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GROUP 1 AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The reportable segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer. Reportable segment revenue, gross profit, SG&A, floorplan interest expense, net income and capital expenditures were as follows for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013				Nine Months Ended September 30, 2013			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil [1]	Total
	(In thousands)				(In thousands)			
Revenues	$1,889,378	$234,914	$215,855	$2,340,147	$5,492,819	$613,428	$532,842	$6,639,089
Gross profit	280,265	25,513	23,684	329,462	843,683	68,428	59,114	971,225
Selling, general and administrative expense [2]	206,635	19,656	20,572	246,863	626,939	54,262	50,254	731,455
Floorplan interest expense	8,087	425	2,178	10,690	25,027	1,152	4,748	30,927
Other interest expense (income), net	9,649	293	29	9,971	27,990	800	(7)	28,783
Net income	28,963	3,607	195	32,765	82,637	8,095	1,539	92,271
Capital expenditures	12,502	311	623	13,436	43,197	1,071	1,551	45,819

(1) Represents financial data from date of acquisition in February 2013.

(2) Includes a net gain on the disposition of dealerships of $1.4 million and $10.4 million for the three and nine months ended September 30, 2013, respectively, in the U.S. segment. Also, includes losses due to catastrophic events of $0.3 million and $12.2 million for the three and nine months ended September 30, 2013, respectively, in the U.S. segment. For the nine months ended September 30, 2013, includes acquisition costs of $5.2 million, $0.1 million and $1.2 million in the U.S., U.K. and Brazil segments, respectively. Also includes severance cost of $0.3 million each in the U.S. and Brazil segments, as well as lease termination charges of $0.2 million in the U.S. segment for the nine months ended September 30, 2013.

	Three Months Ended September 30, 2012				Nine Months Ended September 30, 2012			
	U.S.	U.K.	Brazil	Total	U.S.	U.K.	Brazil	Total
	(In thousands)				(In thousands)			
Revenues	$1,814,186	$162,386	$—	$1,976,572	$5,158,039	$379,104	$—	$5,537,143
Gross profit	271,562	19,669	—	291,231	792,046	44,953	—	836,999
Selling, general and administrative expense [1]	200,980	15,102	—	216,082	593,874	35,647	—	629,521
Floorplan interest expense	7,613	329	—	7,942	22,640	784	—	23,424
Other interest expense, net	9,416	203	—	9,619	27,406	443	—	27,849
Net income	28,633	2,702	—	31,335	78,110	4,967	—	83,077
Capital expenditures	13,423	99	—	13,522	39,422	259	—	39,681

(1) Includes a loss due to catastrophic events of $2.7 million, as well as a net gain on real estate transactions of $1.1 million for the nine months ended September 30, 2012, in the U.S. segment.

Reportable segment goodwill and intangible franchise rights and total assets by segment were as follows:

	As of September 30, 2013			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Goodwill and Intangible Franchise Rights	$762,380	$27,663	$179,634	$969,677
Total assets	2,845,727	228,192	335,989	3,409,908

	As of December 31, 2012			
	U.S.	U.K.	Brazil	Total
	(In thousands)			
Goodwill and Intangible Franchise Rights	$752,372	$26,070	$—	$778,442
Total assets	2,860,771	162,244	—	3,023,015

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

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

Although we believe that the expectations reflected in these forward-looking statements are reasonable when and as made, we cannot assure that these expectations will prove to be correct. When used in this Form 10-Q, the words “anticipate,” “believe,” “estimate,” “expect,” "intend," “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements. Our forward-looking statements are not assurances of future performance and involve risks and uncertainties. Actual results may differ materially from anticipated results in the forward-looking statements for a number of reasons, including:

•depressed consumer confidence, raised unemployment and limited availability of consumer credit, may cause a marked decline in demand for new and used vehicles;
•future deterioration in the economic environment, including consumer confidence, interest rates, the price of gasoline, the level of manufacturer incentives and the availability of consumer credit may affect the demand for new and used vehicles, replacement parts, maintenance and repair services and finance and insurance products;
•adverse domestic and international developments such as war, terrorism, political conflicts or other hostilities may adversely affect the demand for our products and services;
•the existing and future regulatory environment, including legislation related to the Dodd-Frank Wall Street Reform and Consumer Protection Act, climate control changes legislation, and unexpected litigation or adverse legislation, including changes in state franchise laws, may impose additional costs on us or otherwise adversely affect us;
•a concentration of risk associated with our principal automobile manufacturers, especially Toyota, Nissan, Honda, BMW, Ford, Daimler, General Motors, Chrysler, and Volkswagen, because of financial distress, bankruptcy, natural disasters that disrupt production or other reasons, may not continue to produce or make available to us vehicles that are in high demand by our customers or provide financing, insurance, advertising or other assistance to us;
•restructuring by one or more of our principal manufacturers, up to and including bankruptcy may cause us to suffer financial loss in the form of uncollectible receivables, devalued inventory or loss of franchises;
•requirements imposed on us by our manufacturers may require dispositions, limit our acquisitions or increases in the level of capital expenditures related to our dealership facilities;
•our existing and/or new dealership operations may not perform at expected levels or achieve expected improvements;
•our failure to achieve expected future cost savings or future costs may be higher than we expect;

•manufacturer quality issues may negatively impact vehicle sales and brand reputation;
•available capital resources, increases in cost of financing (such as higher interest rates) and our various debt agreements may limit our ability to complete acquisitions, complete construction of new or expanded facilities, repurchase shares or pay dividends;
•our ability to refinance or obtain financing in the future may be limited and the cost of financing could increase significantly;
•foreign exchange controls and currency fluctuations;
•new accounting standards could materially impact our reported earnings per share;
•our ability to acquire new dealerships and successfully integrate those dealerships into our business;
•the impairment of our goodwill, our indefinite-lived intangibles and our other long-lived assets;
•natural disasters and adverse weather events;
•our foreign operations and sales in the U.K. and Brazil, which pose additional risks;
•the inability to adjust our cost structure to offset any reduction in the demand for our products and services;
•our loss of key personnel;
•competition in our industry may impact our operations or our ability to complete additional acquisitions;
•the failure to achieve expected sales volumes from our new franchises;
•insurance costs could increase significantly and all of our losses may not be covered by insurance; and
•our inability to obtain inventory of new and used vehicles and parts, including imported inventory, at the cost, or in the volume, we expect.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see (a) Part II, “Item 1A. Risk Factors” in this Form 10-Q and (b) Part I, “Item 1A. Risk Factors” in our 2012 Form 10-K.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements because of various factors. See "Cautionary Statement about Forward-Looking Statements."

Overview

We are a leading operator in the automotive retail industry. Through our operating subsidiaries, we sell new and used cars and light trucks; arrange related vehicle financing; sell service and insurance contracts; provide automotive maintenance and repair services; and sell vehicle parts. Effective with the acquisition of UAB Motors Participações S.A. ("UAB Motors") on February 28, 2013, we are aligned into four geographic regions: the East and West Regions in the United States ("U.S."), the United Kingdom ("U.K.") Region, and the Brazil Region. Also, in conjunction with the acquisition of UAB Motors and associated changes in how our chief operating decision maker evaluates performance and allocates resources, we reaffirmed that each region represents an operating segment. Each U.S. region is managed by a regional vice president who reports directly to our Chief Executive Officer and is responsible for the overall performance of their region. The financial matters of each U.S. region are managed by a regional chief financial officer who reports directly to our Chief Financial Officer. As part of this determination, we further concluded that the East and West Regions of the U.S. continue to be economically similar in that they deliver the same products and services to a common customer group, their customers are generally individuals, they follow the same procedures and methods in managing their operations, and they operate in similar regulatory environments and, therefore we aggregate these two regions into one reportable segment. As such, our three reportable segments are the U.S., which includes the activities of our corporate office, the U.K. and Brazil.

As of September 30, 2013, we owned and operated 179 franchises, representing 33 brands of automobiles, at 141 dealership locations and 35 collision service centers worldwide. We own 138 franchises at 109 dealerships, and 26 collision centers in the U.S., 19 franchises at 14 dealerships and four collision centers in the U.K. as well as 22 franchises at 18 dealerships and five collision service centers in Brazil. Our operations are primarily located in major metropolitan areas in Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina and Texas in the U.S., in 13 towns in the U.K. and in key metropolitan markets in the states of Sao Paulo and Parana in Brazil.

Outlook

During the nine months ended September 30, 2013, consumer demand for new and used vehicles in the U.S. improved over 2012. According to industry experts, the average seasonally adjusted annual rate of sales ("SAAR") in the U.S. through the nine months ended September 30, 2013 was 15.5 million units, compared to 14.2 million units for the same period in 2012. We believe that the improving economic trends provide opportunities for us to improve our operating results as we: (a) expand our new and used vehicle unit sales and improve our sales efficiency; (b) continue to focus on our higher margin parts and service business, implementing strategic selling methods, and improving operational efficiencies; (c) invest capital where necessary to support our anticipated growth, particularly in our parts and service business; and (d) further leverage our revenue and gross profit growth through continued cost controls.

The U.K. economy represents the sixth largest economy in the world. The U.K. automotive sales market continues to outperform the rest of Europe. Vehicle registrations in the U.K. increased 12.1% and 10.8% through the three and nine months ended September 30, 2013, respectively, when compared to the same period a year ago. The latest industry estimates have new vehicle sales continuing to grow for the remainder of the year.

The Brazilian economy represents the seventh largest in the world and recently has been one of the fastest growing economies in the world. We believe the Brazilian government's decision in 2013 to not implement the planned increases in Industrial Products taxes that were scheduled for April 1, 2013 and to freeze current tax rates indefinitely were positive developments for the market. However, the Brazilian economy is facing many challenges and is not demonstrating significant growth at the moment. Industry sales in Brazil declined 10.0% during the three months ended September 30, 2013 as compared to the same period a year ago and we have seen a rise in inflation and interest rates and a decrease in the value of the Brazilian real compared to the U.S. dollar. We expect industry sales in Brazil to be flat in 2013, but we remain optimistic for growth in the longer run.

Our operations have generated, and we believe that our operations will continue to generate, positive cash flow. As such, we are focused on maximizing the return that we generate from our invested capital and positioning our balance sheet to take advantage of investment opportunities as they arise. We continue to closely scrutinize all planned future capital spending and work closely with our original equipment manufacturer ("OEM") partners in this area to make prudent investment decisions that are expected to generate an adequate return and/or improve the customer experience. We anticipate that our capital spending for the full year of 2013 will be approximately $75.0 million.

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We remain committed to our growth-by-acquisition strategy. We believe that significant opportunities exist to enhance our portfolio with dealerships that meet our stringent investment criteria in the U.S., U.K. and Brazil. During the first nine months of 2013, we completed the acquisition of 24 dealerships in the U.S., U.K. and Brazil. We will continue to pursue dealership investment opportunities that we believe will add value for our stockholders.

Financial and Operational Highlights

Our operating results reflect the combined performance of each of our interrelated business activities, which include the sale of new vehicles, used vehicles, finance and insurance products, and parts, as well as maintenance and collision repair services. Historically, each of these activities has been directly or indirectly impacted by a variety of supply/demand factors, including vehicle inventories, consumer confidence, discretionary spending, availability and affordability of consumer credit, manufacturer incentives, weather patterns, fuel prices and interest rates. For example, during periods of sustained economic downturn or significant supply/demand imbalances, new vehicle sales may be negatively impacted as consumers tend to shift their purchases to used vehicles. Some consumers may even delay their purchasing decisions altogether, electing instead to repair their existing vehicles. In such cases, however, we believe the new vehicle sales impact on our overall business is mitigated by our ability to offer other products and services, such as used vehicles and parts, as well as maintenance and collision repair services. In addition, our ability to reduce our costs in response to lower sales also tempers the impact of lower new vehicle sales volume.

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

For the three months ended September 30, 2013, total revenues increased 18.4% from 2012 levels to $2.3 billion and gross profit improved 13.1% to $329.5 million over the prior year period. For the nine months ended September 30, 2013, total revenues increased 19.9% from 2012 levels to $6.6 billion and gross profit improved 16.0% to $971.2 million over the prior year period. Operating income increased from 2012 levels by 8.8% to $72.9 million for the three months ended September 30, 2013 and by 15.3% to $212.2 million for the nine months ended September 30, 2013. Income before income taxes increased to $52.3 million for the third quarter of 2013, which was a 5.6% improvement over the comparable prior year period, and increased to $151.7 million for nine months ended September 30, 2013, which was a 14.2% improvement over 2012. For the three months ended September 30, 2013, we realized a 4.6% improvement in net income to $32.8 million and a 9.8% decrease in diluted income per share to $1.19. For the nine months ended September 30, 2013, we realized an 11.1% increase in net income to $92.3 million and a 0.6% increase in diluted income per share to $3.52. For the three and nine months ended September 30, 2013, our weighted average dilutive common shares outstanding increased 17.3% and 11.8% over prior year periods to 26.3 million and 25.2 million, respectively. These increases were primarily the result of the increases in dilution from the potential conversion of our 3.00% Convertible Senior Notes due 2020 ("3.00% Notes") and 2.25% Convertible Senior Notes due 2036 ("2.25% Notes"), which mirrors the rise in our average stock price during the third quarter of 2013 and from levels during the same periods in 2012. The share dilution calculation does not include the beneficial impact of the call spreads that we have in place. A complete presentation of the dilutive effect of the 3.00% Notes and 2.25% Notes can be found in the Liquidity and Capital Resources section of this Item 2. For the nine months ended September 30, 2013, our adjusted net cash provided by operations was $147.1 million compared to $168.5 million in the same period in 2012. See further explanation of the adjusted cash flow metrics in the Non-GAAP Financial Measures section of this Item 2.

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Key Performance Indicators

Consolidated Statistical Data

The following table highlights certain of the key performance indicators we use to manage our business.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Unit Sales				
Retail Sales				
New Vehicle	42,311	34,532	116,938	95,386
Used Vehicle	26,059	22,433	74,931	65,186
Total Retail Sales	68,370	56,965	191,869	160,572
Wholesale Sales	13,445	12,049	37,852	33,287
Total Vehicle Sales	81,815	69,014	229,721	193,859
Gross Margin				
New Vehicle Retail Sales	5.3 %	5.8 %	5.6 %	5.8 %
Total Used Vehicle Sales	6.5 %	6.9 %	7.1 %	7.4 %
Parts and Service Sales	52.4 %	52.5 %	52.5 %	52.6 %
Total Gross Margin	14.1 %	14.7 %	14.6 %	15.1 %
SG&A[1] as a % of Gross Profit	74.9 %	74.2 %	75.3 %	75.2 %
Operating Margin	3.1 %	3.4 %	3.2 %	3.3 %
Pretax Margin	2.2 %	2.5 %	2.3 %	2.4 %
Finance and Insurance Revenues per Retail Unit Sold	$1,207	$1,220	$1,212	$1,197

(1) Selling, general and administrative expenses.

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

U.S. SAAR has risen from an average of 14.2 million units for the nine months ended September 30, 2012 to 15.5 million units for the same period in 2013, an increase of 9.2%. Our consolidated new vehicle retail sales revenues increased 21.5% and 23.6% for the three and nine months ended September 30, 2013, respectively, as compared to the same periods in 2012. This growth primarily reflects an increase in new vehicle unit sales of 22.5% and 22.6%, for the three and nine months ended September 30, 2013, respectively, as compared to the same periods in 2012, as a result of dealership acquisition activity, stronger consumer confidence in the U.S., better industry conditions in the U.K., improved inventory levels and the execution of our operating team. New vehicle retail gross margin declined 50 basis points to 5.3% and 20 basis points to 5.6% for the three and nine months ended September 30, 2013, respectively, as compared to the same periods in 2012 as gross profit per retail unit sold decreased. This decline in new vehicle retail gross margin was experienced in most of our brands, primarily reflecting the competitive nature of the U.S. industry.

Our used vehicle results are directly affected by economic conditions, the level of manufacturer incentives on new vehicles and new vehicle financing, the number and quality of trade-ins and lease turn-ins, the availability of consumer credit, and our ability to effectively manage the level and quality of our overall used vehicle inventory. Our used vehicle retail sales revenues increased 14.6% and 15.2%, for the three and nine months ended September 30, 2013, as compared to the same periods in 2012. This growth primarily reflects increases in the used vehicle retail unit sales of 16.2% and 14.9%, as compared to the respective periods in 2012, including the impact of our dealership acquisitions in the U.K. and Brazil. The improving U.S. economic environment that has benefited new vehicle sales also supported improved used vehicle demand. Used vehicle retail gross margin declined 40 and 30 basis points, respectively, for the three and nine months ended September 30, 2013, as compared to the same periods in 2012. Used vehicle margins are generally lower in our U.K. and Brazil segments. The decline in consolidated used vehicle gross margin primarily relates to the mix shift effect, as a result of a larger contribution from these foreign segments.

Our parts and service sales increased 13.5% and 14.5%, for the three and nine months ended September 30, 2013, respectively, as compared to the same periods in 2012. This growth was driven by increases in all aspects of our

business: collision, customer-pay, warranty, and wholesale parts. Our parts and service gross margin decreased 10 basis points for the

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three and nine months ended September 30, 2013, as compared to the same periods in 2012, primarily due to a mix shift with the acquisition of our Brazil segment, which generally realizes lower parts and service gross margins particularly within the warranty parts and service business.

Our consolidated finance and insurance revenues per retail unit sold decreased by $13 for the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to the mix effect resulting from our Brazil and U.K. acquisitions. Finance and insurance revenues per retail unit sold increased $15 for the nine months ended September 30, 2013, as compared to the same period in 2012, primarily as a result of higher income per contract and increased penetration rates in the U.S., partially offset by unfavorable country mix.

Our total gross margin decreased 60 basis points for the three months ended September 30, 2013 and 50 basis points for the nine months ended September 30, 2013, as compared to the same periods in 2012, primarily due to the shift in business mix towards lower margin new and used vehicle businesses and growing contribution from our foreign segments.

Our consolidated SG&A expenses increased as a percentage of gross profit by 70 basis points to 74.9% for the three months ended September 30, 2013 and by 10 basis points to 75.3% for the nine months ended September 30, 2013, as compared to the same periods in 2012, as a result of largely variable expenses, such as personnel and advertising, that grew disproportionately to gross profit, as well as the impact of a country mix, since Brazil and the U.K. generally experience a higher ratio of SG&A expenses to gross profit.

For the three and nine months ended September 30, 2013, floorplan interest expense increased 34.6% and 32.0%, respectively, as compared to the same periods in 2012, primarily as a result of an increase in our floorplan borrowings from dealership acquisitions, particularly in Brazil, and expanded inventory levels necessary to support higher sales rates. Other interest expense, net increased 3.7% and 3.4%, respectively, for the three and nine months ended September 30, 2013, as compared to the same periods in 2012.

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

Critical Accounting Policies and Accounting Estimates

The preparation of our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions.

We disclosed certain critical accounting policies and estimates in our Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K"), and no significant changes have occurred since that time.

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Results of Operations

The following tables present comparative financial and non-financial data for the three and nine months ended September 30, 2013 and 2012 of (a) our "Same Store" locations, (b) those locations acquired or disposed of during the periods ("Transactions"), and (c) the consolidated company. Same Store amounts include the results of dealerships for the identical months in each period presented in the comparison, commencing with the first full month in which the dealership was owned by us and, in the case of dispositions, ending with the last full month it was owned by us. Same Store results also include the activities of our corporate headquarters.

Total Same Store Data

The following table summarizes our combined Same Store results for the three and nine months ended September 30, 2013, as compared to 2012:

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	% Change	2012	2013	% Change	2012
Revenues						
New vehicle retail	$1,148,915	7.7%	$1,066,782	$3,233,449	7.7%	$3,003,079
Used vehicle retail	467,093	6.4%	438,868	1,354,555	5.4%	1,285,471
Used vehicle wholesale	70,965	(3.8)%	73,767	201,109	(3.5)%	208,297
Parts and service	226,981	8.0%	210,261	677,732	7.4%	631,012
Finance, insurance and other	75,779	14.5%	66,200	214,889	15.4%	186,140
Total revenues	$1,989,733	7.2%	$1,855,878	$5,681,734	6.9%	$5,313,999
Cost of Sales						
New vehicle retail	$1,090,263	8.7%	$1,003,427	$3,060,540	8.3%	$2,825,946
Used vehicle retail	430,508	6.8%	402,978	1,242,529	5.6%	1,176,185
Used vehicle wholesale	72,024	(3.0)%	74,245	199,752	(2.9)%	205,706
Parts and service	106,087	6.2%	99,895	317,270	6.0%	299,320
Total cost of sales	$1,698,882	7.5%	$1,580,545	$4,820,091	6.9%	$4,507,157
Gross profit	$290,851	5.6%	$275,333	$861,643	6.8%	$806,842
SG&A	$214,526	6.7%	$201,034	$647,778	7.7%	$601,687
Depreciation and amortization expenses	$8,239	6.7%	$7,725	$23,924	6.9%	$22,384
Floorplan interest expense	$8,176	7.5%	$7,606	$24,960	10.2%	$22,660
Gross Margin						
New vehicle retail	5.1 %		5.9 %	5.3 %		5.9 %
Total used vehicle	6.6 %		6.9 %	7.3 %		7.5 %
Parts and service	53.3 %		52.5 %	53.2 %		52.6 %
Total gross margin	14.6 %		14.8 %	15.2 %		15.2 %
SG&A as a % of gross profit	73.8 %		73.0 %	75.2 %		74.6 %
Operating margin	3.4 %		3.6 %	3.3 %		3.4 %
Finance and insurance revenues per retail unit sold	$1,338	7.1%	$1,249	$1,331	9.5%	$1,215

The discussion that follows provides explanation for the material variances noted above. In addition, each table presents, by primary statement of operations line item, comparative financial and non-financial data of our Same Store locations, Transactions and the consolidated company for the three and nine months ended September 30, 2013 and 2012.

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New Vehicle Retail Data
(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	% Change	2012	2013	% Change	2012
Retail Unit Sales						
Same Stores						
U.S.	31,294	6.2%	29,460	89,951	5.8%	85,039
U.K.	2,880	17.8%	2,444	6,203	9.7%	5,656
Total - Same Stores	34,174	7.1%	31,904	96,154	6.0%	90,695
Transactions						
U.S.	1,572		2,502	4,282		4,486
U.K.	1,426		126	4,535		205
Brazil	5,139		—	11,967		—
Total	42,311	22.5%	34,532	116,938	22.6%	95,386
Retail Sales Revenues						
Same Stores						
U.S.	$1,046,722	6.9%	$979,516	$3,016,595	7.6%	$2,802,581
U.K.	102,193	17.1%	87,266	216,854	8.2%	200,498
Total - Same Stores	1,148,915	7.7%	1,066,782	3,233,449	7.7%	3,003,079
Transactions						
U.S.	44,499		69,378	115,866		122,872
U.K.	34,547		5,126	125,184		8,640
Brazil	158,706		—	398,622		—
Total	$1,386,667	21.5%	$1,141,286	$3,873,121	23.6%	$3,134,591
Gross Profit						
Same Stores						
U.S.	$51,678	(8.9)%	$56,725	$157,496	(2.9)%	$162,201
U.K.	6,974	5.2%	6,630	15,413	3.2%	14,932
Total - Same Stores	58,652	(7.4)%	63,355	172,909	(2.4)%	177,133
Transactions						
U.S.	2,408		2,937	6,498		5,561
U.K.	874		258	6,228		518
Brazil	11,361		—	30,661		—
Total	$73,295	10.1%	$66,550	$216,296	18.1%	$183,212
Gross Profit per Retail Unit Sold						
Same Stores						
U.S.	$1,651	(14.2)%	$1,925	$1,751	(8.2)%	$1,907
U.K.	$2,422	(10.7)%	$2,713	$2,485	(5.9)%	$2,640
Total - Same Stores	$1,716	(13.6)%	$1,986	$1,798	(7.9)%	$1,953
Transactions						
U.S.	$1,532		$1,174	$1,518		$1,240
U.K.	$613		$2,048	$1,373		$2,527
Brazil	$2,211		$—	$2,562		$—
Total	$1,732	(10.1)%	$1,927	$1,850	(3.7)%	$1,921

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	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
Gross Margin								
Same Stores								
U.S.	4.9	%	5.8	%	5.2	%	5.8	%
U.K.	6.8	%	7.6	%	7.1	%	7.4	%
Total - Same Stores	5.1	%	5.9	%	5.3	%	5.9	%
Transactions								
U.S.	5.4	%	4.2	%	5.6	%	4.5	%
U.K.	2.5	%	5.0	%	5.0	%	6.0	%
Brazil	7.2	%	—		7.7	%	—	
Total	5.3	%	5.8	%	5.6	%	5.8	%

Same Store New Vehicle Unit Sales

The following table sets forth our Same Store new vehicle retail unit sales volume by manufacturer.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	% Change	2012	2013	% Change	2012
Toyota	10,534	5.1%	10,026	29,780	3.8%	28,692
BMW	4,196	20.4%	3,485	11,458	12.2%	10,208
Honda	3,613	4.6%	3,453	10,408	3.2%	10,090
Ford	3,172	10.1%	2,881	9,491	12.4%	8,445
Nissan	3,045	1.6%	2,997	9,609	4.6%	9,187
Volkswagen	2,780	1.1%	2,750	5,956	0.8%	5,909
General Motors	1,950	2.7%	1,898	5,562	0.7%	5,525
Chrysler	1,643	10.4%	1,488	4,681	11.6%	4,196
Mercedes-Benz	1,608	7.2%	1,500	4,867	10.9%	4,389
Hyundai	1,205	16.4%	1,035	3,037	8.9%	2,790
Other	428	9.5%	391	1,305	3.2%	1,264
Total	34,174	7.1%	31,904	96,154	6.0%	90,695

Coupled with the increase in overall industry sales, we believe the focus that we have placed on improving our dealership sales processes has contributed to increased Same Store new vehicle retail sales. Our total Same Store new vehicle retail sales revenues increased 7.7% for the three months ended September 30, 2013, as compared to the same period in 2012, as a result of increased new vehicle retail unit sales of 6.2% in the U.S. and 17.8% in the U.K. The U.S. Same Store revenues for the three months ended September 30, 2013 improved 5.9% and 13.2% in our luxury and domestic brands, respectively, as compared to the same period in 2012. The U.S. Same Store revenues also increased by 4.6% in our import brands. The mix shift effect contributed to an increase in our U.S. Same Store revenues per retail unit (“PRU”), which grew 0.6% to $33,448 during the third quarter of 2013, as compared to the same period in 2012. The level of retail sales, as well as our own ability to retain or grow market share during any future period, is difficult to predict.

Our total Same Store new vehicle gross profit decreased 7.4% for the three months ended September 30, 2013, as compared to the same period in 2012, driven by a 14.2% decline in U.S. Same Store gross profit PRU to $1,651. Competition among U.S. dealerships for new vehicle sales continued to escalate during the third quarter of 2013, causing downward pressure on most of our major brands and in most of our markets. As a result, our total Same Store new vehicle gross margin for the three months ended September 30, 2013 declined 80 basis points to 5.1% as compared to the same period in 2012.

For the nine months ended September 30, 2013, total Same Store new vehicle retail sales revenues increased 7.7% and unit sales increased 6.0%, as compared to the same period in 2012. Our U.S. Same Store new vehicle retail revenues PRU increased 1.8% to $33,536 and unit sales increased 9.1%, 8.8%, and 3.4% in our domestic, luxury and import

categories, respectively. Total Same Store gross profit PRU decreased 7.9% to $1,798 in the first nine months of 2013 from $1,953 during the same period in 2012, and, as a result, our gross margin decreased 60 basis points from 5.9% to 5.3%.

Most manufacturers offer interest assistance to offset floorplan interest charges incurred in connection with inventory purchases. This assistance varies by manufacturer, but generally provides for a defined amount, adjusted periodically for changes in market interest rates, regardless of our actual floorplan interest rate or the length of time for which the inventory is

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financed. We record these incentives as a reduction of new vehicle cost of sales as the vehicles are sold, impacting the gross profit and gross margin detailed above. The total assistance recognized in cost of sales during the three months ended September 30, 2013 and 2012 was $10.2 million and $9.2 million, respectively. The amount of interest assistance we recognize in a given period is primarily a function of: (a) the mix of units being sold, as U.S. domestic brands tend to provide more assistance, (b) the specific terms of the respective manufacturers' interest assistance programs and market interest rates, (c) the average wholesale price of inventory sold, and (d) our rate of inventory turnover. Over the past three years, manufacturers' interest assistance as a percentage of our total consolidated floorplan interest expense has ranged from 69.3% in the fourth quarter of 2010 to 115.9% in the third quarter of 2012 and was 95.6% for the third quarter of 2013. The ratio for the third quarter of 2013 of 95.6% was 20.3 percentage points lower than the third quarter of 2012 primarily due to the country mix effect from the U.K. receiving a much lower rate of assistance as compared to the U.S. and Brazil receiving no assistance. In the U.S., manufacturer's interest assistance was 125.0% of floorplan interest expense in the third quarter of 2013.

We increased our new vehicle inventory levels by $92.7 million, or 10.4%, from $895.5 million as of December 31, 2012 to $988.2 million as of September 30, 2013, primarily in response to an improved selling environment and our recent dealership acquisitions. We increased our new vehicle inventory levels by $171.8 million, or 21.1%, from $816.3 million as of September 30, 2012. Our consolidated days' supply of new vehicle inventory increased to 65 days as of September 30, 2013 compared to 63 days as of December 31, 2012 and September 30, 2012.

Used Vehicle Retail Data

(dollars in thousands, except per unit amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	% Change	2012	2013	% Change	2012
Retail Unit Sales						