AUTONATION, INC.
Form 10-Q
October 24, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-13107
AutoNation, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	73-1105145 (I.R.S. Employer Identification No.)
200 SW 1st Avenue, Fort Lauderdale, Florida (Address of principal executive offices)	33301 (Zip Code)

(954) 769-6000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of October 23, 2013, the registrant had 121,812,200 shares of common stock outstanding.

AUTONATION, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

		Page
Item 1.	Financial Statements	
	Unaudited Condensed Consolidated Balance Sheets as of September 30, 2013, and December 31, 2012	1
	Unaudited Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2013 and 2012	2
	Unaudited Condensed Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2013	3
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012	4
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	42
Item 4.	Controls and Procedures	43
PART II. OTHER INFORMATION		
Item 1A.	Risk Factors	44
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 6.	Exhibits	44

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$68.3	$69.7
Receivables, net	599.3	698.4
Inventory	2,504.8	2,396.9
Other current assets	186.1	196.1
Total Current Assets	3,358.5	3,361.1
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $879.8 million and $826.8 million, respectively	2,186.8	2,095.1
GOODWILL	1,254.9	1,237.4
OTHER INTANGIBLE ASSETS, NET	326.8	291.3
OTHER ASSETS	247.8	218.1
Total Assets	$7,374.8	$7,203.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable - trade	$1,837.9	$1,766.3
Vehicle floorplan payable - non-trade	763.0	773.9
Accounts payable	233.4	217.2
Current maturities of long-term debt	29.8	29.8
Other current liabilities	416.3	414.5
Total Current Liabilities	3,280.4	3,201.7
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,826.5	2,066.3
DEFERRED INCOME TAXES	104.8	89.4
OTHER LIABILITIES	169.7	157.1
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $0.01 per share; 1,500,000,000 shares authorized; 163,562,149 shares issued at September 30, 2013, and December 31, 2012, including shares held in treasury	1.6	1.6
Additional paid-in capital	38.8	26.6
Retained earnings	3,228.5	2,963.0
Treasury stock, at cost; 41,750,762 and 42,705,580 shares held, respectively	(1,275.5)	(1,302.7)
Total Shareholders' Equity	1,993.4	1,688.5
Total Liabilities and Shareholders' Equity	$7,374.8	$7,203.0

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

1

Table of Contents

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
New vehicle	$2,561.6	$2,240.5	$7,312.9	$6,430.9
Used vehicle	1,044.7	936.4	3,110.9	2,802.6
Parts and service	653.8	596.8	1,946.3	1,799.2
Finance and insurance, net	174.9	147.0	504.4	422.3
Other	35.8	13.1	119.2	40.3
TOTAL REVENUE	4,470.8	3,933.8	12,993.7	11,495.3
Cost of sales:				
New vehicle	2,406.2	2,095.8	6,866.6	6,006.7
Used vehicle	964.2	863.7	2,860.3	2,571.7
Parts and service	376.7	345.0	1,116.7	1,043.8
Other	27.1	6.7	93.4	19.5
TOTAL COST OF SALES	3,774.2	3,311.2	10,937.0	9,641.7
Gross Profit:				
New vehicle	155.4	144.7	446.3	424.2
Used vehicle	80.5	72.7	250.6	230.9
Parts and service	277.1	251.8	829.6	755.4
Finance and insurance	174.9	147.0	504.4	422.3
Other	8.7	6.4	25.8	20.8
TOTAL GROSS PROFIT	696.6	622.6	2,056.7	1,853.6
Selling, general, and administrative expenses	485.1	435.8	1,452.5	1,307.3
Depreciation and amortization	24.1	22.9	70.1	64.9
Franchise rights impairment	—	—	—	4.2
Other expenses (income), net	0.2	0.2	(3.4)	0.6
OPERATING INCOME	187.2	163.7	537.5	476.6
Non-operating income (expense) items:				
Floorplan interest expense	(12.7)	(11.4)	(39.2)	(32.9)
Other interest expense	(22.3)	(22.2)	(66.6)	(65.2)
Interest income	0.1	—	0.2	0.2
Other income (loss), net	(0.7)	2.5	2.2	3.1
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	151.6	132.6	434.1	381.8
Income tax provision	58.8	50.7	168.0	147.4
NET INCOME FROM CONTINUING OPERATIONS	92.8	81.9	266.1	234.4
Loss from discontinued operations, net of income taxes	(0.2)	(0.3)	(0.6)	(1.2)
NET INCOME	$92.6	$81.6	$265.5	$233.2
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.76	$0.68	$2.19	$1.88
Discontinued operations	$—	$—	$—	$(0.01)
Net income	$0.76	$0.67	$2.19	$1.87
Weighted average common shares outstanding	121.5	121.2	121.3	124.4
DILUTED EARNINGS (LOSS) PER SHARE:				

Continuing operations	$0.75	$0.66	$2.16	$1.85
Discontinued operations	$—	$—	$—	$(0.01)
Net income	$0.75	$0.66	$2.15	$1.84
Weighted average common shares outstanding	123.5	123.4	123.3	126.4
COMMON SHARES OUTSTANDING, net of treasury stock, at period end	121.8	121.7	121.8	121.7

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In millions, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
December 31, 2012	163,562,149	$1.6	$26.6	$2,963.0	$(1,302.7)	$1,688.5
Net income	—	—	—	265.5	—	265.5
Repurchases of common stock	—	—	—	—	(6.9)	(6.9)
Stock-based compensation expense	—	—	17.3	—	—	17.3
Shares awarded under stock-based compensation plans, including income tax benefit of $8.5	—	—	(5.1)	—	34.1	29.0
September 30, 2013	163,562,149	$1.6	$38.8	$3,228.5	$(1,275.5)	$1,993.4

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Nine Months Ended September 30,	
	2013	2012
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$265.5	$233.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	0.6	1.2
Depreciation and amortization	70.1	64.9
Amortization of debt issuance costs and accretion of debt discounts	4.3	4.2
Stock-based compensation expense	17.3	15.2
Deferred income tax provision	15.4	15.4
Non-cash impairment charges	—	0.3
Franchise rights impairment	—	4.2
Net gain on asset sales and dispositions	(2.1)	(0.2)
Excess tax benefit from stock-based awards	(8.5)	(8.0)
Other	(3.3)	(2.6)
(Increase) decrease, net of effects from business combinations and divestitures:		
Receivables	95.5	71.7
Inventory	(88.7)	(332.9)
Other assets	(13.9)	(25.2)
Increase, net of effects from business combinations and divestitures:		
Vehicle floorplan payable-trade, net	47.6	197.1
Accounts payable	16.2	16.1
Other liabilities	46.9	57.8
Net cash provided by continuing operations	462.9	312.4
Net cash provided by (used in) discontinued operations	5.4	(0.7)
Net cash provided by operating activities	468.3	311.7
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property and equipment	(110.6)	(107.8)
Property operating lease buy-outs	(41.9)	(16.8)
Proceeds from the sale of property and equipment	3.1	0.6
Proceeds from assets held for sale	1.8	11.8
Insurance recoveries on property and equipment	2.2	1.0
Cash used in business acquisitions, net of cash acquired	(72.9)	—
Proceeds from the sale of restricted investments	—	0.4
Cash received from business divestitures, net of cash relinquished	10.1	—
Other	(3.6)	(3.0)
Net cash used in continuing operations	(211.8)	(113.8)
Net cash used in discontinued operations	—	—
Net cash used in investing activities	(211.8)	(113.8)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Continued)

	Nine Months Ended September 30,	
	2013	2012
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repurchases of common stock	(18.6)	(538.3)
Proceeds from revolving credit facility	620.0	820.0
Payment of revolving credit facility	(840.0)	(920.0)
Proceeds from 5.5% Senior Notes due 2020	—	350.0
Payment of 7% Senior Notes due 2014	—	(14.7)
Payment of debt issuance costs	—	(6.0)
Net proceeds from (payments of) vehicle floorplan payable - non-trade	(12.2)	104.9
Payments of mortgage facilities	(6.5)	(6.0)
Payments of capital leases and other debt obligations	(23.3)	(4.5)
Proceeds from the exercise of stock options	20.5	20.7
Excess tax benefit from stock-based awards	8.5	8.0
Net cash used in continuing operations	(251.6)	(185.9)
Net cash used in discontinued operations	(6.3)	—
Net cash used in financing activities	(257.9)	(185.9)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1.4)	12.0
CASH AND CASH EQUIVALENTS at beginning of period	69.7	86.6
CASH AND CASH EQUIVALENTS at end of period	$68.3	$98.6

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share data)

1. INTERIM FINANCIAL STATEMENTS

Business and Basis of Presentation

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2013, we owned and operated 267 new vehicle franchises from 226 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 95% of the new vehicles that we sold during the nine months ended September 30, 2013, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, BMW, Chrysler, and Volkswagen.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service," which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products, which include vehicle service, insurance, and other products, as well as the arranging of financing for vehicle purchases through third-party finance sources. For convenience, the terms "AutoNation," "Company," and "we" are used to refer collectively to AutoNation, Inc. and its subsidiaries, unless otherwise required by the context. Our dealership operations are conducted by our subsidiaries.

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of AutoNation, Inc. and its subsidiaries; all significant intercompany accounts and transactions have been eliminated. The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information related to our organization, significant accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state, in all material respects, our financial position and results of operations for the periods presented.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We periodically evaluate estimates and assumptions used in the preparation of the financial statements and make changes on a prospective basis when adjustments are necessary. Significant estimates made by AutoNation in the accompanying Unaudited Condensed Consolidated Financial Statements include certain assumptions related to goodwill, intangible assets, long-lived assets, assets held for sale, accruals for chargebacks against revenue recognized from the sale of finance and insurance products, accruals related to self-insurance programs, certain legal proceedings, estimated tax liabilities, estimated losses from disposals of discontinued operations, and certain assumptions related to stock-based compensation.

Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included in our most recent Annual Report on Form 10-K.

Certain reclassifications of amounts previously reported have been made to the accompanying Unaudited Condensed Consolidated Financial Statements in order to maintain consistency and comparability between periods presented.

Recent Accounting Pronouncements

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to reduce the diversity in practice regarding the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this accounting standard update are

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the adoption of this accounting standard update to have a material impact on our consolidated financial position, results of operations, or cash flows.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued an accounting standard update that amends the accounting guidance on testing indefinite-lived intangible assets for impairment. The amendments in this accounting standard update are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. The amendments in this accounting standard update are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this accounting standard update did not have an impact on our consolidated financial position, results of operations, or cash flows.

2. RECEIVABLES, NET

The components of receivables, net of allowance for doubtful accounts, are as follows:

	September 30, 2013	December 31, 2012
Trade receivables	$105.9	$97.6
Manufacturer receivables	136.1	159.9
Other	34.8	39.4
	276.8	296.9
Less: Allowances	(3.6)	(3.4)
	273.2	293.5
Contracts-in-transit and vehicle receivables	317.8	404.9
Income tax refundable (see Note 6)	8.3	—
Receivables, net	$599.3	$698.4

Trade receivables represent amounts due for parts and services that have been sold or delivered, excluding amounts due from manufacturers, as well as receivables from finance organizations for commissions on the sale of financing products. Manufacturer receivables represent receivables from manufacturers including amounts due for holdbacks, rebates, incentives, floorplan assistance, and warranty claims. Contracts-in-transit and vehicle receivables primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers. We evaluate our receivables for collectability based on the age of receivables and past collection experience.

3. INVENTORY AND VEHICLE FLOORPLAN PAYABLE

The components of inventory are as follows:

	September 30, 2013	December 31, 2012
New vehicles	$2,010.3	$1,938.0
Used vehicles	350.4	318.7
Parts, accessories, and other	144.1	140.2
Inventory	$2,504.8	$2,396.9

7

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The components of vehicle floorplan payable are as follows:

	September 30, 2013	December 31, 2012
Vehicle floorplan payable - trade	$1,837.9	$1,766.3
Vehicle floorplan payable - non-trade	763.0	773.9
Vehicle floorplan payable	$2,600.9	$2,540.2

Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with the corresponding manufacturers' captive finance subsidiaries ("trade lenders"). Vehicle floorplan payable - non-trade represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders, as well as amounts borrowed under our secured used floorplan facilities, which are primarily collateralized by used vehicle inventories and related receivables. Changes in vehicle floorplan payable-trade are reported as operating cash flows and changes in vehicle floorplan payable-non-trade are reported as financing cash flows in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows.

Our inventory costs are generally reduced by manufacturer holdbacks, incentives, and floorplan assistance, while the related vehicle floorplan payables are reflective of the gross cost of the vehicle. The vehicle floorplan payables, as shown in the above table, will generally also be higher than the inventory cost due to the timing of the sale of a vehicle and payment of the related liability.

Vehicle floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally require that the manufacturer have the ability to draft against new vehicle floorplan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Vehicle floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Our used vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 1.8% for the nine months ended September 30, 2013, and 2.1% for the nine months ended September 30, 2012. At September 30, 2013, the aggregate capacity under our used vehicle floorplan facilities with various lenders to finance a portion of our used vehicle inventory was $275.0 million, of which $174.1 million had been borrowed. The remaining borrowing capacity of $100.9 million was limited to $47.6 million based on the eligible used vehicle inventory that could have been pledged as collateral.

Our new vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 2.0% for the nine months ended September 30, 2013, and 2.1% for the nine months ended September 30, 2012. At September 30, 2013, the aggregate capacity under our new vehicle floorplan facilities to finance our new vehicle inventory was approximately $3.0 billion, of which $2.4 billion had been borrowed.

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets, net, consist of the following:

	September 30, 2013	December 31, 2012
Goodwill	$1,254.9	$1,237.4
Franchise rights - indefinite-lived	$320.8	$285.7
Other intangibles	11.1	9.9
	331.9	295.6
Less: accumulated amortization	(5.1)	(4.3)
Other intangible assets, net	$326.8	$291.3

Goodwill

We test goodwill of our Domestic, Import, and Premium Luxury reporting units for impairment annually on April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

not exceeds its fair value. Under accounting standards, an entity is permitted to first make a qualitative assessment of any potential goodwill impairment to determine whether it is necessary to calculate the fair value of a reporting unit under the quantitative two-step goodwill impairment test.

We completed our qualitative assessment of any potential goodwill impairment as of April 30, 2013. Based on our qualitative assessment, we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts and we were therefore not required to perform the two-step goodwill impairment test for any of our reporting units.

Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested at least annually as of April 30 for impairment. As discussed in Note 1 above, the FASB issued an accounting standard update that permits an entity to first make a qualitative evaluation about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test.

We completed our qualitative assessment of any potential franchise rights impairment as of April 30, 2013. Based on our qualitative assessment, we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts and we were therefore not required to perform a quantitative impairment test.

5. LONG-TERM DEBT

Long-term debt consisted of the following:

	September 30, 2013	December 31, 2012
6.75% Senior Notes due 2018	$396.1	$395.6
5.5% Senior Notes due 2020	350.0	350.0
Term loan facility due 2016	500.0	500.0
Revolving credit facility due 2016	320.0	540.0
Mortgage facility [1]	196.9	203.3
Capital leases and other debt	93.3	107.2
	1,856.3	2,096.1
Less: current maturities	(29.8)	(29.8)
Long-term debt, net of current maturities	$1,826.5	$2,066.3

[1] The mortgage facility requires monthly principal and interest payments of $1.7 million based on a fixed amortization schedule with a balloon payment of $155.4 million due November 2017.

Senior Unsecured Notes and Credit Agreement

At September 30, 2013, we had outstanding $396.1 million of 6.75% Senior Notes due 2018, net of debt discount. Interest on the 6.75% Senior Notes due 2018 is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At September 30, 2013, we had outstanding $350.0 million aggregate principal amount of 5.5% Senior Notes due 2020. Interest is payable on February 1 and August 1 of each year. At any time prior to February 1, 2015, we may redeem up to 35% of the principal amount of these notes with the net cash proceeds of one or more public equity offerings of our common stock at 105.5% of principal. These notes will mature on February 1, 2020.

Under our credit agreement, we have a $500.0 million term loan facility and a $1.2 billion revolving credit facility. The term loan and revolving credit facilities under the credit agreement mature December 7, 2016. As of September 30, 2013, we had borrowings outstanding of $320.0 million under our revolving credit facility. We have a $200.0 million letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding

letters of credit, which was $56.0 million at

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

September 30, 2013, leaving an additional borrowing capacity under the revolving credit facility of $824.0 million at September 30, 2013.

Our term loan facility provides for various interest rates generally at LIBOR plus 1.75%. Our revolving credit facility provides for a commitment fee on undrawn amounts of 0.30% and various interest rates on borrowings generally at LIBOR plus 1.75%.

The credit spread charged for both our term loan facility and revolving credit facility is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.25x to greater than or equal to 3.25x would result in a 25 basis point increase in the credit spread under both our term loan facility and revolving credit facility.

Our senior unsecured notes and borrowings under our credit agreement are guaranteed by substantially all of our subsidiaries. Within the meaning of Regulation S-X, Rule 3-10, AutoNation, Inc. (the parent company) has no independent assets or operations, the guarantees of its subsidiaries are full and unconditional and joint and several, and any subsidiaries other than the guarantor subsidiaries are minor.

Other Debt

At September 30, 2013, we had $196.9 million outstanding under a mortgage facility with an automotive manufacturer’s captive finance subsidiary that matures on November 30, 2017. The mortgage facility utilizes a fixed interest rate of 5.864% and is secured by 10-year mortgages on certain of our store properties. At September 30, 2013, we had capital lease and other debt obligations of $93.3 million, which are due at various dates through 2033.

Restrictions and Covenants

Our credit agreement, the indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020, our vehicle floorplan facilities, and our mortgage facility contain customary financial and operating covenants that place restrictions on us, including our ability to incur additional indebtedness or prepay existing indebtedness, to create liens or other encumbrances, to sell (or otherwise dispose of) assets, and to merge or consolidate with other entities.

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. Under the credit agreement, the maximum capitalization ratio is 65.0% and the maximum leverage ratio is 3.75x. In calculating our leverage and capitalization ratios, we are not required to include letters of credit in the definition of debt (except to the extent of letters of credit in excess of $150.0 million). In addition, in calculating our capitalization ratio, we are permitted to add back to shareholders’ equity all goodwill, franchise rights, and long-lived asset impairment charges subsequent to September 30, 2011 plus $1.52 billion.

The indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain certain limited covenants, including limitations on liens and sale and leaseback transactions. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

Our failure to comply with the covenants contained in our debt agreements could permit acceleration of all of our indebtedness. Our debt agreements have cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of AutoNation.

Under the terms of our credit agreement, at September 30, 2013, our leverage ratio and capitalization ratio were as follows:

	September 30, 2013	
	Requirement	Actual
Leverage ratio	< 3.75x	2.37x
Capitalization ratio	< 65.0%	55.9%

10

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Both the leverage ratio and the capitalization ratio limit our ability to incur additional non-vehicle debt. The capitalization ratio also limits our ability to incur additional vehicle floorplan indebtedness and repurchase shares. In the event of a downgrade in our credit ratings, none of the covenants described above would be impacted. In addition, availability under our credit agreement described above would not be impacted should a downgrade in our senior unsecured debt credit ratings occur.

6. INCOME TAXES

Income taxes receivable included in Receivables, Net totaled $8.3 million at September 30, 2013. Income taxes payable included in Other Current Liabilities totaled $3.2 million at December 31, 2012.

We file income tax returns in the U.S. federal jurisdiction and various states. As a matter of course, various taxing authorities, including the IRS, regularly audit us. Currently, no tax years are under examination by the IRS, and tax years from 2008 to 2010 are under examination by certain U.S. state jurisdictions. These audits may result in proposed assessments where the ultimate resolution may result in our owing additional taxes. We believe that our tax positions comply with applicable tax law and that we have adequately provided for these matters.

It is our continuing policy to account for interest and penalties associated with income tax obligations as a component of Income Tax Provision in the accompanying Unaudited Condensed Consolidated Financial Statements.

7. SHAREHOLDERS' EQUITY

A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Shares repurchased	—	—	0.1	15.4
Aggregate purchase price	$—	$—	$4.9	$531.6
Average purchase price per share	$—	$—	$40.81	$34.54

As of September 30, 2013, $314.3 million remained available under our stock repurchase authorization limit.

A summary of shares of common stock issued in connection with the exercise of stock options follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Shares issued	0.5	1.1	1.0	1.2
Proceeds from the exercise of stock options	$9.9	$20.3	$20.5	$22.1
Average exercise price per share	$20.32	$18.56	$20.46	$18.46

The following table presents a summary of shares of common stock issued in connection with grants of restricted stock and shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock or to pay for an option exercise (in actual number of shares):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Shares issued	—	5,000	137,144	160,740
Shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock or to pay for an option exercise	516	43,459	42,822	80,394

11

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period, including outstanding unvested restricted stock awards. Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding adjusted for the dilutive effect of stock options.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income from continuing operations	$92.8	$81.9	$266.1	$234.4
Loss from discontinued operations, net of income taxes	(0.2)	(0.3)	(0.6)	(1.2)
Net income	$92.6	$81.6	$265.5	$233.2
Weighted average common shares outstanding used in calculating basic EPS	121.5	121.2	121.3	124.4
Effect of dilutive stock options	2.0	2.2	2.0	2.0
Weighted average common shares used in calculating diluted EPS	123.5	123.4	123.3	126.4
Basic EPS amounts:				
Continuing operations	$0.76	$0.68	$2.19	$1.88
Discontinued operations	$—	$—	$—	$(0.01)
Net income	$0.76	$0.67	$2.19	$1.87
Diluted EPS amounts:				
Continuing operations	$0.75	$0.66	$2.16	$1.85
Discontinued operations	$—	$—	$—	$(0.01)
Net income	$0.75	$0.66	$2.15	$1.84

A summary of anti-dilutive options excluded from the computation of diluted earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Anti-dilutive options excluded from the computation of diluted earnings per share	0.6	0.9	0.7	0.9

9. ACQUISITIONS

We purchased three stores and related assets during the nine months ended September 30, 2013. The acquisitions were Don Davis Toyota in the Dallas, Texas market, which was completed on May 1, 2013, and SanTan Honda Superstore and Hyundai of Tempe in the Phoenix, Arizona market, which were completed on May 22, 2013. Acquisitions are included in the Unaudited Condensed Consolidated Financial Statements from the date of acquisition. We did not purchase any stores during the three and nine months ended September 30, 2012.

The acquisitions that occurred during the nine months ended September 30, 2013 were not material to our financial condition or results of operations. Additionally, the pro forma consolidated income statements as if the results of these acquisitions had been included in our consolidated results for the entire nine month period ended September 30, 2013, would not have been materially different from our reported consolidated income statement for this period.

12

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, wage and hour and other employment-related lawsuits, and actions brought by governmental authorities. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose the amount accrued if material or if such disclosure is necessary for our financial statements to not be misleading. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred. If there is a reasonable possibility that a loss, or additional loss, may have been incurred, we disclose the estimate of the possible loss or range of loss if it is material or a statement that such an estimate cannot be made. Our evaluation of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. We believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable, and there was no indication of a reasonable possibility that a material loss, or additional material loss, may have been incurred. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, results of operations, and cash flows.

Other Matters

AutoNation, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by our subsidiaries of their respective store premises. Pursuant to these leases, our subsidiaries generally agree to indemnify the lessor and other related 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, we enter into agreements with third parties in connection with the sale of assets or businesses in which we agree to indemnify the purchaser or related 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, we enter into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, our liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dispositions of automotive stores, our subsidiaries assign or sublet to the store purchaser the subsidiaries' interests in any real property leases associated with such stores. In general, our 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, AutoNation and its subsidiaries generally remain subject to the terms of any guarantees made by us and our subsidiaries in connection with such leases. Although we generally have indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, we estimate that lessee rental payment obligations during the remaining terms of these leases with expirations ranging from 2013 to 2034 are approximately $41 million at September 30, 2013. We do not have any material known commitments that we or our subsidiaries will be called on to perform under any such assigned leases or subleases at September 30, 2013. Our exposure under these leases is difficult to estimate and there can be no assurance that any performance of AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.

At September 30, 2013, surety bonds, letters of credit, and cash deposits totaled $91.1 million, including $56.0 million of letters of credit. In the ordinary course of business, we are required to post performance and surety bonds, letters of

credit, and/or cash deposits as financial guarantees of our performance. We do not currently provide cash collateral for outstanding letters of credit.

In the ordinary course of business, we are subject to numerous laws and regulations, including automotive, environmental, health and safety, and other laws and regulations. We do not anticipate that the costs of such compliance will have a material adverse effect on our business, consolidated results of operations, cash flows, or financial condition, although such outcome is possible given the nature of our operations and the extensive legal and regulatory framework applicable to our

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

business. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the "CFPB"), a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In March 2013, the CFPB issued supervisory guidance highlighting its concern that the practice of automotive dealers being compensated for arranging customer financing through discretionary markup of wholesale rates offered by financial institutions ("dealer markup") results in a significant risk of pricing disparity in violation of The Equal Credit Opportunity Act ("ECOA"). The CFPB recommended that financial institutions under its jurisdiction take steps to ensure compliance with the ECOA, which may include imposing controls on dealer markup, monitoring and addressing the effects of dealer markup policies, and/or eliminating dealer discretion to markup buy rates and fairly compensating dealers using a different mechanism that does not result in discrimination. In response, certain financial institutions are conducting monitoring programs relating to dealer markups and may take further steps. In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual employee health care costs that we fund, with the most significant increases commencing in 2014, and significantly increase our cost of compliance and compliance risk related to offering health care benefits. Further, we expect that new laws and regulations, particularly at the federal level, in other areas may be enacted, which could also materially adversely impact our business. We do not have any material known environmental commitments or contingencies.

11. SEGMENT INFORMATION

At September 30, 2013 and 2012, we had three operating and reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Lexus, and Audi. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

"Corporate and other" is comprised of our other businesses, including collision centers, a customer lead generation business, and an auction operation, each of which generates revenues, as well as unallocated corporate overhead expenses and retrospective commissions for certain financing and insurance transactions that we arrange under agreements with third parties.

The operating 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. We have determined that our three operating segments also represent our reportable segments.

Reportable segment revenue and segment income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Domestic	$1,491.2	$1,285.0	$4,384.5	$3,809.2
Import	1,695.5	1,523.3	4,828.5	4,365.7
Premium Luxury	1,247.4	1,086.4	3,662.7	3,202.0
Total segment revenue	4,434.1	3,894.7	12,875.7	11,376.9
Corporate and other	36.7	39.1	118.0	118.4

Total consolidated revenue	$4,470.8	$3,933.8	$12,993.7	$11,495.3

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Segment income[(1)]:				
Domestic	$64.2	$51.9	$188.9	$155.2
Import	72.7	69.0	216.6	198.1
Premium Luxury	74.2	62.9	218.7	190.0
Total segment income	211.1	183.8	624.2	543.3
Corporate and other	(36.6)	(31.5)	(125.9)	(99.6)
Other interest expense	(22.3)	(22.2)	(66.6)	(65.2)
Interest income	0.1	—	0.2	0.2
Other income (loss), net	(0.7)	2.5	2.2	3.1
Income from continuing operations before income taxes	$151.6	$132.6	$434.1	$381.8

(1) Segment income for each of our segments is defined as operating income less floorplan interest expense.

12. BUSINESS AND CREDIT CONCENTRATIONS

We are subject to a concentration of risk in the event of financial distress of or other adverse event related to a major vehicle manufacturer. The core brands of vehicles that we sell are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, BMW, Chrysler, and Volkswagen. Our business could be materially adversely impacted by a bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender.

We had receivables from manufacturers or distributors of $136.1 million at September 30, 2013, and $159.9 million at December 31, 2012. Additionally, a large portion of our Contracts-in-Transit included in Receivables, Net, in the accompanying Unaudited Condensed Consolidated Balance Sheets, are due from automotive manufacturers' captive finance subsidiaries, which provide financing directly to our new and used vehicle customers. Concentrations of credit risk with respect to non-manufacturer trade receivables are limited due to the wide variety of customers and markets in which our products are sold as well as their dispersion across many different geographic areas in the United States. Consequently, at September 30, 2013, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

13. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. The assumptions used have a significant effect on the estimated amounts reported.

Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and also establishes the following three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following methods and assumptions were used by us in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, accounts receivable, other current assets, vehicle floorplan payable, accounts payable, other current liabilities, and variable rate debt: The amounts reported in the accompanying Unaudited Condensed Consolidated Balance Sheets approximate fair value due to their short-term nature or the existence of variable interest rates that approximate prevailing market rates.
- Fixed rate debt: Our fixed rate debt primarily consists of amounts outstanding under our senior unsecured notes and mortgages. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 1). We estimate the fair value of our mortgages using a present value technique based on our current market interest rates for similar types of financial instruments (Level 2). A summary of the aggregate carrying values and fair values of our fixed rate debt is as follows:

	September 30, 2013	December 31, 2012
Carrying value	$1,036.3	$1,056.1
Fair value	$1,123.1	$1,138.0

Nonfinancial assets such as goodwill, other intangible assets, and long-lived assets held and used are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized or for a business combination. The fair values less costs to sell of long-lived assets held for sale are assessed each reporting period they remain classified as held for sale. Subsequent changes in the held for sale long-lived asset's fair value less cost to sell (increase or decrease) is reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale.

Goodwill and Other Intangible Assets

Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill impairment test. We completed our qualitative assessment of potential goodwill impairment as of April 30, 2013 and 2012, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts. Accordingly, no impairment charges were recorded for the carrying value of goodwill during the three and nine months ended September 30, 2013 and 2012.

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a quantitative impairment test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2013 and we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts. Accordingly, no impairment charges were recorded for the carrying value of franchise rights during the three and nine months ended September 30, 2013.

During the nine months ended September 30, 2012, we recorded $4.2 million of non-cash impairment charges related to rights under a Premium Luxury store's franchise agreement. The non-cash impairment charge was recorded to reduce the carrying value of the store's franchise agreement to its fair value, and is classified as Franchise Rights Impairment in the accompanying Unaudited Condensed Consolidated Statements of Income. We recorded no impairment charges related to franchise rights during the three months ended September 30, 2012.

The development of the assumptions used in our annual impairment tests are coordinated by our financial planning and analysis group, and the assumptions are reviewed by management.

Long-Lived Assets

The fair value measurement valuation process for our long-lived assets is established by our corporate real estate services group, which reports to the Company’s President and Chief Operating Officer. Fair value measurements, which are based on Level 3 inputs, and changes in fair value measurements are reviewed and assessed each quarter for properties classified as held for sale, or when an indicator of impairment exists for properties classified as held and used, by the corporate real estate

Table of Contents
AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

services group. Our corporate real estate services group utilizes its knowledge of the automotive industry and historical experience in real estate markets and transactions in establishing the valuation process, which is generally based on a combination of the market and replacement cost approaches.

In a market approach, the corporate real estate services group uses transaction prices for comparable properties that have recently been sold. These transaction prices are adjusted for factors related to a specific property. The corporate real estate services group also evaluates changes in local real estate markets, and/or recent market interest or negotiations related to a specific property. In a replacement cost approach, the cost to replace a specific long-lived asset is considered, which is adjusted for depreciation from physical deterioration, as well as functional and economic obsolescence, if present and measurable.

To validate the fair values determined under the valuation process noted above, our corporate real estate services group also obtains independent third-party appraisals for our properties and/or third-party brokers' opinions of value, which are generally developed using the same valuation approaches described above, and evaluates any recent negotiations or discussions with third-party real estate brokers related to a specific long-lived asset or market.

Long-lived Assets Held and Used in Continuing Operations

During the three and nine months ended September 30, 2013, no impairment charges were recorded for the carrying value of long-lived assets held and used in continuing operations.

During the three and nine months ended September 30, 2012, we fully impaired certain long-lived assets held and used in continuing operations and recorded a non-cash impairment charge of $0.3 million. The non-cash impairment charge was included in Other Expenses (Income), Net in our Consolidated Statements of Income and was reported in the "Corporate and other" category of our segment information.

Long-lived Assets Held for Sale in Continuing Operations

During the three and nine months ended September 30, 2013 and 2012, no impairment charge was recorded for the carrying value of long-lived assets held for sale in continuing operations.

Long-lived Assets Held for Sale in Discontinued Operations

During the three and nine months ended September 30, 2013, no impairment charge was recorded for the carrying value of long-lived assets held for sale in discontinued operations.

During the nine months ended September 30, 2012, long-lived assets held for sale in discontinued operations with a carrying amount of $3.8 million were written down to their fair value of $3.7 million, resulting in a non-cash impairment charge of $0.1 million. The non-cash impairment charge was included in Loss from Discontinued Operations in our Consolidated Statements of Income. We recorded no impairment charges during the three months ended September 30, 2012.

As of September 30, 2013, we had long-lived assets held for sale of $71.1 million in continuing operations and $34.5 million in discontinued operations.

14. CASH FLOW INFORMATION

We consider all highly liquid investments with a maturity of three months or less as of the date of purchase to be cash equivalents unless the investments are legally or contractually restricted for more than three months. We had non-cash investing activities related to the increase in property acquired under capital leases of $9.5 million for the nine months ended September 30, 2013, and $20.1 million for the nine months ended September 30, 2012. The effect of non-cash transactions is excluded from the accompanying Unaudited Condensed Consolidated Statements of Cash Flows.

We made interest payments of $100.4 million during the nine months ended September 30, 2013, and $85.6 million during the nine months ended September 30, 2012. We made income tax payments, net of income tax refunds, of $155.3 million during the nine months ended September 30, 2013, and $112.2 million during the nine months ended September 30, 2012.

17

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Part I, Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K.

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2013, we owned and operated 267 new vehicle franchises from 226 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 95% of the new vehicles that we sold during the nine months ended September 30, 2013, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, BMW, Chrysler, and Volkswagen.

On January 31, 2013, we announced that we would be marketing our Domestic and Import stores under the AutoNation retail brand. The rebranding of these stores, which previously operated under various local market retail brands, commenced in the first quarter of 2013 and was completed in the second quarter of 2013.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service," which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products, which include vehicle service, insurance, and other products, as well as the arranging of financing for vehicle purchases through third-party finance sources. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets by, among other things, leveraging our market brands and advertising, improving asset management, implementing standardized processes, and increasing productivity across all of our stores.

At September 30, 2013, we had three operating and reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Lexus, and Audi. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the nine months ended September 30, 2013, new vehicle sales accounted for approximately 56% of our total revenue, but approximately 22% of our total gross profit. Used vehicle sales accounted for approximately 24% of our total revenue, and approximately 12% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 19% of our total revenue for the nine months ended September 30, 2013, contributed approximately 65% of our total gross profit for the same period.

Results of Operations

Third Quarter 2013 compared to Third Quarter 2012

During the three months ended September 30, 2013, we had net income from continuing operations of $92.8 million or $0.75 per share on a diluted basis, as compared to net income from continuing operations of $81.9 million or $0.66 per share on a diluted basis during the same period in 2012.

First Nine Months 2013 compared to First Nine Months 2012

During the nine months ended September 30, 2013, we had net income from continuing operations of $266.1 million or $2.16 per share on a diluted basis, as compared to net income from continuing operations of $234.4 million or $1.85 per share on a diluted basis during the same period in 2012.

Results for the nine months ended September 30, 2012, were adversely impacted by a non-cash franchise rights impairment charge of $4.2 million ($2.6 million after-tax, or $0.02 per share).

18

Table of Contents

Market Conditions

In the third quarter of 2013, U.S. industry new vehicle unit sales increased 9% compared to the third quarter of 2012, driven in part by replacement demand. Based on industry data, the average age of cars and trucks in the United States is at a record high of 11.4 years compared to an average age of 9.8 years during the period from 2002 to 2007. While a robust consumer credit environment and an increase in new product offerings from automotive manufacturers were supportive of a strong selling environment, increased competition pressured new vehicle margins, particularly in the Import segment. New vehicle margin compression was partially offset by continued strength in finance and insurance gross profit per vehicle retailed.

We continue to anticipate full-year U.S. industry new vehicle unit sales will be at the mid-15 million unit level, an improvement compared to 14.5 million in 2012.

After several years of decline, the number of recent-model-year vehicles in operation has begun to grow due to increases in the annual rate of new vehicle sales in the United States since 2009. The growth in that portion of our service base, together with our customer retention efforts, has benefited the customer-pay service and warranty components of our parts and service business, and we believe that it will continue to benefit those components for the next several years. While the number of older vehicles in operation is expected to decline over the next few years, we believe that overall our parts and service business will benefit from the mix shift in our service base toward newer vehicles.

Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or market on our consolidated balance sheets. We monitor our vehicle inventory levels closely based on current economic conditions and seasonal sales trends.

We have generally not experienced losses on the sale of new vehicle inventory, in part due to incentives provided by manufacturers to promote sales of new vehicles and our inventory management practices. We had 60,035 units in new vehicle inventory at September 30, 2013, 58,819 units at December 31, 2012, and 51,656 units at September 30, 2012.

We recondition the majority of used vehicles acquired for retail sale in our parts and service departments and capitalize the related costs to the used vehicle inventory. In general, used vehicles that are not sold on a retail basis are liquidated at wholesale auctions. We record estimated losses on used vehicle inventory. Our used vehicle inventory balance was net of cumulative write-downs of $1.6 million at September 30, 2013, and $1.2 million at December 31, 2012.

Parts, accessories, and other inventory are carried at the lower of acquisition cost (first-in, first-out method) or market. We estimate the amount of potential obsolete inventory based upon past experience and market trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of $3.4 million at September 30, 2013, and $3.2 million at December 31, 2012.

Critical Accounting Policies and Estimates

We prepare our Unaudited Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis, and we base our estimates on historical experience and various other assumptions we believe to be reasonable. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our Unaudited Condensed Consolidated Financial Statements. For additional discussion of our critical accounting policies and estimates, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent Annual Report on Form 10 K.

Goodwill

Goodwill for our Domestic, Import, and Premium Luxury reporting units is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill

impairment test. We completed our qualitative assessment of potential goodwill impairment as of April 30, 2013, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts. The fair values of the Domestic, Import, and Premium Luxury reporting units were substantially in excess of their carrying values as of April 30, 2011, the date of our most recent quantitative annual impairment test.

Table of Contents

Other Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a quantitative impairment test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2013 and we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts.

Long-Lived Assets

We estimate the depreciable lives of our property and equipment, including leasehold improvements, and review them for impairment when events or changes in circumstances indicate that their carrying amounts may be impaired. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, a current expectation that more-likely-than-not a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life, or a current-period operating or cash flow loss combined with historical losses or projected future losses.

When property and equipment is identified as held for sale, we reclassify the held for sale assets to Other Current Assets and cease recording depreciation. We measure each long-lived asset or disposal group at the lower of its carrying amount or fair value less cost to sell and recognize a loss for any initial adjustment of the long-lived asset's or disposal group's carrying amount to fair value less cost to sell in the period the "held for sale" criteria are met. We periodically evaluate the carrying value of assets held for sale to determine if, based on market conditions, the values of these assets should be adjusted.

As of September 30, 2013, we had long-lived assets held for sale of $71.1 million in continuing operations and $34.5 million in discontinued operations.

During the three and nine months ended September 30, 2013, no impairment charges were recorded for the carrying value of long-lived assets held and used in continuing operations, and no impairment charges were recorded for the carrying value of long-lived assets held for sale in continuing or discontinued operations.

The fair value measurements for our property and equipment and assets held for sale are based on Level 3 inputs, which considered information from third-party real estate valuation sources, or, in certain cases, pending agreements to sell the related assets. See Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information on our fair value measurement valuation process. Although we believe our property and equipment and assets held for sale are appropriately valued, the assumptions and estimates used may change and we may be required to record impairment charges to reduce the value of these assets.

Table of Contents

Reported Operating Data

Historical operating results include the results of acquired businesses from the date of acquisition.

($ in millions, except per vehicle data)	Three Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$2,561.6	$2,240.5	$ 321.1	14.3	$7,312.9	$6,430.9	$ 882.0	13.7
Retail used vehicle	933.0	811.5	121.5	15.0	2,786.2	2,442.1	344.1	14.1
Wholesale	111.7	124.9	(13.2)	(10.6)	324.7	360.5	(35.8)	(9.9)
Used vehicle	1,044.7	936.4	108.3	11.6	3,110.9	2,802.6	308.3	11.0
Finance and insurance, net	174.9	147.0	27.9	19.0	504.4	422.3	82.1	19.4
Total variable operations[1]	3,781.2	3,323.9	457.3	13.8	10,928.2	9,655.8	1,272.4	13.2
Parts and service	653.8	596.8	57.0	9.6	1,946.3	1,799.2	147.1	8.2
Other	35.8	13.1	22.7		119.2	40.3	78.9	
Total revenue	$4,470.8	$3,933.8	$ 537.0	13.7	$12,993.7	$11,495.3	$ 1,498.4	13.0
Gross profit:								
New vehicle	$155.4	$144.7	$ 10.7	7.4	$446.3	$424.2	$ 22.1	5.2
Retail used vehicle	80.4	72.5	7.9	10.9	247.1	226.1	21.0	9.3
Wholesale	0.1	0.2	(0.1)		3.5	4.8	(1.3)	
Used vehicle	80.5	72.7	7.8	10.7	250.6	230.9	19.7	8.5
Finance and insurance	174.9	147.0	27.9	19.0	504.4	422.3	82.1	19.4
Total variable operations[1]	410.8	364.4	46.4	12.7	1,201.3	1,077.4	123.9	11.5
Parts and service	277.1	251.8	25.3	10.0	829.6	755.4	74.2	9.8
Other	8.7	6.4	2.3		25.8	20.8	5.0	
Total gross profit	696.6	622.6	74.0	11.9	2,056.7	1,853.6	203.1	11.0
Selling, general, and administrative expenses	485.1	435.8	(49.3)	(11.3)	1,452.5	1,307.3	(145.2)	(11.1)
Depreciation and amortization	24.1	22.9	(1.2)		70.1	64.9	(5.2)	
Franchise rights impairment	—	—	—		—	4.2	4.2	
Other expenses (income), net	0.2	0.2	—		(3.4)	0.6	4.0	
Operating income	187.2	163.7	23.5	14.4	537.5	476.6	60.9	12.8
Non-operating income (expense) items:								
Floorplan interest expense	(12.7)	(11.4)	(1.3)		(39.2)	(32.9)	(6.3)	
Other interest expense	(22.3)	(22.2)	(0.1)		(66.6)	(65.2)	(1.4)	
Interest income	0.1	—	0.1		0.2	0.2	—	
Other income (loss), net	(0.7)	2.5	(3.2)		2.2	3.1	(0.9)	
Income from continuing operations	$151.6	$132.6	$ 19.0	14.3	$434.1	$381.8	$ 52.3	13.7

before income taxes								
Retail vehicle unit sales:								
New vehicle	76,943	68,350	8,593	12.6	218,454	196,853	21,601	11.0
Used vehicle	52,659	45,643	7,016	15.4	155,280	137,995	17,285	12.5
	129,602	113,993	15,609	13.7	373,734	334,848	38,886	11.6
Revenue per vehicle retailed:								
New vehicle	$33,292	$32,780	$ 512	1.6	$33,476	$32,669	$ 807	2.5
Used vehicle	$17,718	$17,779	$ (61)	(0.3)	$17,943	$17,697	$ 246	1.4
Gross profit per vehicle retailed:								
New vehicle	$2,020	$2,117	$ (97)	(4.6)	$2,043	$2,155	$ (112)	(5.2)
Used vehicle	$1,527	$1,588	$ (61)	(3.8)	$1,591	$1,638	$ (47)	(2.9)
Finance and insurance	$1,350	$1,290	$ 60	4.7	$1,350	$1,261	$ 89	7.1
Total variable operations[2]	$3,169	$3,195	$ (26)	(0.8)	$3,205	$3,203	$ 2	0.1

[1] Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.
[2] Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 (%)	2012 (%)	2013 (%)	2012 (%)
Revenue mix percentages:				
New vehicle	57.3	57.0	56.3	55.9
Used vehicle	23.4	23.8	23.9	24.4
Parts and service	14.6	15.2	15.0	15.7
Finance and insurance, net	3.9	3.7	3.9	3.7
Other	0.8	0.3	0.9	0.3
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	22.3	23.2	21.7	22.9
Used vehicle	11.6	11.7	12.2	12.5
Parts and service	39.8	40.4	40.3	40.8
Finance and insurance	25.1	23.6	24.5	22.8
Other	1.2	1.1	1.3	1.0
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	6.1	6.5	6.1	6.6
Used vehicle - retail	8.6	8.9	8.9	9.3
Parts and service	42.4	42.2	42.6	42.0
Total	15.6	15.8	15.8	16.1
Selling, general, and administrative expenses	10.9	11.1	11.2	11.4
Operating income	4.2	4.2	4.1	4.1
Operating items as a percentage of total gross profit:				
Selling, general, and administrative expenses	69.6	70.0	70.6	70.5
Operating income	26.9	26.3	26.1	25.7

	September 30, 2013	September 30, 2012
Days supply:		
New vehicle (industry standard of selling days, including fleet)	59 days	58 days
Used vehicle (trailing calendar month days)	31 days	29 days

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In millions)	2013	2012	Variance	2013	2012	Variance
Floorplan assistance	$24.7	$18.8	$5.9	$67.1	$54.5	$12.6
New vehicle floorplan interest expense	(12.1)	(10.9)	(1.2)	(37.4)	(31.6)	(5.8)
Net new vehicle inventory carrying benefit	$12.6	$7.9	$4.7	$29.7	$22.9	$6.8

22

Table of Contents

Same Store Operating Data

We have presented below our operating results on a same store basis to reflect our internal performance. The "Same Store" amounts presented below include the results of our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us.

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions, except per vehicle data)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$2,443.8	$2,240.5	$ 203.3	9.1	$7,030.7	$6,430.9	$ 599.8	9.3
Retail used vehicle	892.7	811.5	81.2	10.0	2,682.6	2,442.1	240.5	9.8
Wholesale	106.2	124.9	(18.7)	(15.0)	310.8	360.5	(49.7)	(13.8)
Used vehicle	998.9	936.4	62.5	6.7	2,993.4	2,802.6	190.8	6.8
Finance and insurance, net	168.4	147.0	21.4	14.6	488.5	422.3	66.2	15.7
Total variable operations[1]	3,611.1	3,323.9	287.2	8.6	10,512.6	9,655.8	856.8	8.9
Parts and service	630.6	596.8	33.8	5.7	1,892.1	1,799.2	92.9	5.2
Other	27.1	13.1	14.0		107.1	40.3	66.8	
Total revenue	$4,268.8	$3,933.8	$ 335.0	8.5	$12,511.8	$11,495.3	$ 1,016.5	8.8
Gross profit:								
New vehicle	$147.9	$144.7	$ 3.2	2.2	$428.0	$424.2	$ 3.8	0.9
Retail used vehicle	77.7	72.5	5.2	7.2	239.6	226.1	13.5	6.0
Wholesale	0.1	0.2	(0.1)		3.5	4.8	(1.3)	
Used vehicle	77.8	72.7	5.1	7.0	243.1	230.9	12.2	5.3
Finance and insurance	168.4	147.0	21.4	14.6	488.5	422.3	66.2	15.7
Total variable operations(1)	394.1	364.4	29.7	8.2	1,159.6	1,077.4	82.2	7.6
Parts and service	267.1	251.8	15.3	6.1	805.7	755.4	50.3	6.7
Other	8.4	6.4	2.0		25.3	20.8	4.5	
Total gross profit	$669.6	$622.6	$ 47.0	7.5	$1,990.6	$1,853.6	$ 137.0	7.4
Retail vehicle unit sales:								
New vehicle	73,527	68,350	5,177	7.6	210,515	196,853	13,662	6.9
Used vehicle	50,481	45,643	4,838	10.6	150,059	137,995	12,064	8.7
	124,008	113,993	10,015	8.8	360,574	334,848	25,726	7.7
Revenue per vehicle retailed:								
New vehicle	$33,237	$32,780	$ 457	1.4	$33,398	$32,669	$ 729	2.2
Used vehicle	$17,684	$17,779	$ (95)	(0.5)	$17,877	$17,697	$ 180	1.0
Gross profit per vehicle retailed:								
New vehicle	$2,012	$2,117	$ (105)	(5.0)	$2,033	$2,155	$ (122)	(5.7)
Used vehicle	$1,539	$1,588	$ (49)	(3.1)	$1,597	$1,638	$ (41)	(2.5)
Finance and insurance	$1,358	$1,290	$ 68	5.3	$1,355	$1,261	$ 94	7.5
Total variable operations[2]	$3,177	$3,195	$ (18)	(0.6)	$3,206	$3,203	$ 3	0.1

(1) Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.
(2) Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 (%)	2012 (%)	2013 (%)	2012 (%)
Revenue mix percentages:				
New vehicle	57.2	57.0	56.2	55.9
Used vehicle	23.4	23.8	23.9	24.4
Parts and service	14.8	15.2	15.1	15.7
Finance and insurance, net	3.9	3.7	3.9	3.7
Other	0.7	0.3	0.9	0.3
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	22.1	23.2	21.5	22.9
Used vehicle	11.6	11.7	12.2	12.5
Parts and service	39.9	40.4	40.5	40.8
Finance and insurance	25.1	23.6	24.5	22.8
Other	1.3	1.1	1.3	1.0
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	6.1	6.5	6.1	6.6
Used vehicle - retail	8.7	8.9	8.9	9.3
Parts and service	42.4	42.2	42.6	42.0
Total	15.7	15.8	15.9	16.1

Table of Contents

New Vehicle

($ in millions, except per vehicle data)	Three Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	$2,561.6	$2,240.5	$ 321.1	14.3	$7,312.9	$6,430.9	$ 882.0	13.7
Gross profit	$155.4	$144.7	$ 10.7	7.4	$446.3	$424.2	$ 22.1	5.2
Retail vehicle unit sales	76,943	68,350	8,593	12.6	218,454	196,853	21,601	11.0
Revenue per vehicle retailed	$33,292	$32,780	$ 512	1.6	$33,476	$32,669	$ 807	2.5
Gross profit per vehicle retailed	$2,020	$2,117	$ (97)	(4.6)	$2,043	$2,155	$ (112)	(5.2)
Gross profit as a percentage of revenue	6.1 %	6.5 %			6.1 %	6.6 %		
Days supply (industry standard of selling days, including fleet)	59 days	58 days						

	Three Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue	$2,443.8	$2,240.5	$ 203.3	9.1	$7,030.7	$6,430.9	$ 599.8	9.3
Gross profit	$147.9	$144.7	$ 3.2	2.2	$428.0	$424.2	$ 3.8	0.9
Retail vehicle unit sales	73,527	68,350	5,177	7.6	210,515	196,853	13,662	6.9
Revenue per vehicle retailed	$33,237	$32,780	$ 457	1.4	$33,398	$32,669	$ 729	2.2
Gross profit per vehicle retailed	$2,012	$2,117	$ (105)	(5.0)	$2,033	$2,155	$ (122)	(5.7)
Gross profit as a percentage of revenue	6.1 %	6.5 %			6.1 %	6.6 %		

Third Quarter 2013 compared to Third Quarter 2012

Same store new vehicle revenue increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily as a result of an increase in same store unit volume. The increase in same store unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted same store unit volume. Same store gross profit per new vehicle retailed decreased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to a decrease in gross profit per vehicle retailed for Import vehicles.

First Nine Months 2013 compared to First Nine Months 2012

Same store new vehicle revenue increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily as a result of an increase in same store unit volume. The increase in same store unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted same store unit volume.

Same store gross profit per new vehicle retailed decreased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to a decrease in gross profit per vehicle retailed for Import vehicles.

New Vehicle Inventories

Our new vehicle inventories were $2.0 billion or 59 days supply at September 30, 2013, as compared to new vehicle inventories of $1.9 billion or 55 days supply at December 31, 2012 and $1.7 billion or 58 days supply at September 30, 2012. We had 60,035 units in new vehicle inventory at September 30, 2013, 58,819 units at December 31, 2012, and 51,656 units at September 30, 2012.

Table of Contents

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In millions)	2013	2012	Variance	2013	2012	Variance
Floorplan assistance	$24.7	$18.8	$5.9	$67.1	$54.5	$12.6
New vehicle floorplan interest expense	(12.1)	(10.9)	(1.2)	(37.4)	(31.6)	(5.8)
Net new vehicle inventory carrying benefit	$12.6	$7.9	$4.7	$29.7	$22.9	$6.8

Third Quarter 2013 compared to Third Quarter 2012

The net new vehicle inventory carrying benefit increased during the three months ended September 30, 2013, as compared to the same period in 2012 primarily due to an increase in floorplan assistance, partially offset by an increase in floorplan interest expense. Floorplan assistance increased primarily due to a change in a manufacturer floorplan assistance program and higher new vehicle sales. Floorplan interest expense increased due to higher average vehicle floorplan payable balances during the year, partially offset by lower negotiated floorplan interest rates.

First Nine Months 2013 compared to First Nine Months 2012

The net new vehicle inventory carrying benefit increased during the nine months ended September 30, 2013, as compared to the same period in 2012 primarily due to an increase in floorplan assistance, partially offset by an increase in floorplan interest expense. Floorplan assistance increased primarily due to higher new vehicle sales and a change in a manufacturer floorplan assistance program. Floorplan interest expense increased due to higher average vehicle floorplan payable balances during the year, partially offset by lower negotiated floorplan interest rates.

Table of Contents

Used Vehicle

($ in millions, except per vehicle data)	Three Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Retail revenue	$933.0	$811.5	$ 121.5	15.0	$2,786.2	$2,442.1	$ 344.1	14.1
Wholesale revenue	111.7	124.9	(13.2)	(10.6)	324.7	360.5	(35.8)	(9.9)
Total revenue	$1,044.7	$936.4	$ 108.3	11.6	$3,110.9	$2,802.6	$ 308.3	11.0
Retail gross profit	$80.4	$72.5	$ 7.9	10.9	$247.1	$226.1	$ 21.0	9.3
Wholesale gross profit	0.1	0.2	(0.1)		3.5	4.8	(1.3)	
Total gross profit	$80.5	$72.7	$ 7.8	10.7	$250.6	$230.9	$ 19.7	8.5
Retail vehicle unit sales	52,659	45,643	7,016	15.4	155,280	137,995	17,285	12.5
Revenue per vehicle retailed	$17,718	$17,779	$ (61)	(0.3)	$17,943	$17,697	$ 246	1.4
Gross profit per vehicle retailed	$1,527	$1,588	$ (61)	(3.8)	$1,591	$1,638	$ (47)	(2.9)
Gross profit as a percentage of revenue	8.6 %	8.9 %			8.9 %	9.3 %		
Days supply (trailing calendar month days)	31 days	29 days						

	Three Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Retail revenue	$892.7	$811.5	$ 81.2	10.0	$2,682.6	$2,442.1	$ 240.5	9.8
Wholesale revenue	106.2	124.9	(18.7)	(15.0)	310.8	360.5	(49.7)	(13.8)
Total revenue	$998.9	$936.4	$ 62.5	6.7	$2,993.4	$2,802.6	$ 190.8	6.8
Retail gross profit	$77.7	$72.5	$ 5.2	7.2	$239.6	$226.1	$ 13.5	6.0
Wholesale gross profit	0.1	0.2	(0.1)		3.5	4.8	(1.3)	
Total gross profit	$77.8	$72.7	$ 5.1	7.0	$243.1	$230.9	$ 12.2	5.3
Retail vehicle unit sales	50,481	45,643	4,838	10.6	150,059	137,995	12,064	8.7
Revenue per vehicle retailed	$17,684	$17,779	$ (95)	(0.5)	$17,877	$17,697	$ 180	1.0
Gross profit per vehicle retailed	$1,539	$1,588	$ (49)	(3.1)	$1,597	$1,638	$ (41)	(2.5)
Gross profit as a percentage of revenue	8.7 %	8.9 %			8.9 %	9.3 %		

Third Quarter 2013 compared to Third Quarter 2012

Same store retail used vehicle revenue increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in same store unit volume, which benefited from an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume.

Same store gross profit per used vehicle retailed decreased during the three months ended September 30, 2013, as compared to the same period in 2012, due in part to compressed margins on certified pre-owned vehicles for premium

luxury vehicles.

First Nine Months 2013 compared to First Nine Months 2012

Same store retail used vehicle revenue increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in same store unit volume, which benefited from an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume.

Same store gross profit per used vehicle retailed decreased during the nine months ended September 30, 2013, as compared to the same period in 2012, due in part to compressed margins on certified pre-owned vehicles for premium luxury vehicles.

Used Vehicle Inventories

Used vehicle inventories were $350.4 million or 31 days supply at September 30, 2013, compared to $318.7 million or 35 days supply at December 31, 2012, and $287.6 million or 29 days supply at September 30, 2012.

Table of Contents

Parts and Service

($ in millions)	Three Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	$653.8	$596.8	$ 57.0	9.6	$1,946.3	$1,799.2	$ 147.1	8.2
Gross Profit	$277.1	$251.8	$ 25.3	10.0	$829.6	$755.4	$ 74.2	9.8
Gross profit as a percentage of revenue	42.4 %	42.2 %			42.6 %	42.0 %		
Same Store:								
Revenue	$630.6	$596.8	$ 33.8	5.7	$1,892.1	$1,799.2	$ 92.9	5.2
Gross Profit	$267.1	$251.8	$ 15.3	6.1	$805.7	$755.4	$ 50.3	6.7
Gross profit as a percentage of revenue	42.4 %	42.2 %			42.6 %	42.0 %		

Parts and service revenue is primarily derived from vehicle repairs paid directly by customers or via reimbursement from manufacturers and others under warranty programs, as well as from wholesale parts sales and collision businesses.

Third Quarter 2013 compared to Third Quarter 2012

During the three months ended September 30, 2013, same store parts and service gross profit increased as compared to the same period in 2012, primarily due to increases in gross profit associated with warranty of $5.8 million, the preparation of vehicles for sale of $5.6 million, and customer-pay service of $2.6 million.

Warranty gross profit benefited from an increase in warranty service due to improved market conditions, the rise of manufacturer recalls in the automotive industry, and an increase in manufacturer-paid vehicle maintenance. See “Market Conditions.” Gross profit associated with the preparation of vehicles for sale benefited from higher new and used vehicle unit volume. Customer-pay service gross profit benefited from improved operational execution, improved margin performance, and better marketing of products and services in the service department.

First Nine Months 2013 compared to First Nine Months 2012

During the nine months ended September 30, 2013, same store parts and service gross profit increased as compared to the same period in 2012, primarily due to increases in gross profit associated with warranty of $19.8 million, the preparation of vehicles for sale of $14.1 million, and customer-pay service of $12.8 million.

Warranty gross profit benefited from an increase in warranty service due to improved market conditions, the rise of manufacturer recalls in the automotive industry, and an increase in manufacturer-paid vehicle maintenance. See “Market Conditions.” Gross profit associated with the preparation of vehicles for sale benefited from higher new and used vehicle unit volume. Customer-pay service gross profit benefited from improved operational execution, improved margin performance, and better marketing of products and services in the service department.

Table of Contents

Finance and Insurance

($ in millions, except per vehicle data)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue and gross profit	$174.9	$147.0	$27.9	19.0	$504.4	$422.3	$82.1	19.4
Gross profit per vehicle retailed	$1,350	$1,290	$60	4.7	$1,350	$1,261	$89	7.1
Same Store:								
Revenue and gross profit	$168.4	$147.0	$21.4	14.6	$488.5	$422.3	$66.2	15.7
Gross profit per vehicle retailed	$1,358	$1,290	$68	5.3	$1,355	$1,261	$94	7.5

Third Quarter 2013 compared to Third Quarter 2012

Same store finance and insurance revenue and gross profit increased during the three months ended September 30, 2013, as compared to the same period in 2012, due to increases in new and used vehicle unit volume and same store finance and insurance revenue and gross profit per vehicle retailed.

Same store finance and insurance revenue and gross profit per vehicle retailed benefited from an increase in product penetration, an increase in commission on product contracts sold, more customers financing vehicles through our stores, and an increase in amounts financed per transaction.

First Nine Months 2013 compared to First Nine Months 2012

Same store finance and insurance revenue and gross profit increased during the nine months ended September 30, 2013, as compared to the same period in 2012, due to increases in same store finance and insurance revenue and gross profit per vehicle retailed and new and used vehicle unit volume.

Same store finance and insurance revenue and gross profit per vehicle retailed benefited from an increase in commission on product contracts sold, an increase in product penetration, more customers financing vehicles through our stores, an increase in amounts financed per transaction, and an increase in revenue and gross profit per transaction associated with arranging customer financing.

Table of Contents

Segment Results

In the following table, total segment income of the operating segments is reconciled to consolidated operating income.

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
Domestic	$1,491.2	$1,285.0	$ 206.2	16.0	$4,384.5	$3,809.2	$ 575.3	15.1
Import	1,695.5	1,523.3	172.2	11.3	4,828.5	4,365.7	462.8	10.6
Premium Luxury	1,247.4	1,086.4	161.0	14.8	3,662.7	3,202.0	460.7	14.4
Total segment revenue	4,434.1	3,894.7	539.4	13.8	12,875.7	11,376.9	1,498.8	13.2
Corporate and other	36.7	39.1	(2.4)	(6.1)	118.0	118.4	(0.4)	(0.3)
Total consolidated revenue	$4,470.8	$3,933.8	$ 537.0	13.7	$12,993.7	$11,495.3	$ 1,498.4	13.0
Segment income*:								
Domestic	$64.2	$51.9	$ 12.3	23.7	$188.9	$155.2	$ 33.7	21.7
Import	72.7	69.0	3.7	5.4	216.6	198.1	18.5	9.3
Premium Luxury	74.2	62.9	11.3	18.0	218.7	190.0	28.7	15.1
Total segment income	211.1	183.8	27.3	14.9	624.2	543.3	80.9	14.9
Corporate and other	(36.6)	(31.5)	(5.1)		(125.9)	(99.6)	(26.3)	
Floorplan interest expense	12.7	11.4	(1.3)		39.2	32.9	(6.3)	
Operating income	$187.2	$163.7	$ 23.5	14.4	$537.5	$476.6	$ 60.9	12.8

* Segment income for each of our segments is defined as operating income less floorplan interest expense.

Retail new vehicle unit sales:								
Domestic	25,107	21,579	3,528	16.3	72,842	64,085	8,757	13.7
Import	38,906	35,578	3,328	9.4	108,382	100,331	8,051	8.0
Premium Luxury	12,930	11,193	1,737	15.5	37,230	32,437	4,793	14.8
	76,943	68,350	8,593	12.6	218,454	196,853	21,601	11.0

Table of Contents

Domestic

The Domestic segment operating results included the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,491.2	$1,285.0	$ 206.2	16.0	$4,384.5	$3,809.2	$ 575.3	15.1
Segment income	$64.2	$51.9	$ 12.3	23.7	$188.9	$155.2	$ 33.7	21.7
Retail new vehicle unit sales	25,107	21,579	3,528	16.3	72,842	64,085	8,757	13.7

Third Quarter 2013 compared to Third Quarter 2012

Domestic revenue increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisition we completed in the fourth quarter of 2012.

Domestic segment income increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher new and used vehicle unit volume. Domestic segment income also benefited from increases in new and used vehicle gross profit and parts and service gross profit, and from the recent acquisition noted in the paragraph above. Increases in Domestic segment income were partially offset by an increase in variable expenses.

First Nine Months 2013 compared to First Nine Months 2012

Domestic revenue increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisition we completed in the fourth quarter of 2012.

Domestic segment income increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher new and used vehicle unit volume. Domestic segment income also benefited from increases in new and used vehicle gross profit and parts and service gross profit, and from the recent acquisition noted in the paragraph above. Increases in Domestic segment income were partially offset by an increase in variable expenses.

Table of Contents

Import

The Import segment operating results included the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,695.5	$1,523.3	$ 172.2	11.3	$4,828.5	$4,365.7	$ 462.8	10.6
Segment income	$72.7	$69.0	$ 3.7	5.4	$216.6	$198.1	$ 18.5	9.3
Retail new vehicle unit sales	38,906	35,578	3,328	9.4	108,382	100,331	8,051	8.0

Third Quarter 2013 compared to Third Quarter 2012

Import revenue increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2012 and second quarter of 2013.

Import segment income increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to increases in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher new and used vehicle unit volume, and parts and service gross profit, which also benefited from higher new and used vehicle unit volume. Import segment income also benefited from the recent acquisitions noted in the paragraph above. The increase in Import segment income was partially offset by an increase in variable expenses.

First Nine Months 2013 compared to First Nine Months 2012

Import revenue increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2012 and second quarter of 2013.

Import segment income increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to increases in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher new and used vehicle unit volume, and parts and service gross profit, which also benefited from higher new and used vehicle unit volume. Import segment income also benefited from the recent acquisitions noted in the paragraph above. The increase in Import segment income was partially offset by an increase in variable expenses.

Table of Contents

Premium Luxury

The Premium Luxury segment operating results included the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,247.4	$1,086.4	$ 161.0	14.8	$3,662.7	$3,202.0	$ 460.7	14.4
Segment income	$74.2	$62.9	$ 11.3	18.0	$218.7	$190.0	$ 28.7	15.1
Retail new vehicle unit sales	12,930	11,193	1,737	15.5	37,230	32,437	4,793	14.8

Third Quarter 2013 compared to Third Quarter 2012

Premium Luxury revenue increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2012.

Premium Luxury segment income increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to increases in parts and service gross profit and new vehicle gross profit, which benefited from higher vehicle unit volume, and finance and insurance revenue and gross profit, which benefited from higher vehicle unit volume and an increase in finance and insurance revenue and gross profit per vehicle retailed. Premium Luxury segment income also benefited from the recent acquisitions noted in the paragraph above. Increases in Premium Luxury segment income were partially offset by an increase in variable expenses.

First Nine Months 2013 compared to First Nine Months 2012

Premium Luxury revenue increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2012.

Premium Luxury segment income increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to increases in parts and service gross profit and new vehicle gross profit, which benefited from higher vehicle unit volume, and finance and insurance revenue and gross profit, which benefited from higher vehicle unit volume and an increase in finance and insurance revenue and gross profit per vehicle retailed. Premium Luxury segment income also benefited from the recent acquisitions noted in the paragraph above. Increases in Premium Luxury segment income were partially offset by an increase in variable expenses.

Table of Contents

Selling, General, and Administrative Expenses

Our Selling, General, and Administrative expenses ("SG&A") consist primarily of compensation, including store and corporate salaries, commissions, and incentive-based compensation, as well as advertising (net of reimbursement-based manufacturer advertising rebates), and store and corporate overhead expenses, which include occupancy costs, legal, accounting, and professional services, and general corporate expenses. The following table presents the major components of our SG&A.

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Compensation	$320.4	$290.3	$ (30.1)	(10.4)	$956.9	$869.2	$ (87.7)	(10.1)
Advertising	41.9	33.3	(8.6)	(25.8)	129.7	99.7	(30.0)	(30.1)
Store and corporate overhead	122.8	112.2	(10.6)	(9.4)	365.9	338.4	(27.5)	(8.1)
Total	$485.1	$435.8	$ (49.3)	(11.3)	$1,452.5	$1,307.3	$ (145.2)	(11.1)
SG&A as a % of total gross profit:								
Compensation	46.0	46.6	60	bps	46.5	46.9	40	bps
Advertising	6.0	5.3	(70)	bps	6.3	5.4	(90)	bps
Store and corporate overhead	17.6	18.1	50	bps	17.8	18.2	40	bps
Total	69.6	70.0	40	bps	70.6	70.5	(10)	bps

Third Quarter 2013 compared to Third Quarter 2012

SG&A expenses increased during the three months ended September 30, 2013, as compared to the same period in 2012, primarily due to a performance-driven increase in compensation expense, and increases in gross advertising expenditures and store and corporate overhead expenses. As a percentage of total gross profit, SG&A expenses decreased to 69.6% during the three months ended September 30, 2013, from 70.0% in the same period in 2012, resulting from our continued effective management of our cost structure and improved gross profit.

First Nine Months 2013 compared to First Nine Months 2012

SG&A expenses increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to a performance-driven increase in compensation expense, and increases in gross advertising expenditures and store and corporate overhead expenses. As a percentage of total gross profit, SG&A expenses increased to 70.6% during the nine months ended September 30, 2013, from 70.5% in the same period in 2012, due to an increase in expenses resulting from our re-branding initiative noted below.

Re-branding Initiative

On January 31, 2013, we announced that we would be marketing our Domestic and Import stores under the AutoNation retail brand. The rebranding of these stores, which previously operated under various local market retail brands, commenced in the first quarter of 2013 and was completed in the second quarter of 2013. As part of the rebranding initiative, we incurred non-recurring SG&A expenses, primarily related to advertising, of approximately $18 million during the nine months ended September 30, 2013.

Non-Operating Income (Expense)

Floorplan Interest Expense

Third Quarter 2013 compared to Third Quarter 2012

Floorplan interest expense was $12.7 million for the three months ended September 30, 2013, as compared to $11.4 million for the same period in 2012. The increase in floorplan interest expense of $1.3 million during the three months

ended September 30, 2013, is primarily the result of higher average vehicle floorplan balances, partially offset by lower negotiated floorplan interest rates.

Table of Contents

First Nine Months 2013 compared to First Nine Months 2012

Floorplan interest expense was $39.2 million for the nine months ended September 30, 2013, as compared to $32.9 million for the same period in 2012. The increase in floorplan interest expense of $6.3 million during the nine months ended September 30, 2013, is primarily the result of higher average vehicle floorplan balances, partially offset by lower negotiated floorplan interest rates.

Other Interest Expense

Other interest expense was incurred primarily on borrowings under our outstanding senior unsecured notes, mortgage facility, revolving credit facility, and term loan facility.

Third Quarter 2013 compared to Third Quarter 2012

Other interest expense was $22.3 million for the three months ended September 30, 2013, compared to $22.2 million for the same period in 2012.

First Nine Months 2013 compared to First Nine Months 2012

Other interest expense was $66.6 million for the nine months ended September 30, 2013, compared to $65.2 million for the same period in 2012.

Provision for Income Taxes

Income taxes are provided based upon our anticipated underlying annual blended federal and state income tax rates adjusted, as necessary, for any other tax matters occurring during the period. As we operate in various states, our effective tax rate is also dependent upon our geographic revenue mix.

Third Quarter 2013 compared to Third Quarter 2012

Our effective income tax rate was 38.8% for the three months ended September 30, 2013, and 38.2% for the three months ended September 30, 2012.

First Nine Months 2013 compared to First Nine Months 2012

Our effective income tax rate was 38.7% for the nine months ended September 30, 2013, and 38.6% for the nine months ended September 30, 2012.

Discontinued Operations

Discontinued operations are related to stores that were sold or terminated, that we have entered into an agreement to sell or terminate, or for which we otherwise deem a proposed sales transaction or termination to be probable, with no material changes expected. We account for a store that either has been disposed of or is classified as held for sale as a discontinued operation if (a) the operations and cash flows of the store have been (or will be) eliminated from our ongoing operations and (b) we will not have any significant continuing involvement in the operations of the store after the disposal transaction.

In evaluating whether a store’s cash flows will be eliminated from our ongoing operations, we consider whether we expect to continue to generate revenues or incur expenses from the sale of similar products or services to customers of the disposed store in the same geographic market. If we believe that a significant portion of the cash flows previously generated by the disposed store will migrate to our other operating stores, we will not treat the disposition as a discontinued operation.

Third Quarter 2013 compared to Third Quarter 2012

We had a loss from discontinued operations, net of income taxes, totaling $0.2 million during the three months ended September 30, 2013, and $0.3 million during the three months ended September 30, 2012. Results from discontinued operations, net of income taxes, were primarily related to carrying costs for real estate we have not yet sold associated with stores that have been closed and other adjustments related to disposed operations.

First Nine Months 2013 compared to First Nine Months 2012

We had a loss from discontinued operations, net of income taxes, totaling $0.6 million during the nine months ended September 30, 2013, and $1.2 million during the nine months ended September 30, 2012. Results from discontinued operations, net of income taxes, were primarily related to carrying costs for real estate we have not yet sold associated with stores that have been closed and other adjustments related to disposed operations, partially offset by a gain on

disposal of a store during the second quarter of 2013.

Table of Contents

Liquidity and Capital Resources

We manage our liquidity to ensure access to sufficient funding at acceptable costs to fund our ongoing operating requirements and future capital expenditures while continuing to meet our financial obligations. We believe that our cash and cash equivalents, funds generated through future operations, and amounts available under our revolving credit facility and secured used vehicle floorplan facilities will be sufficient to fund our working capital requirements, service our debt, pay our tax obligations and commitments and contingencies, and meet any seasonal operating requirements for the foreseeable future.

Available Liquidity Resources

We had the following sources of liquidity available:

(In millions)	September 30, 2013	December 31, 2012
Cash and Cash Equivalents	$68.3	$69.7
Revolving Credit Facility [1]	$824.0	$603.5
Secured Used Vehicle Floorplan Facilities [2]	$47.6	$92.9

(1) Based on aggregate borrowings outstanding of $320.0 million and outstanding letters of credit of $56.0 million at September 30, 2013, and aggregate borrowings outstanding of $540.0 million and outstanding letters of credit of $56.5 million at December 31, 2012. See “Long-Term Debt – Credit Agreement” for additional information.

(2) Based on the eligible used vehicle inventory that could have been pledged as collateral. See “Long-Term Debt – Vehicle Floorplan Payable” for additional information.

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. At September 30, 2013, surety bonds, letters of credit, and cash deposits totaled $91.1 million, including $56.0 million of letters of credit. We do not currently provide cash collateral for outstanding letters of credit.

In February 2012, we filed an automatic shelf registration statement with the SEC that enables us to offer for sale, from time to time and as the capital markets permit, an unspecified amount of common stock, preferred stock, debt securities, warrants, subscription rights, depositary shares, stock purchase contracts, units, and guarantees of debt securities.

Capital Allocation

Our capital allocation strategy is focused on maximizing stockholder returns. The first priority of our capital allocation strategy is to maintain a strong balance sheet. Second, we invest capital in our business to maintain and upgrade our existing facilities and to build new facilities, as well as for other strategic and technology initiatives. Third, we deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership acquisitions. Our capital allocation decisions will be based on factors such as the expected rate of return on our investment, the market price of our common stock versus our view of its intrinsic value, the market price of our debt, the potential impact on our capital structure, our ability to complete dealership acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

Share Repurchases

A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2013	2012	2013	2012
Shares repurchased	—	—	0.1	15.4
Aggregate purchase price	$—	$—	$4.9	$531.6
Average purchase price per share	$—	$—	$40.81	$34.54

The decision to repurchase shares at any given point in time is based on factors such as the market price of our common stock versus our view of its intrinsic value, the potential impact on our capital structure (including compliance with our 3.75x maximum leverage ratio and other financial covenants in our debt agreements as well as our available liquidity), and the

36

Table of Contents

expected return on competing uses of capital such as dealership acquisitions, capital investments in our current businesses, or repurchases of our debt.

As of September 30, 2013, $314.3 million remained available under our stock repurchase authorization limit.

Senior Note Repurchases and Debt Prepayment

We may from time to time repurchase our outstanding senior unsecured notes in open market purchases or privately negotiated transactions. Additionally, we may in the future prepay our term loan facility or other debt. The decision to repurchase senior unsecured notes or to prepay our term loan facility or other debt is based on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors.

Capital Expenditures

The following table sets forth information regarding our capital expenditures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Purchases of property and equipment, including operating lease buy-outs [1]	$85.3	$45.8	$139.9	$122.8

[1] Includes accrued construction in progress and excludes property acquired under capital leases.

Excluding land purchased for future sites and lease buy-outs, and net of related asset sales, we anticipate that our capital expenditures, including accrued construction in progress, will be approximately $145 million in 2013, primarily related to our store facilities.

Acquisitions and Divestitures

The following table sets forth information regarding cash used in business acquisitions, net of cash acquired, and cash received from business divestitures, net of cash relinquished:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Cash received from (used in) business acquisitions, net	$(0.4)	$—	$(72.9)	$—
Cash received from (used in) business divestitures, net	$—	$—	$10.1	$—

We purchased three stores and related assets during the nine months ended September 30, 2013. The acquisitions were Don Davis Toyota in the Dallas, Texas market, which was completed on May 1, 2013, and SanTan Honda Superstore and Hyundai of Tempe in the Phoenix, Arizona market, which were completed on May 22, 2013. We did not purchase any stores during the three and nine months ended September 30, 2012.

We have entered into agreements to acquire O'Hare Honda and O'Hare Hyundai in the Chicago, Illinois market. The acquisitions are subject to manufacturer approval and other customary closing conditions and are expected to be completed in the fourth quarter of 2013.

Cash Dividends

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not currently anticipate paying cash dividends for the foreseeable future.

Table of Contents

Long-Term Debt

The following table sets forth our non-vehicle long-term debt as of September 30, 2013, and December 31, 2012.

(In millions)	September 30, 2013	December 31, 2012
6.75% Senior Notes due 2018	$396.1	$395.6
5.5% Senior Notes due 2020	350.0	350.0
Term loan facility due 2016	500.0	500.0
Revolving credit facility due 2016	320.0	540.0
Mortgage facility [1]	196.9	203.3
Capital leases and other debt	93.3	107.2
	1,856.3	2,096.1
Less: current maturities	(29.8)	(29.8)
Long-term debt, net of current maturities	$1,826.5	$2,066.3

(1) The mortgage facility requires monthly principal and interest payments of $1.7 million based on a fixed amortization schedule with a balloon payment of $155.4 million due November 2017.

Senior Unsecured Notes

At September 30, 2013, we had outstanding $396.1 million of 6.75% Senior Notes due 2018, net of debt discount. Interest on the 6.75% Senior Notes due 2018 is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At September 30, 2013, we had outstanding $350.0 million of 5.5% Senior Notes due 2020. Interest is payable on February 1 and August 1 of each year. At any time prior to February 1, 2015, we may redeem up to 35% of the principal amount of these notes with the net cash proceeds of one or more public equity offerings of our common stock at 105.5% of principal. These notes will mature on February 1, 2020.

Our senior unsecured notes are guaranteed by substantially all of our subsidiaries.

Credit Agreement

Under our credit agreement, we have a $500.0 million term loan facility and a $1.2 billion revolving credit facility. The term loan and revolving credit facilities under the credit agreement mature on December 7, 2016. As of September 30, 2013, we had borrowings outstanding of $320.0 million under the revolving credit facility. We have a $200.0 million letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was $56.0 million at September 30, 2013, leaving an additional borrowing capacity under the revolving credit facility of $824.0 million at September 30, 2013.

Funds borrowed under our credit agreement may be used to repay indebtedness, finance acquisitions, and for working capital, capital expenditures, share repurchases, and other general corporate purposes.

Our term loan facility provides for various interest rates generally at LIBOR plus 1.75%. Our revolving credit facility provides for a commitment fee on undrawn amounts of 0.30% and various interest rates on borrowings generally at LIBOR plus 1.75%.

The credit spread charged for both our term loan facility and revolving credit facility is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.25x to greater than or equal to 3.25x would result in a 25 basis point increase in the credit spread under both our term loan facility and revolving credit facility.

Borrowings under the credit agreement are guaranteed by substantially all of our subsidiaries.

Vehicle Floorplan Payable

Vehicle floorplan payable-trade totaled $1.8 billion at September 30, 2013, and $1.8 billion at December 31, 2012. Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with manufacturers' captive finance subsidiaries.

Table of Contents

Vehicle floorplan payable-non-trade totaled $763.0 million at September 30, 2013, and $773.9 million at December 31, 2012, and represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders, as well as amounts borrowed under our secured used vehicle floorplan facilities, which are primarily collateralized by used vehicle inventories and related receivables.

At September 30, 2013, the aggregate capacity under our used vehicle floorplan facilities was $275.0 million. As of that date, $174.1 million had been borrowed under those facilities, and the remaining borrowing capacity of $100.9 million was limited to $47.6 million based on the eligible used vehicle inventory that could have been pledged as collateral.

At December 31, 2012, the aggregate capacity under our used vehicle floorplan facilities was $275.0 million. As of that date, $119.5 million had been borrowed under those facilities, and the remaining borrowing capacity of $155.5 million was limited to $92.9 million based on the eligible used vehicle inventory that could have been pledged as collateral.

All the floorplan facilities utilize LIBOR-based interest rates. Floorplan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally require that the manufacturer have the ability to draft against the new vehicle floorplan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Other Debt

At September 30, 2013, we had $196.9 million outstanding under a mortgage facility with an automotive manufacturer’s captive finance subsidiary that matures on November 30, 2017. The mortgage facility utilizes a fixed interest rate of 5.864% and is secured by 10-year mortgages on certain of our store properties. At September 30, 2013, we had capital lease and other debt obligations of $93.3 million, which are due at various dates through 2033.

Restrictions and Covenants

Our credit agreement, the indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020, our vehicle floorplan facilities, and our mortgage facility contain customary financial and operating covenants that place restrictions on us, including our ability to incur additional indebtedness or prepay existing indebtedness, to create liens or other encumbrances, to sell (or otherwise dispose of) assets, and to merge or consolidate with other entities.

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. Under the credit agreement, the maximum capitalization ratio is 65.0% and the maximum leverage ratio is 3.75x. In calculating our leverage and capitalization ratios, we are not required to include letters of credit in the definition of debt (except to the extent of letters of credit in excess of $150.0 million). In addition, in calculating our capitalization ratio, we are permitted to add back to shareholders’ equity all goodwill, franchise rights, and long-lived asset impairment charges subsequent to September 30, 2011 plus $1.52 billion. The specific terms of these covenants can be found in our credit agreement, which we filed with our Current Report on Form 8-K on December 8, 2011.

The indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain certain limited covenants, including limitations on liens and sale and leaseback transactions, but do not contain a restricted payments covenant or a debt incurrence restriction. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

Our failure to comply with the covenants contained in our debt agreements could permit acceleration of all of our indebtedness. Our debt agreements have cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of AutoNation.

Table of Contents

As of September 30, 2013, we were in compliance with the requirements of the financial covenants under our debt agreements. Under the terms of our credit agreement, at September 30, 2013, our leverage ratio and capitalization ratio were as follows:

	September 30, 2013	
	Requirement	Actual
Leverage ratio	< 3.75x	2.37x
Capitalization ratio	< 65.0%	55.9%

Both the leverage ratio and the capitalization ratio limit our ability to incur additional non-vehicle debt. The capitalization ratio also limits our ability to incur additional vehicle floorplan indebtedness and repurchase shares. In the event of a downgrade in our credit ratings, none of the covenants described above would be impacted. In addition, availability under the credit agreement described above would not be impacted should a downgrade in our senior unsecured debt credit ratings occur.

Cash Flows

The following table summarizes the changes in our cash provided by (used in) operating, investing, and financing activities:

	Nine Months Ended September 30,	
(In millions)	2013	2012
Net cash provided by operating activities	$468.3	$311.7
Net cash used in investing activities	$(211.8)	$(113.8)
Net cash used in financing activities	$(257.9)	$(185.9)

Cash Flows from Operating Activities

Our primary sources of operating cash flows are collections from contracts-in-transit and customers following the sale of vehicles, collections from customers for the sale of parts and services and finance and insurance products, and proceeds from vehicle floorplan payable-trade. Our primary uses of cash from operating activities are repayments of vehicle floorplan payable-trade, purchases of parts inventory, personnel related expenditures, and payments related to taxes and leased properties.

Net cash provided by operating activities increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to a decrease in working capital requirements and an increase in earnings.

Cash Flows from Investing Activities

Net cash flows from investing activities consist primarily of cash used in capital additions, activity from business acquisitions, business divestitures, property dispositions, and other transactions.

Net cash used in investing activities increased during the nine months ended September 30, 2013, as compared to the same period in 2012, primarily due to an increase in cash used in acquisitions.

We will make facility and infrastructure upgrades and improvements from time to time as we identify projects that are required to maintain our current business or that we expect to provide us with acceptable rates of return. Excluding land purchased for future sites and lease buy-outs, and net of related asset sales, we project that 2013 capital expenditures, including accrued construction in progress, will be approximately $145 million.

Cash Flows from Financing Activities

Net cash flows from financing activities primarily include repurchases of common stock, debt activity, changes in vehicle floorplan payable-non-trade, and stock option exercises.

During the nine months ended September 30, 2013, we repurchased 0.1 million shares of common stock for an aggregate purchase price of $4.9 million (average purchase price per share of $40.81). In addition, during the nine months ended September 30, 2013, 42,822 shares were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

40

Table of Contents

During the nine months ended September 30, 2012, we repurchased 15.4 million shares of common stock for an aggregate purchase price of $531.6 million (average purchase price per share of $34.54), including repurchases for which settlement occurred subsequent to September 30, 2012. During the nine months ended September 30, 2012, 45,144 shares were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During the nine months ended September 30, 2013, we borrowed $620.0 million and repaid $840.0 million under our revolving credit facility, for net repayments of $220.0 million. During the nine months ended September 30, 2012, we borrowed $820.0 million and repaid $920.0 million under our revolving credit facility, for net repayments of $100.0 million.

During the nine months ended September 30, 2013, we made payments of capital lease and other debt obligations of $23.3 million. During the nine months ended September 30, 2012, we made payments of capital lease and other debt obligations of $4.5 million.

Cash flows from financing activities include changes in vehicle floorplan payable - non-trade totaling net payments of $12.2 million for the nine months ended September 30, 2013, and net proceeds of $104.9 million for the nine months ended September 30, 2012.

Forward-Looking Statements

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, including without limitation statements regarding our expectations for the future performance of our franchises and the automotive retail industry, as well as other written or oral statements made from time to time by us or by our authorized executive officers on our behalf, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact, including statements that describe our objectives, plans or goals are, or may be deemed to be, forward-looking statements. Words such as “anticipate,” “expect,” “intend,” “goal,” “plan,” “believe,” “continue,” “may,” “ variations of such words and similar expressions are intended to identify such forward-looking statements. Our forward-looking statements reflect our current expectations concerning future results and events, and they involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance or achievements to be materially different from any future results, performance and achievements expressed or implied by these statements. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

- The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.
- Our results of operations and financial condition have been and could continue to be adversely affected by the unfavorable economic conditions in the United States and/or Europe.
- If we are not able to maintain and enhance our retail brands and reputation, or if events occur that damage our retail brands and reputation, our business and financial results may be harmed.
- Our debt agreements contain certain financial ratios and other restrictions on our ability to conduct our business, and our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.
- We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.
- Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our goodwill and other intangible assets for impairment at least annually, which could result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and shareholders’ equity.
- Our new vehicle sales are impacted by the consumer incentive and marketing programs of vehicle manufacturers.

- Natural disasters and adverse weather events can disrupt our business.

Table of Contents

- We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.
- We are subject to numerous legal and administrative proceedings, which if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.
- Our operations are subject to extensive governmental laws and regulations. If we are found to be in violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.
- We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and term loan facility that could have a material adverse effect on our profitability.
- Our largest stockholders, as a result of their ownership stakes in us, have the ability to exert substantial influence over actions to be taken or approved by our stockholders or Board of Directors. In addition, future share repurchases and fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.
- A failure of our information systems or any security breach or unauthorized disclosure of confidential information could have a material adverse effect on our business.

Please refer to our most recent Annual Report on Form 10-K for additional discussion of the foregoing risks. We undertake no obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Additional Information

Investors and others should note that we announce material financial information using our company website (www.autonation.com), our investor relations website (investors.autonation.com), SEC filings, press releases, public conference calls and webcasts. Information about AutoNation, its business, and its results of operations may also be announced by posts on the following social media channels:

- AutoNation’s Twitter feed (www.twitter.com/autonation)
- Mike Jackson’s Twitter feed (www.twitter.com/CEOMikeJackson)
- AutoNation’s Facebook page (www.facebook.com/autonation)
- Mike Jackson’s Facebook page (www.facebook.com/CEOMikeJackson)

The information that we post on these social media channels could be deemed to be material information. As a result, we encourage investors, the media, and others interested in AutoNation to review the information that we post on these social media channels. These channels may be updated from time to time on AutoNation’s investor relations website. The information on or accessible through our websites and social media channels is not incorporated by reference in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our primary market risk exposure is changing LIBOR-based interest rates. Interest rate derivatives may be used to hedge a portion of our variable rate debt when appropriate based on market conditions.

We had $2.6 billion of variable rate vehicle floorplan payable at September 30, 2013, and $2.5 billion at December 31, 2012. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change of $26.0 million at September 30, 2013, and $25.4 million at December 31, 2012, to our annual floorplan interest expense. Our exposure to changes in interest rates with respect to total vehicle floorplan payable is partially mitigated by manufacturers’ floorplan assistance, which in some cases is based on variable interest rates.

We had $0.8 billion of other variable rate debt outstanding at September 30, 2013, and $1.0 billion at December 31, 2012. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of $8.2 million at September 30, 2013, and $10.4 million at December 31, 2012.

Table of Contents

Our fixed rate debt, primarily consisting of amounts outstanding under our senior unsecured notes and mortgages, totaled $1.0 billion and had a fair value of $1.1 billion as of September 30, 2013, and totaled $1.1 billion and had a fair value of $1.1 billion as of December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q, which could materially affect our business, financial condition, or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during the three months ended September 30, 2013.

Period	Total Number of Shares Purchased [1]	Avg. Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Programs (in millions)[1]
July 1, 2013 - July 31, 2013	516	$45.69	—	$ 314.3
August 1, 2013 - August 31, 2013	—	$—	—	$ 314.3
September 1, 2013 - September 30, 2013	—	$—	—	$ 314.3
Total	516		—	

(1) Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. As of September 30, 2013, $314.3 million remained available under our stock repurchase authorization limit. The Board's authorization has no expiration date. During the third quarter of 2013, all of the shares reflected in the table above were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	Employment Agreement, dated as of July 25, 2013, by and between AutoNation, Inc. and Michael J. Jackson, Chairman and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 26, 2013).
10.2	Employment Agreement, dated as of July 25, 2013, by and between AutoNation, Inc. and Michael E. Maroone, President and Chief Operating Officer (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on July 26, 2013).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

44

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTONATION, INC.

Date: October 24, 2013

By: /s/ Michael J. Stephan
Michael J. Stephan
Vice President – Corporate Controller

(Duly Authorized Officer and
Principal Accounting Officer)