

AUTONATION, INC.  
Form 10-Q  
April 22, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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)

(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  No

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

Indicate by check mark 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

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 21, 2016, the registrant had 103,103,606 shares of common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## AUTONATION, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$47.8	\$ 74.1
Receivables, net	767.6	908.2
Inventory	3,927.8	3,612.0
Other current assets	129.5	115.4
Total Current Assets	4,872.7	4,709.7
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1.0 billion and \$1.0 billion, respectively	2,768.1	2,667.4
GOODWILL	1,437.4	1,394.5
OTHER INTANGIBLE ASSETS, NET	554.7	439.9
OTHER ASSETS	364.7	336.7
Total Assets	\$9,997.6	\$ 9,548.2
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Vehicle floorplan payable - trade	\$2,572.1	\$ 2,565.8
Vehicle floorplan payable - non-trade	1,467.3	1,161.3
Accounts payable	310.5	299.9
Commercial paper	926.0	599.5
Current maturities of long-term debt	11.9	11.7
Other current liabilities	572.7	529.2
Total Current Liabilities	5,860.5	5,167.4
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,742.6	1,745.3
DEFERRED INCOME TAXES	91.5	78.6
OTHER LIABILITIES	212.4	207.6
COMMITMENTS AND CONTINGENCIES (Note 11)		
<b>SHAREHOLDERS' EQUITY:</b>		
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; 120,562,149 shares issued at March 31, 2016, and December 31, 2015, including shares held in treasury	1.2	1.2
Additional paid-in capital	15.2	5.2
Retained earnings	2,798.7	2,702.8
Treasury stock, at cost; 17,461,420 and 9,758,091 shares held, respectively	(724.5 )	(359.9 )
Total Shareholders' Equity	2,090.6	2,349.3
Total Liabilities and Shareholders' Equity	\$9,997.6	\$ 9,548.2

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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AUTONATION, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three Months Ended March 31,	
	2016	2015
Revenue:		
New vehicle	\$2,800.2	\$2,769.6
Used vehicle	1,241.6	1,193.2
Parts and service	820.4	743.4
Finance and insurance, net	223.1	207.6
Other	34.3	30.4
<b>TOTAL REVENUE</b>	<b>5,119.6</b>	<b>4,944.2</b>
Cost of sales:		
New vehicle	2,651.0	2,608.1
Used vehicle	1,150.6	1,089.5
Parts and service	465.7	423.4
Other	26.4	23.3
<b>TOTAL COST OF SALES (excluding depreciation shown below)</b>	<b>4,293.7</b>	<b>4,144.3</b>
Gross Profit:		
New vehicle	149.2	161.5
Used vehicle	91.0	103.7
Parts and service	354.7	320.0
Finance and insurance	223.1	207.6
Other	7.9	7.1
<b>TOTAL GROSS PROFIT</b>	<b>825.9</b>	<b>799.9</b>
Selling, general, and administrative expenses	588.7	557.6
Depreciation and amortization	34.8	28.7
Other income, net	(5.0)	(1.3)
<b>OPERATING INCOME</b>	<b>207.4</b>	<b>214.9</b>
Non-operating income (expense) items:		
Floorplan interest expense	(18.9)	(13.2)
Other interest expense	(28.3)	(21.4)
Interest income	0.1	0.1
Other income (loss), net	(3.4)	1.1
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>156.9</b>	<b>181.5</b>
Income tax provision	60.7	69.8
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>96.2</b>	<b>111.7</b>
Loss from discontinued operations, net of income taxes	(0.3)	(0.2)
<b>NET INCOME</b>	<b>\$95.9</b>	<b>\$111.5</b>
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>		
Continuing operations	\$0.90	\$0.98
Discontinued operations	\$—	\$—
Net income	\$0.90	\$0.98
Weighted average common shares outstanding	106.7	113.6
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>		
Continuing operations	\$0.90	\$0.97
Discontinued operations	\$—	\$—

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Net income	\$0.89	\$0.97
Weighted average common shares outstanding	107.4	115.1
COMMON SHARES OUTSTANDING, net of treasury stock, at period end	103.1	113.9

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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AUTONATION, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In millions, except share data)

	Common Stock		Additional	Retained	Treasury	Total
	Shares	Amount	Paid-In Capital	Earnings	Stock	
BALANCE AT DECEMBER 31, 2015	120,562,149	\$ 1.2	\$ 5.2	\$2,702.8	\$(359.9)	\$2,349.3
Net income	—	—	—	95.9	—	95.9
Repurchases of common stock	—	—	—	—	(371.1 )	(371.1 )
Stock-based compensation expense	—	—	15.3	—	—	15.3
Shares awarded under stock-based compensation plans, including income tax benefit of \$0.6	—	—	(5.3 )	—	6.5	1.2
BALANCE AT MARCH 31, 2016	120,562,149	\$ 1.2	\$ 15.2	\$2,798.7	\$(724.5)	\$2,090.6

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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AUTONATION, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Three Months Ended March 31,	
	2016	2015
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net income	\$95.9	\$111.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	0.3	0.2
Depreciation and amortization	34.8	28.7
Amortization of debt issuance costs and accretion of debt discounts	1.3	1.1
Stock-based compensation expense	15.3	11.1
Deferred income tax provision	4.8	2.7
Net gain related to business/property dispositions	(6.1 )	(1.5 )
Non-cash impairment charges	0.9	0.2
Excess tax benefit from stock-based awards	(0.6 )	(8.1 )
Other	3.8	(0.8 )
(Increase) decrease, net of effects from business combinations and divestitures:		
Receivables	161.2	38.5
Inventory	(146.5)	(23.0 )
Other assets	(23.7 )	1.4
Increase (decrease), net of effects from business combinations and divestitures:		
Vehicle floorplan payable - trade, net	13.7	(43.6 )
Accounts payable	2.5	26.6
Other liabilities	40.8	54.8
Net cash provided by continuing operations	198.4	199.8
Net cash used in discontinued operations	(0.2 )	(0.2 )
Net cash provided by operating activities	198.2	199.6
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(54.7 )	(66.4 )
Property operating lease buy-outs	(5.0 )	—
Proceeds from the sale of property and equipment	—	0.2
Cash received from business divestitures, net of cash relinquished	6.1	15.7
Cash used in business acquisitions, net of cash acquired	(256.6)	(27.7 )
Other	(0.5 )	(1.4 )
Net cash used in continuing operations	(310.7)	(79.6 )
Net cash used in discontinued operations	—	—
Net cash used in investing activities	(310.7)	(79.6 )

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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AUTONATION, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Continued)

	Three Months Ended March 31, 2016 2015	
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(371.1)	(9.6 )
Proceeds from revolving credit facility	440.0	540.0
Payments of revolving credit facility	(440.0)	(615.0)
Net proceeds from commercial paper	326.5	—
Net proceeds from (payments of) vehicle floorplan payable - non-trade	132.8	(54.1 )
Payments of mortgage facility	(2.5 )	(2.4 )
Payments of capital leases and other debt obligations	(0.7 )	(0.7 )
Proceeds from the exercise of stock options	0.6	12.4
Excess tax benefit from stock-based awards	0.6	8.1
Net cash provided by (used in) continuing operations	86.2	(121.3)
Net cash used in discontinued operations	—	—
Net cash provided by (used in) financing activities	86.2	(121.3)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(26.3 )</b>	<b>(1.3 )</b>
CASH AND CASH EQUIVALENTS at beginning of period	74.1	75.4
CASH AND CASH EQUIVALENTS at end of period	\$47.8	\$74.1

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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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 March 31, 2016, we owned and operated 375 new vehicle franchises from 265 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores sell 35 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 94% of the new vehicles that we sold during the three months ended March 31, 2016, are manufactured by Toyota (including Lexus), Ford, Honda, General Motors, Nissan, FCA US (formerly Chrysler), Mercedes-Benz, BMW, and Volkswagen (including Audi and Porsche).

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 and other protection 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; intercompany accounts and transactions have been eliminated. The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Additionally, operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. The Unaudited Condensed Consolidated Financial Statements herein should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included within our most recent Annual Report on Form 10-K. 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 GAAP 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. The significant estimates made 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, and certain assumptions related to stock-based compensation.

Recent Accounting Pronouncements

Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update to simplify the presentation of debt issuance costs. The amendments in this accounting standard update require debt issuance costs be presented on the balance sheet as a reduction from the carrying amount of the related debt liability. In August 2015,

the FASB issued an accounting standard update that allows the presentation of debt issuance costs related to line-of-credit arrangements to continue to be an asset on the balance sheet under the simplified guidance, regardless of whether there are any outstanding borrowings on the related arrangements. The amendments in these accounting standard updates are to be applied retrospectively and are effective for interim and annual reporting periods beginning after December 15, 2015. We adopted these accounting standard updates retrospectively effective January 1, 2016, and have reclassified all debt issuance costs, with the exception of those

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AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

related to our revolving credit facility, as a reduction from the carrying amount of the related debt liability for both current and prior periods. See Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

**Revenue Recognition**

In May 2014, the FASB issued an accounting standard update that amends the accounting guidance on revenue recognition. The amendments in this accounting standard update are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. The amendments in this accounting standard update will be applied using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures). This accounting standard update is effective for reporting periods beginning after December 15, 2017. Earlier application is permitted only as of reporting periods beginning after December 15, 2016. We are currently evaluating the method of adoption and the impact of the provisions of this accounting standard update.

**Accounting for Leases**

In February 2016, the FASB issued an accounting standard update that amends the accounting guidance on leases. The primary change in this accounting standard update requires lessees to recognize, in the balance sheet, a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset over the lease term. The amendments in this accounting standard update are to be applied using a modified retrospective approach and are effective for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of the provisions of this accounting standard update.

**Improvements to Employee Share-Based Payment Accounting**

In March 2016, the FASB issued an accounting standard update that amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification within the statement of cash flows. Certain of the amendments in this accounting standard update are to be applied using a modified retrospective approach by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted, while other amendments can be applied prospectively or retrospectively. The amendments in this accounting standard update are effective for periods beginning after December 15, 2016. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments will be reflected as of the beginning of the fiscal year that includes that interim period. We are currently evaluating the impact of the provisions of this accounting standard update.

**2. RECEIVABLES, NET**

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

	March 31, December 31,	
	2016	2015
Trade receivables	\$ 137.2	\$ 133.6
Manufacturer receivables	189.4	221.4
Other	50.0	38.0
	376.6	393.0
Less: allowances for doubtful accounts	(4.1 )	(4.5 )
	372.5	388.5
Contracts-in-transit and vehicle receivables	395.1	508.0
Income tax refundable (see Note 6)	—	11.7
Receivables, net	\$ 767.6	\$ 908.2

Trade receivables represent amounts due for parts and services that have been delivered or sold, excluding amounts due from manufacturers, as well as receivables from finance organizations for commissions on the sale of financing products. Manufacturer receivables represent amounts due from manufacturers for holdbacks, rebates, incentives, floorplan assistance,

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AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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:

	March 31, December 31,	
	2016	2015
New vehicles	\$ 3,186.1	\$ 2,888.1
Used vehicles	551.3	539.7
Parts, accessories, and other	190.4	184.2
Inventory	\$ 3,927.8	\$ 3,612.0

The components of vehicle floorplan payable are as follows:

	March 31, December 31,	
	2016	2015
Vehicle floorplan payable - trade	\$ 2,572.1	\$ 2,565.8
Vehicle floorplan payable - non-trade	1,467.3	1,161.3
Vehicle floorplan payable	\$ 4,039.4	\$ 3,727.1

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. 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, floorplan assistance, and non-reimbursement-based manufacturer advertising rebates, 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 allow the manufacturer to draft against new vehicle floorplan facilities so the lender funds the manufacturer directly for the purchase of new vehicle inventory. Vehicle floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Our new vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 2.0% for the three months ended March 31, 2016, and 1.7% for the three months ended March 31, 2015. At March 31, 2016, the aggregate capacity under our new vehicle floorplan facilities to finance our new vehicle inventory was approximately \$4.6 billion, of which \$3.7 billion had been borrowed.

Our used vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 1.9% for the three months ended March 31, 2016, and 1.7% for the three months ended March 31, 2015. At March 31, 2016, the aggregate capacity under our used vehicle floorplan facilities with various lenders to finance a portion of our used vehicle inventory was \$360.0 million, of which \$318.5 million had been borrowed. The remaining borrowing capacity of \$41.5 million was limited to \$0.4 million based on the eligible used vehicle inventory that could have been pledged as collateral.



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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 4. GOODWILL AND INTANGIBLE ASSETS, NET

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

	March 31, December 31,	
	2016	2015
Goodwill	\$ 1,437.4	\$ 1,394.5
Franchise rights - indefinite-lived	\$ 546.8	\$ 432.4
Other intangibles	14.9	14.3
	561.7	446.7
Less: accumulated amortization	(7.0 )	(6.8 )
Other intangible assets, net	\$ 554.7	\$ 439.9
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. We are scheduled to complete our annual impairment test as of April 30, 2016.

## 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. We are scheduled to complete our annual impairment test of our franchise rights as of April 30, 2016.

## 5. LONG-TERM DEBT AND COMMERCIAL PAPER

Long-term debt, net of debt issuance costs, consists of the following:

	March 31, December 31,	
	2016	2015
6.75% Senior Notes due 2018	\$ 397.8	\$ 397.5
5.5% Senior Notes due 2020	346.7	346.5
3.35% Senior Notes due 2021	297.7	297.6
4.5% Senior Notes due 2025	444.8	444.7
Revolving credit facility due 2019	—	—
Mortgage facility <sup>(1)</sup>	173.2	175.7
Capital leases and other debt	94.3	95.0
	1,754.5	1,757.0
Less: current maturities	(11.9 )	(11.7 )
Long-term debt, net of current maturities	\$ 1,742.6	\$ 1,745.3

<sup>(1)</sup> 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.

As discussed in Note 1 above, the FASB issued an accounting standard update that requires debt issuance costs be presented on the balance sheet as a reduction from the carrying amount of the related debt liability. We adopted the accounting standard update retrospectively effective January 1, 2016, and have presented all debt issuance costs, with the exception of those related to our revolving credit facility, as a reduction from the carrying amount of the related debt liability for both current and prior periods. We reclassified \$10.1 million of debt issuance costs as a direct reduction from the carrying amount of debt as of December 31, 2015.





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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Senior Unsecured Notes and Credit Agreement

At March 31, 2016, we had outstanding \$398.1 million of 6.75% Senior Notes due 2018, net of debt discount. Interest is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At March 31, 2016, 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. These notes will mature on February 1, 2020.

At March 31, 2016, we had outstanding \$300.0 million of 3.35% Senior Notes due 2021, net of debt discount. Interest is payable on January 15 and July 15 of each year. These notes will mature on January 15, 2021.

At March 31, 2016, we had outstanding \$448.5 million of 4.5% Senior Notes due 2025, net of debt discount. Interest on the 2025 Notes is payable on April 1 and October 1 of each year. These notes will mature on October 1, 2025.

The interest rate payable on the 2021 Notes and 2025 Notes is subject to adjustment upon the occurrence of certain credit rating events as provided in the indentures for these senior unsecured notes.

Under our credit agreement, we have a \$1.8 billion revolving credit facility that matures on December 3, 2019. The credit agreement also contains an accordion feature that allows us, subject to credit availability and certain other conditions, to increase the amount of the revolving credit facility, together with any added term loans, by up to \$500.0 million in the aggregate. As of March 31, 2016, we had no borrowings outstanding 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 \$44.1 million at March 31, 2016, leaving a borrowing capacity under the revolving credit facility of \$1.8 billion at March 31, 2016. As of March 31, 2016, this borrowing capacity was limited under the maximum consolidated leverage ratio contained in our credit agreement to \$1.2 billion.

Our revolving credit facility provides for a commitment fee on undrawn amounts ranging from 0.175% to 0.25% and interest on borrowings at LIBOR or the base rate, in each case plus an applicable margin. The applicable margin ranges from 1.25% to 1.625% for LIBOR borrowings and 0.25% to 0.625% for base rate borrowings. The interest rate charged for our 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 12.5 basis point increase in the interest rate.

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 Long-Term Debt

At March 31, 2016, we had \$173.2 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. 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. Repayment of the mortgage facility is subject to a prepayment penalty.

At March 31, 2016, we had capital lease and other debt obligations of \$94.3 million, which are due at various dates through 2034.

Commercial Paper

We have a commercial paper program pursuant to which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$1.0 billion. The interest rate for the commercial paper notes varies based on duration and market conditions. The maturities of the commercial paper notes may vary, but may not exceed 397 days from the date of issuance. The commercial paper notes are guaranteed by substantially all of our subsidiaries. Proceeds from the issuance of commercial paper notes are used to repay borrowings under the revolving credit facility, to finance acquisitions and for working capital, capital expenditures, share repurchases, and/or other general corporate purposes. We plan to use the revolving credit facility

under our credit agreement as a liquidity backstop for borrowings under

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AUTONATION, INC.

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the commercial paper program. A downgrade in our credit ratings could negatively impact our ability to issue, or the interest rates for, commercial paper notes.

At March 31, 2016, we had \$926.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 1.23% and a weighted-average remaining term of 21 days.

**Restrictions and Covenants**

Our credit agreement, the indentures for our senior unsecured notes, 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 leverage ratio is 3.75x and the maximum capitalization ratio is 70.0%. 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, 2014 plus \$1.53 billion.

The indentures for our senior unsecured notes 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 result in the 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 March 31, 2016, our leverage ratio and capitalization ratio were as follows:

	March 31, 2016	
	Requirement	Actual
Leverage ratio	≤ 3.75x	2.60x
Capitalization ratio	≤ 70.0%	64.9%

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.

**6. INCOME TAXES**

Income taxes payable included in Other Current Liabilities totaled \$42.4 million at March 31, 2016. Income taxes refundable included in Receivables, net totaled \$11.7 million at December 31, 2015.

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 2009 to 2014 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.

It is our 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.



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## 7. SHAREHOLDERS' EQUITY

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

	Three Months Ended March 31,	
	2016	2015
Shares repurchased	7.9	0.2
Aggregate purchase price	\$370.6	\$9.1
Average purchase price per share	\$47.20	\$60.46

In February 2016, our Board of Directors authorized the repurchase of an additional \$250.0 million of shares of our common stock. As of March 31, 2016, \$175.0 million remained available for share repurchases under the program.

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

	Three Months Ended March 31,	
	2016	2015
Shares issued (in actual number of shares)	26,261	617,760
Proceeds from the exercise of stock options	\$0.6	\$12.4
Average exercise price per share	\$22.94	\$20.15

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 (in actual number of shares):

	Three Months Ended March 31,	
	2016	2015
Shares issued	138,424	155,328
Shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock	8,760	8,999

## 8. EARNINGS PER SHARE

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share ("EPS") under the two-class method. Our restricted stock awards are considered participating securities because they contain non-forfeitable rights to dividends. As the number of shares granted under such awards is immaterial, all earnings per share amounts reflect such shares as if they were fully vested shares and the disclosures associated with the two-class method are not presented.

Basic 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 and vested restricted stock unit awards. Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding, noted above, adjusted for the dilutive effect of stock options.



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

	Three Months Ended March 31,	
	2016	2015
Net income from continuing operations	\$96.2	\$111.7
Loss from discontinued operations, net of income taxes	(0.3 )	(0.2 )
Net income	\$95.9	\$111.5
Weighted average common shares outstanding used in calculating basic EPS	106.7	113.6
Effect of dilutive stock options	0.7	1.5
Weighted average common shares outstanding used in calculating diluted EPS	107.4	115.1
Basic EPS amounts <sup>(1)</sup> :		
Continuing operations	\$0.90	\$0.98
Discontinued operations	\$—	\$—
Net income	\$0.90	\$0.98
Diluted EPS amounts <sup>(1)</sup> :		
Continuing operations	\$0.90	\$0.97
Discontinued operations	\$—	\$—
Net income	\$0.89	\$0.97

<sup>(1)</sup> Earnings per share amounts are calculated discretely and therefore may not add up to the total due to rounding.

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

	Three Months Ended March 31, 2016	2015
Anti-dilutive options excluded from the computation of diluted earnings per share	2.5	0.5

**9. DIVESTITURES**

During the first quarter of 2016, we divested two Import stores and recorded a gain of \$6.2 million. During the first quarter of 2015, we divested two Import stores and recorded a gain of \$1.4 million. The gains on these divestitures are included in Other Income, Net (within Operating Income) in our Unaudited Condensed Consolidated Statements of Income. The financial condition and results of operations of these businesses were not material to our consolidated financial statements.

**10. ACQUISITIONS**

During the first quarter of 2016, we purchased 12 stores located in Texas, which include Chrysler, Dodge, Jeep, Ram, Chevrolet, Hyundai, Mercedes-Benz, and Sprinter franchises. Acquisitions are included in the Unaudited Condensed Consolidated Financial Statements from the date of acquisition. The purchase price allocation for this business combination is preliminary and subject to final adjustment. We purchased two stores during the three months ended



March 31, 2015.

The acquisitions that occurred during the three months ended March 31, 2016 were not material to our financial condition or results of operations. Additionally, on a pro forma basis as if the results of these acquisitions had been included in our consolidated results for the entire three month periods ended March 31, 2016 and 2015, revenue and net income would not have been materially different from our reported revenue and net income for these periods.

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11. 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. As of March 31, 2016 and 2015, we have 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 results of operations, financial condition, or 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 2016 to 2034 are approximately \$28 million at March 31, 2016. 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 March 31, 2016. There can be no assurance that any performance by AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.

At March 31, 2016, surety bonds, letters of credit, and cash deposits totaled \$99.3 million, including \$44.1 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

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such outcome is possible given the nature of our operations and the extensive legal and regulatory framework applicable to our business.

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.

## 12. SEGMENT INFORMATION

At March 31, 2016 and 2015, we had three 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 FCA US (formerly 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 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 reportable segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer. In the following tables of financial data, revenue and segment income of our reportable segments are reconciled to consolidated revenue and consolidated income from continuing operations before income taxes, respectively.

	Three Months Ended March 31, 2016      2015	
Revenue:		
Domestic	\$1,848.2	\$1,665.7
Import	1,675.0	1,678.7
Premium Luxury	1,540.3	1,563.2
Total	5,063.5	4,907.6
Corporate and other	56.1	36.6
Total consolidated revenue	\$5,119.6	\$4,944.2

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	Three Months Ended March 31, 2016    2015	
Segment income <sup>(1)</sup> :		
Domestic	\$77.4	\$79.3
Import	76.1	75.0
Premium Luxury	83.0	94.1
Total	236.5	248.4
Corporate and other	(48.0 )	(46.7 )
Other interest expense	(28.3 )	(21.4 )
Interest income	0.1	0.1
Other income (loss), net	(3.4 )	1.1
Income from continuing operations before income taxes	\$156.9	\$181.5

<sup>(1)</sup> Segment income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.

**13. 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 or related lender or supplier. The core brands of vehicles that we sell, representing approximately 94% of the new vehicles sold during the three months ended March 31, 2016, are manufactured by Toyota (including Lexus), Ford, Honda, General Motors, Nissan, FCA US (formerly Chrysler), Mercedes-Benz, BMW, and Volkswagen (including Audi and Porsche). Our business could be materially adversely impacted by a bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender or supplier.

We had receivables from manufacturers or distributors of \$189.4 million at March 31, 2016, and \$221.4 million at December 31, 2015. 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 March 31, 2016, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

**14. 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 judgment, and therefore cannot be determined with precision.

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

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Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted Level 2 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

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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, commercial paper, 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 long-term debt: Our fixed rate long-term 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 long-term debt is as follows:

	March 31, December 31,	
	2016	2015
Carrying value	\$ 1,764.1	\$ 1,767.1
Fair value	\$ 1,856.5	\$ 1,858.6

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.

**Long-Lived Assets**

The fair value measurement valuation process for our long-lived assets is established by our corporate real estate services group. 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 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.

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The following table presents long-lived assets measured and recorded at fair value on a nonrecurring basis during the three months ended March 31, 2016 and 2015:

Description	2016		2015	
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Gain/(Loss)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Gain/(Loss)
Long-lived assets held for sale:				
Continuing operations	\$ 5.0	\$ (0.9 )	\$ 6.2	\$ (0.2 )
Discontinued operations	13.2	(0.2 )	—	—
Total long-lived assets held for sale	\$ 18.2	\$ (1.1 )	\$ 6.2	\$ (0.2 )

Long-Lived Assets Held and Used in Continuing Operations

During the three months ended March 31, 2016 and March 31, 2015, there were no impairment charges recorded for the carrying value of long-lived assets held and used in continuing operations.

Long-Lived Assets Held for Sale in Continuing Operations

We recorded non-cash impairment charges related to long-lived assets held for sale in continuing operations of \$0.9 million during the three months ended March 31, 2016 and \$0.2 million during the three months ended March 31, 2015. These non-cash impairment charges are included in Other Income, Net (within Operating Income) in our Unaudited Condensed Consolidated Statements of Income and are reported in the “Corporate and other” category of our segment information.

Long-Lived Assets Held for Sale in Discontinued Operations

We recorded a non-cash impairment charge related to long-lived assets held for sale in discontinued operations of \$0.2 million during the three months ended March 31, 2016. The non-cash impairment charge is included in Loss from Discontinued Operations in our Unaudited Condensed Consolidated Statements of Income.

During the three months ended March 31, 2015, there were no impairment charges recorded for the carrying value of long-lived assets held for sale in discontinued operations.

As of March 31, 2016, we had long-lived assets held for sale of \$52.1 million in continuing operations and \$22.1 million in discontinued operations. Long-lived assets held for sale are included in Other Current Assets in our Unaudited Condensed Consolidated Balance Sheets.

15. CASH FLOW INFORMATION

We had non-cash investing and financing activities primarily related to increases in property acquired under capital leases of \$5.3 million for the three months ended March 31, 2015. We did not enter into any capital leases during the three months ended March 31, 2016. We also had accrued purchases of property and equipment of \$16.4 million at March 31, 2016 and \$12.8 million at March 31, 2015.

We made interest payments, including interest on vehicle inventory financing, of \$36.6 million during the three months ended March 31, 2016, and \$31.5 million during the three months ended March 31, 2015. We made income tax payments, net of income tax refunds, of \$0.9 million during the three months ended March 31, 2016, and \$18.4 million during the three months ended March 31, 2015.



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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 March 31, 2016, we owned and operated 375 new vehicle franchises from 265 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 35 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 94% of the new vehicles that we sold during the three months ended March 31, 2016, are manufactured by Toyota (including Lexus), Ford, Honda, General Motors, Nissan, FCA US (formerly Chrysler), Mercedes-Benz, BMW, and Volkswagen (including Audi and Porsche).

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 and other protection 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 the AutoNation retail brand and advertising, implementing standardized processes, and increasing productivity across all of our stores.

At March 31, 2016, we had three 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 FCA US (formerly 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.

Market Conditions

In the first quarter of 2016, U.S. industry new vehicle unit retail sales were relatively flat as compared to the first quarter of 2015, despite increases in manufacturer incentives, vehicle leasing, and retail inventory levels. While we anticipate that full-year U.S. industry new vehicle unit sales will be above 17 million in 2016, we expect that the industry selling rate will be relatively flat as compared to 2015. However, actual sales may materially differ. Based on industry data, vehicle leasing is at a historically-high level. To the extent that vehicle manufacturers reduce their support for leasing programs, U.S. industry and our new vehicle unit retail sales could be adversely impacted.

As discussed below in "Results of Operations," our new and used vehicle gross profit on a per vehicle retailed ("PVR") basis were compressed due to elevated inventory levels in certain vehicle models, particularly in the Domestic and Premium Luxury segments, changes in manufacturer incentive programs, and a competitive automotive retail environment. If new vehicle production exceeds the new vehicle industry selling rate in 2016, our new and used vehicle gross profit PVRs could continue to be adversely impacted by excess supply, as well as changes in incentive, marketing, and other programs put in place by the vehicle manufacturers.

After several years of decline, the number of recent-model-year vehicles in operation is growing 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 has declined and is expected to continue 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.

Results of Operations

During the three months ended March 31, 2016, we had net income from continuing operations of \$96.2 million or \$0.90 per share on a diluted basis, as compared to net income from continuing operations of \$111.7 million or \$0.97 per share on a diluted basis during the same period in 2015.

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For the three months ended March 31, 2016, new vehicle sales accounted for approximately 55% of our total revenue and approximately 18% of our total gross profit. Used vehicle sales accounted for approximately 24% of our total revenue and approximately 11% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 20% of our total revenue for the three months ended March 31, 2016, contributed approximately 70% of our total gross profit for the same period.

Our retail new vehicle unit sales were relatively flat in the first quarter of 2016, as compared to the first quarter of 2015. Elevated inventory levels in certain vehicle models, changes in manufacturer incentive programs, and a competitive automotive retail environment adversely impacted new and used vehicle gross profit PVR, particularly in the Domestic and Premium Luxury segments. New and used vehicle gross profit PVR compression was partially offset by continued strength in finance and insurance gross profit PVR. Our total gross profit for the first quarter of 2016 increased 3%, as compared to same period in the prior year, primarily due to an increase in parts and service gross profit. See “Parts and Service” below for further discussion.

### 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 87,953 units in new vehicle inventory at March 31, 2016, 80,442 units at December 31, 2015, and 65,993 units at March 31, 2015. See “New Vehicle Inventories” below for more information.

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, including units subject to our open safety recall policy. Our used vehicle inventory balance was net of cumulative write-downs of \$5.0 million at March 31, 2016, and \$4.5 million at December 31, 2015.

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 \$3.9 million at March 31, 2016, and \$3.5 million at December 31, 2015.

### 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. We are scheduled to complete our annual impairment test as of April 30, 2016.

### 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. We are scheduled to complete our annual impairment test of our franchise rights as of April 30, 2016.



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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 March 31, 2016, we had long-lived assets held for sale of \$52.1 million in continuing operations and \$22.1 million in discontinued operations.

During the three months ended March 31, 2016, there were no impairment charges recorded for the carrying value of long-lived assets held and used in continuing operations.

During the three months ended March 31, 2016, we recorded a non-cash impairment charge of \$0.9 million related to long-lived assets held for sale in continuing operations. The non-cash impairment charge is included in Other Income, Net (within Operating Income) in our Unaudited Condensed Consolidated Statements of Income and is reported in the "Corporate and other" category of our segment information.

During the three months ended March 31, 2016, we recorded a non-cash impairment charge of \$0.2 million related to long-lived assets held for sale in discontinued operations. The non-cash impairment charge is included in Loss from Discontinued Operations in our Unaudited Condensed Consolidated Statements of Income.

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 14 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.

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## 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 March 31,			
	2016	2015	Variance Favorable / (Unfavorable)	% Variance
Revenue:				
New vehicle	\$2,800.2	\$2,769.6	\$ 30.6	1.1
Retail used vehicle	1,119.9	1,094.1	25.8	2.4
Wholesale	121.7	99.1	22.6	22.8
Used vehicle	1,241.6	1,193.2	48.4	4.1
Finance and insurance, net	223.1	207.6	15.5	7.5
Total variable operations <sup>(1)</sup>	4,264.9	4,170.4	94.5	2.3
Parts and service	820.4	743.4	77.0	10.4
Other	34.3	30.4	3.9	
Total revenue	\$5,119.6	\$4,944.2	\$ 175.4	3.5
Gross profit:				
New vehicle	\$149.2	\$161.5	\$ (12.3 )	(7.6 )
Retail used vehicle	93.7	102.5	(8.8 )	(8.6 )
Wholesale	(2.7 )	1.2	(3.9 )	
Used vehicle	91.0	103.7	(12.7 )	(12.2 )
Finance and insurance	223.1	207.6	15.5	7.5
Total variable operations <sup>(1)</sup>	463.3	472.8	(9.5 )	(2.0 )
Parts and service	354.7	320.0	34.7	10.8
Other	7.9	7.1	0.8	
Total gross profit	825.9	799.9	26.0	3.3
Selling, general, and administrative expenses	588.7	557.6	(31.1 )	(5.6 )
Depreciation and amortization	34.8	28.7	(6.1 )	
Other income, net	(5.0 )	(1.3 )	3.7	
Operating income	207.4	214.9	(7.5 )	(3.5 )
Non-operating income (expense) items:				
Floorplan interest expense	(18.9 )	(13.2 )	(5.7 )	
Other interest expense	(28.3 )	(21.4 )	(6.9 )	
Interest income	0.1	0.1	—	
Other income (loss), net	(3.4 )	1.1	(4.5 )	
Income from continuing operations before income taxes	\$156.9	\$181.5	\$ (24.6 )	(13.6 )
Retail vehicle unit sales:				
New vehicle	79,007	78,560	447	0.6
Used vehicle	58,103	58,624	(521 )	(0.9 )
	137,110	137,184	(74 )	(0.1 )
Revenue per vehicle retained:				
New vehicle	\$35,442	\$35,255	\$ 187	0.5
Used vehicle	\$19,274	\$18,663	\$ 611	3.3
Gross profit per vehicle retained:				
New vehicle	\$1,888	\$2,056	\$ (168 )	(8.2 )
Used vehicle	\$1,613	\$1,748	\$ (135 )	(7.7 )
Finance and insurance	\$1,627	\$1,513	\$ 114	7.5
Total variable operations <sup>(2)</sup>	\$3,399	\$3,438	\$ (39 )	(1.1 )

(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.

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	Three Months Ended	
	March 31,	
	2016 (%)	2015 (%)
Revenue mix percentages:		
New vehicle	54.7	56.0
Used vehicle	24.3	24.1
Parts and service	16.0	15.0
Finance and insurance, net	4.4	4.2
Other	0.6	0.7
Total	100.0	100.0
Gross profit mix percentages:		
New vehicle	18.1	20.2
Used vehicle	11.0	13.0
Parts and service	42.9	40.0
Finance and insurance	27.0	26.0
Other	1.0	0.8
Total	100.0	100.0
Operating items as a percentage of revenue:		
Gross profit:		
New vehicle	5.3	5.8
Used vehicle - retail	8.4	9.4
Parts and service	43.2	43.0
Total	16.1	16.2
Selling, general, and administrative expenses	11.5	11.3
Operating income	4.1	4.3
Operating items as a percentage of total gross profit:		
Selling, general, and administrative expenses	71.3	69.7
Operating income	25.1	26.9
	March 31,	
	2016	2015
Days supply:		
New vehicle (industry standard of selling days)	81 days	52 days
Used vehicle (trailing calendar month days)	39 days	34 days



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## Same Store Operating Data

We have presented below our operating results on a same store basis, which reflect 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. Therefore, the amounts presented in the 2015 column may differ from the same store amounts presented for 2015 in the prior year.

(\$ in millions, except per vehicle data)	Three Months Ended March 31,		Variance	%
	2016	2015	Favorable / (Unfavorable)	Variance
<b>Revenue:</b>				
New vehicle	\$2,634.1	\$2,755.5	\$ (121.4 )	(4.4 )
Retail used vehicle	1,045.9	1,085.2	(39.3 )	(3.6 )
Wholesale	118.1	98.7	19.4	19.7
Used vehicle	1,164.0	1,183.9	(19.9 )	(1.7 )
Finance and insurance, net	211.8	206.6	5.2	2.5
Total variable operations <sup>(1)</sup>	4,009.9	4,146.0	(136.1 )	(3.3 )
Parts and service	770.1	736.2	33.9	4.6
Other	34.0	30.3	3.7	
Total revenue	\$4,814.0	\$4,912.5	\$ (98.5 )	(2.0 )
<b>Gross profit:</b>				
New vehicle	\$140.1	\$160.6	\$ (20.5 )	(12.8 )
Retail used vehicle	88.0	101.6	(13.6 )	(13.4 )
Wholesale	(2.6 )	1.2	(3.8 )	
Used vehicle	85.4	102.8	(17.4 )	(16.9 )
Finance and insurance	211.8	206.6	5.2	2.5
Total variable operations <sup>(1)</sup>	437.3	470.0	(32.7 )	(7.0 )
Parts and service	333.5	316.6	16.9	5.3
Other	7.3	7.1	0.2	
Total gross profit	\$778.1	\$793.7	\$ (15.6 )	(2.0 )
<b>Retail vehicle unit sales:</b>				
New vehicle	74,323	78,027	(3,704 )	(4.7 )
Used vehicle	54,157	58,039	(3,882 )	(6.7 )
	128,480	136,066	(7,586 )	(5.6 )
<b>Revenue per vehicle retailed:</b>				
New vehicle	\$35,441	\$35,315	\$ 126	0.4
Used vehicle	\$19,312	\$18,698	\$ 614	3.3
<b>Gross profit per vehicle retailed:</b>				
New vehicle	\$1,885	\$2,058	\$ (173 )	(8.4 )
Used vehicle	\$1,625	\$1,751	\$ (126 )	(7.2 )
Finance and insurance	\$1,649	\$1,518	\$ 131	8.6
Total variable operations <sup>(2)</sup>	\$3,424	\$3,445	\$ (21 )	(0.6 )

<sup>(1)</sup> Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.

<sup>(2)</sup> 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.



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	Three Months Ended March 31,	
	2016 (%)	2015 (%)
Revenue mix percentages:		
New vehicle	54.7	56.1
Used vehicle	24.2	24.1
Parts and service	16.0	15.0
Finance and insurance, net	4.4	4.2
Other	0.7	0.6
Total	100.0	100.0
Gross profit mix percentages:		
New vehicle	18.0	20.2
Used vehicle	11.0	13.0
Parts and service	42.9	39.9
Finance and insurance	27.2	26.0
Other	0.9	0.9
Total	100.0	100.0
Operating items as a percentage of revenue:		
Gross profit:		
New vehicle	5.3	5.8
Used vehicle - retail	8.4	9.4
Parts and service	43.3	43.0
Total	16.2	16.2



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## Net New Vehicle Inventory Carrying Benefit

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.

(In millions)	Three Months Ended		
	March 31,		
	2016	2015	Variance
Floorplan assistance	\$29.3	\$26.7	\$ 2.6
New vehicle floorplan interest expense	(17.9 )	(12.5 )	(5.4 )
Net new vehicle inventory carrying benefit	\$11.4	\$14.2	\$ (2.8 )

## First Quarter 2016 compared to First Quarter 2015

The net new vehicle inventory carrying benefit decreased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to an increase in floorplan interest expense, partially offset by an increase in floorplan assistance. Floorplan interest expense increased due to higher average vehicle floorplan payable balances and higher interest rates during the year. Floorplan assistance increased primarily due to an increase in the floorplan assistance rate per unit.

## New Vehicle Inventories

Our new vehicle inventories were \$3.2 billion or 81 days supply at March 31, 2016, as compared to new vehicle inventories of \$2.9 billion or 68 days supply at December 31, 2015 and \$2.3 billion or 52 days supply at March 31, 2015. We had 87,953 units in new vehicle inventory at March 31, 2016, 80,442 units at December 31, 2015, and 65,993 units at March 31, 2015. The increase in new vehicle inventory days supply at March 31, 2016, as compared to December 31, 2015, is primarily due to increases in Premium Luxury and Domestic days supply and a decline in our new vehicle retail selling rate at the end of the first quarter of 2016. We are taking steps to align our inventory in response to the current market conditions.

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## Used Vehicle

(\$ in millions, except per vehicle data)	Three Months Ended March 31,			
	2016	2015	Variance Favorable / (Unfavorable)	% Variance
Reported:				
Retail revenue	\$1,119.9	\$1,094.1	\$ 25.8	2.4
Wholesale revenue	121.7	99.1	22.6	22.8
Total revenue	\$1,241.6	\$1,193.2	\$ 48.4	4.1
Retail gross profit	\$93.7	\$102.5	\$ (8.8 )	(8.6 )
Wholesale gross profit	(2.7 )	1.2	(3.9 )	
Total gross profit	\$91.0	\$103.7	\$ (12.7 )	(12.2 )
Retail vehicle unit sales	58,103	58,624	(521 )	(0.9 )
Revenue per vehicle retailed	\$19,274	\$18,663	\$ 611	3.3
Gross profit per vehicle retailed	\$1,613	\$1,748	\$ (135 )	(7.7 )
Gross profit as a percentage of revenue	8.4	% 9.4	%	
Days supply (trailing calendar month days)	39 days	34 days		

	Three Months Ended March 31,			
	2016	2015	Variance Favorable / (Unfavorable)	% Variance
Same Store:				
Retail revenue	\$1,045.9	\$1,085.2	\$ (39.3 )	(3.6 )
Wholesale revenue	118.1	98.7	19.4	19.7
Total revenue	\$1,164.0	\$1,183.9	\$ (19.9 )	(1.7 )
Retail gross profit	\$88.0	\$101.6	\$ (13.6 )	(13.4 )
Wholesale gross profit	(2.6 )	1.2	(3.8 )	
Total gross profit	\$85.4	\$102.8	\$ (17.4 )	(16.9 )
Retail vehicle unit sales	54,157	58,039	(3,882 )	(6.7 )
Revenue per vehicle retailed	\$19,312	\$18,698	\$ 614	3.3
Gross profit per vehicle retailed	\$1,625	\$1,751	\$ (126 )	(7.2 )
Gross profit as a percentage of revenue	8.4	% 9.4	%	

The following discussion of used vehicles is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$74.0 million and \$8.9 million in retail used vehicle revenue and \$5.7 million and \$0.9 million in retail used vehicle gross profit for the three months ended March 31, 2016 and 2015, respectively, is related to acquisition and divestiture activity.

## First Quarter 2016 compared to First Quarter 2015

Same store retail used vehicle revenue decreased during the three months ended March 31, 2016, as a result of a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was driven by a competitive automotive retail environment, as well as a decrease in trade-in volume associated with the decrease in new vehicle sales, partially offset by an increase in sales of certified pre-owned vehicles. Same store unit volume was also adversely impacted by manufacturer safety recalls and the application of our open safety recall policy which led to a decline in the number of used units available for sale.

Same store revenue PVR during the three months ended March 31, 2016, benefited primarily from an increase in the average selling price of used vehicles for all three segments and the increase in sales of certified pre-owned vehicles, which have relatively higher average selling prices.

Same store gross profit PVR decreased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily as a result of gross profit PVR compression for new vehicles during the same period

combined with the application of our recall policy. In addition, we experienced compressed gross profit PVRs for certified pre-owned vehicles, particularly in our Premium Luxury segment.

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Used Vehicle Inventories

Used vehicle inventories were \$551.3 million or 39 days supply at March 31, 2016, compared to \$539.7 million or 43 days supply at December 31, 2015, and \$470.6 million or 34 days supply at March 31, 2015. We had 34,256 units in used vehicle inventory at March 31, 2016, 36,299 units at December 31, 2015, and 29,002 units at March 31, 2015. As of March 31, 2016, approximately 15% of our units in used vehicle inventory were subject to our recall policy, compared to 17% as of December 31, 2015. This decline was due in part to the disposition of used vehicles that were previously subject to our recall policy through the wholesale auction process.



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## Parts and Service

(\$ in millions)	Three Months Ended March 31,			
	2016	2015	Variance Favorable / (Unfavorable)	% Variance
Reported:				
Revenue	\$820.4	\$743.4	\$ 77.0	10.4
Gross Profit	\$354.7	\$320.0	\$ 34.7	10.8
Gross profit as a percentage of revenue	43.2 %	43.0 %		
Same Store:				
Revenue	\$770.1	\$736.2	\$ 33.9	4.6
Gross Profit	\$333.5	\$316.6	\$ 16.9	5.3
Gross profit as a percentage of revenue	43.3 %	43.0 %		

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. The following discussion of parts and service is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$50.3 million and \$7.2 million in parts and service revenue and \$21.2 million and \$3.4 million in parts and service gross profit for the three months ended March 31, 2016 and 2015, respectively, is related to acquisition and divestiture activity.

## First Quarter 2016 compared to First Quarter 2015

During the three months ended March 31, 2016, same store parts and service gross profit increased as compared to the same period in 2015, primarily due to increases in gross profit associated with customer-pay service of \$9.1 million, warranty of \$4.9 million, and wholesale parts sales of \$2.3 million.

Customer-pay service gross profit benefited from improved operational execution and margin performance, as well as increased volume due to the increase in units in operation in our primary service base. Warranty gross profit benefited from an increase in volume, driven by the increase in units in operation in our primary service base. Gross profit associated with the sale of wholesale parts benefited from improved margin performance overall and a shift in mix toward parts with higher margins.

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## Finance and Insurance

(\$ in millions, except per vehicle data)	Three Months Ended March 31,		Variance	
	2016	2015	Favorable / (Unfavorable)	% Variance
Reported:				
Revenue and gross profit	\$223.1	\$207.6	\$ 15.5	7.5
Gross profit per vehicle retailed	\$1,627	\$1,513	\$ 114	7.5
Same Store:				
Revenue and gross profit	\$211.8	\$206.6	\$ 5.2	2.5
Gross profit per vehicle retailed	\$1,649	\$1,518	\$ 131	8.6

The following discussion of finance and insurance is on a same store basis. The difference between reported amounts and same store amounts in the above tables of \$11.3 million and \$1.0 million in finance and insurance revenue and gross profit for the three months ended March 31, 2016 and 2015, respectively, is related to acquisition and divestiture activity.

## First Quarter 2016 compared to First Quarter 2015

Same store finance and insurance revenue and gross profit increased during the three months ended March 31, 2016, as compared to the same period in 2015, due to an increase in same store finance and insurance revenue and gross profit PVR, partially offset by a decrease in new and used vehicle unit volume.

Same store finance and insurance revenue and gross profit PVR increased primarily due to an increase in profit on vehicle service contracts as a result of the sale in our Domestic and Import stores of the AutoNation Vehicle Protection Plan, which was rolled out during the second half of 2015. Same store finance and insurance revenue and gross profit PVR also benefited from an increase in product penetration and more customers financing vehicles through our stores.

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## Segment Results

In the following table, revenue and segment income of our reportable segments are reconciled to consolidated revenue and consolidated operating income, respectively. The following discussions of segment results are on a reported basis.

Three Months Ended March 31,

(\$ in millions)	2016	2015	Variance Favorable / (Unfavorable)	% Variance
Revenue:				
Domestic	\$1,848.2	\$1,665.7	\$ 182.5	11.0
Import	1,675.0	1,678.7	(3.7 )	(0.2 )
Premium Luxury	1,540.3	1,563.2	(22.9 )	(1.5 )
Total	5,063.5	4,907.6	155.9	3.2
Corporate and other	56.1	36.6	19.5	53.3
Total consolidated revenue	\$5,119.6	\$4,944.2	\$ 175.4	3.5
Segment income <sup>(1)</sup> :				
Domestic	\$77.4	\$79.3	\$ (1.9 )	(2.4 )
Import	76.1	75.0	1.1	1.5
Premium Luxury	83.0	94.1	(11.1 )	(11.8 )
Total	236.5	248.4	(11.9 )	(4.8 )
Corporate and other	(48.0 )	(46.7 )	(1.3 )	
Floorplan interest expense	18.9	13.2	(5.7 )	
Operating income	\$207.4	\$214.9	\$ (7.5 )	(3.5 )

<sup>(1)</sup> Segment income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.

## Retail new vehicle unit sales:

Domestic	27,736	25,750	1,986	7.7
Import	35,781	36,914	(1,133 )	(3.1 )
Premium Luxury	15,490	15,896	(406 )	(2.6 )
	79,007	78,560	447	0.6

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## Domestic

The Domestic segment operating results included the following:

(\$ in millions)	Three Months Ended March 31,		Variance	%
	2016	2015	Favorable / (Unfavorable)	Variance
Revenue	\$1,848.2	\$1,665.7	\$ 182.5	11.0
Segment income	\$77.4	\$79.3	\$ (1.9 )	(2.4 )
Retail new vehicle unit sales	27,736	25,750	1,986	7.7

## First Quarter 2016 compared to First Quarter 2015

Domestic revenue increased during the three months ended March 31, 2016 as compared to the same period in 2015, primarily due to increases in new and used vehicle unit volume and new and used vehicle revenue PVR. New and used vehicle unit volume benefited from the acquisitions we completed subsequent to the first quarter of 2015. New vehicle revenue PVR benefited from lower average fuel prices, which caused a shift in mix toward larger vehicles, such as trucks and sport utility vehicles, that have relatively higher average selling prices. Used vehicle revenue PVR benefited from the increase in sales of certified pre-owned vehicles, which have relatively higher average selling prices.

Domestic segment income decreased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to an increase in variable expenses and decreases in both new and used vehicle gross profit due to the competitive automotive retail environment. These decreases were partially offset by an increase in parts and service gross profit and an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit PVR and higher vehicle unit volume.

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## Import

The Import segment operating results included the following:

(\$ in millions)	Three Months Ended March 31,			
	2016	2015	Variance Favorable / (Unfavorable)	% Variance
Revenue	\$1,675.0	\$1,678.7	\$ (3.7 )	(0.2 )
Segment income	\$76.1	\$75.0	\$ 1.1	1.5
Retail new vehicle unit sales	35,781	36,914	(1,133 )	(3.1 )

First Quarter 2016 compared to First Quarter 2015

Import revenue decreased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to decreases in new vehicle unit volume due to the competitive automotive retail environment, partially offset by increases in parts and service revenue and used vehicle revenue.

Import segment income increased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to an increase in parts and service gross profit and an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit PVR. Increases in Import segment income were partially offset by a decrease in used vehicle gross profit due to the competitive automotive retail environment and an increase in variable expenses.

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## Premium Luxury

The Premium Luxury segment operating results included the following:

(\$ in millions)	Three Months Ended March 31,		Variance	%
	2016	2015	Favorable / (Unfavorable)	Variance
Revenue	\$1,540.3	\$1,563.2	\$ (22.9 )	(1.5 )
Segment income	\$83.0	\$94.1	\$ (11.1 )	(11.8 )
Retail new vehicle unit sales	15,490	15,896	(406 )	(2.6 )

First Quarter 2016 compared to First Quarter 2015

Premium Luxury revenue decreased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to decreases in new vehicle unit volume and new vehicle revenue PVR due to the competitive automotive retail environment. These decreases were partially offset by the impact of acquisitions we completed subsequent to the first quarter of 2015, as well as an increase in parts and service revenue.

Premium Luxury segment income decreased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to decreases in new and used vehicle gross PVRs as a result of increased inventory levels and changes in manufacturer incentive programs, as well as a competitive automotive retail environment. These decreases were partially offset by an increase in parts and service gross profit. Premium Luxury segment income was also adversely impacted by an increase in variable expenses.

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## Selling, General, and Administrative Expenses

Our Selling, General, and Administrative (“SG&A”) expenses 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 expenses.

(\$ in millions)	Three Months Ended March 31,		Variance		% Variance
	2016	2015	Favorable / (Unfavorable)		
Reported:					
Compensation	\$373.1	\$369.3	\$ (3.8	)	(1.0 )
Advertising	42.7	42.0	(0.7	)	(1.7 )
Store and corporate overhead	172.9	146.3	(26.6	)	(18.2 )
Total	\$588.7	\$557.6	\$ (31.1	)	(5.6 )
SG&A as a % of total gross profit:					
Compensation	45.2	46.2	100		bps
Advertising	5.2	5.3	10		bps
Store and corporate overhead	20.9	18.2	(270	)	bps
Total	71.3	69.7	(160	)	bps

## First Quarter 2016 compared to First Quarter 2015

SG&A expenses increased during the three months ended March 31, 2016, as compared to the same period in 2015, primarily due to an increase in store and corporate overhead expenses, which was largely a result of the acquisitions we completed subsequent to the first quarter of 2015. Store and corporate overhead expenses during the first quarter of 2016 were also negatively impacted by losses of approximately \$6 million related to several severe hail storms that occurred during the quarter. SG&A expenses were also negatively impacted by a shift of approximately \$5 million in stock-based compensation expense into the first quarter, due to a change from quarterly to annual employee stock option grants. As a percentage of total gross profit, SG&A expenses increased to 71.3% during the three months ended March 31, 2016, from 69.7% in the same period in 2015, primarily due to an increase in store and corporate overhead expenses as a percentage of total gross profit.

## Other Income, Net (included in Operating Income)

During the first quarter of 2016, we recognized gains related to business divestitures of \$6.2 million, partially offset by non-cash property impairments of \$0.9 million.

## Non-Operating Income (Expense)

## Floorplan Interest Expense

## First Quarter 2016 compared to First Quarter 2015

Floorplan interest expense was \$18.9 million for the three months ended March 31, 2016, compared to \$13.2 million for the same period in 2015. The increase in floorplan interest expense of \$5.7 million is the result of higher average vehicle floorplan balances and higher interest rates during the year.

## Other Interest Expense

Other interest expense was \$28.3 million for the three months ended March 31, 2016, compared to \$21.4 million for the same period in 2015. The increase in interest expense of \$6.9 million was primarily due to increases of \$7.6 million resulting from the September 2015 issuance of our 3.35% Senior Notes due 2021 and 4.5% Senior Notes due 2025, and \$2.6 million resulting from borrowings under our commercial paper program established in May 2015. These increases were partially offset by a decrease in interest expense of \$3.6 million due to a decrease in borrowings under our revolving credit facility.





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## Provision for Income Taxes

Income taxes are 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 impacted by our geographic income mix.

Our effective income tax rate was 38.7% for the three months ended March 31, 2016, and 38.5% for the three months ended March 31, 2015.

## Discontinued Operations

Discontinued operations are related to stores that were sold or terminated prior to January 1, 2014. 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 were closed prior to January 1, 2014.

## 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, commercial paper program, 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)	March 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 47.8	\$ 74.1
Revolving credit facility <sup>(1)</sup>	\$ 1,195.1 <sup>(2)</sup>	\$ 1,463.1
Secured used vehicle floorplan facilities <sup>(3)</sup>	\$ 0.4	\$ 127.1

<sup>(1)</sup> As limited by the maximum consolidated leverage ratio contained in our credit agreement.

At March 31, 2016, we had \$44.1 million of letters of credit outstanding. In addition, we use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under our commercial paper program.

<sup>(2)</sup> We had \$926.0 million of commercial paper notes outstanding at March 31, 2016, which in effect reduced the available liquidity under our revolving credit facility to \$829.9 million at March 31, 2016. See “Long-Term Debt and Commercial Paper” below for additional information.

<sup>(3)</sup> Based on the eligible used vehicle inventory that could have been pledged as collateral. See “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 relating to insurance matters. At March 31, 2016, surety bonds, letters of credit, and cash deposits totaled \$99.3 million, including \$44.1 million of letters of credit. We do not currently provide cash collateral for outstanding letters of credit.

In February 2016, 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. We invest capital in our business to maintain and upgrade our existing facilities and to build new facilities for existing franchises, as well as for other strategic and technology initiatives. We also deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership acquisitions and/or build facilities for newly awarded franchises. 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



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acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

## Share Repurchases

Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended	
	March 31,	
(In millions, except per share data)	2016	2015
Shares repurchased	7.9	0.2
Aggregate purchase price	\$ 370.6	\$ 9.1
Average purchase price per share	\$ 47.20	\$ 60.46

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

In February 2016, our Board of Directors authorized the repurchase of an additional \$250.0 million of shares of our common stock. As of March 31, 2016, \$175.0 million remained available for share repurchases under the program.

## Capital Expenditures

The following table sets forth information regarding our capital expenditures:

	Three Months Ended	
	March 31,	
(In millions)	2016	2015
Purchases of property and equipment, including operating lease buy-outs <sup>(1)</sup>	\$ 50.7	\$ 62.9

<sup>(1)</sup> Includes accrued construction in progress and excludes property associated with capital leases entered into during the year.

## 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	
	March 31,	
(In millions)	2016	2015
Cash received from (used in) business acquisitions, net	\$ (256.6 )	\$ (27.7 )
Cash received from (used in) business divestitures, net	\$ 6.1	\$ 15.7

During the three months ended March 31, 2016, we purchased twelve stores located in Texas, which include Chrysler, Dodge, Jeep, Ram, Chevrolet, Hyundai, Mercedes-Benz, and Sprinter franchises. We purchased two stores during the three months ended March 31, 2015.

During the three months ended March 31, 2016, we divested two Import stores. During the three months ended March 31, 2015, we divested two Import stores.

## 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.

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## Long-Term Debt and Commercial Paper

The following table sets forth our non-vehicle long-term debt, net of debt issuance costs, as of March 31, 2016, and December 31, 2015.

(In millions)	March 31, December 31,	
	2016	2015
6.75% Senior Notes due 2018	\$397.8	\$ 397.5
5.5% Senior Notes due 2020	346.7	346.5
3.35% Senior Notes due 2021	297.7	297.6
4.5% Senior Notes due 2025	444.8	444.7
Revolving credit facility due 2019	—	—
Mortgage facility <sup>(1)</sup>	173.2	175.7
Capital leases and other debt	94.3	95.0
	1,754.5	1,757.0
Less: current maturities	(11.9 )	(11.7 )
Long-term debt, net of current maturities	\$1,742.6	\$ 1,745.3

<sup>(1)</sup> 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 March 31, 2016, we had outstanding \$398.1 million of 6.75% Senior Notes due 2018, net of debt discount. Interest is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At March 31, 2016, 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. These notes will mature on February 1, 2020.

At March 31, 2016, we had outstanding \$300.0 million of 3.35% Senior Notes due 2021, net of debt discount. Interest is payable on January 15 and July 15 of each year. These notes will mature on January 15, 2021.

At March 31, 2016, we had outstanding \$448.5 million of 4.5% Senior Notes due 2025, net of debt discount. Interest is payable on April 1 and October 1 of each year. These notes will mature on October 1, 2025.

The interest rate payable on the 3.35% Senior Notes due 2021 and 4.5% Senior Notes due 2025 is subject to adjustment upon the occurrence of certain credit rating events as provided in the indentures for these senior unsecured notes.

Our senior unsecured notes are guaranteed by substantially all of our subsidiaries. The subsidiary guarantees for the 2021 Notes and the 2025 Notes may be released in certain circumstances as set forth in the indentures for such notes.

## Credit Agreement

Under our credit agreement, we have a \$1.8 billion revolving credit facility that matures on December 3, 2019. The credit agreement also contains an accordion feature that allows us, subject to credit availability and certain other conditions, to increase the amount of the revolving credit facility, together with any added term loans, by up to \$500.0 million in the aggregate. As of March 31, 2016, we had no borrowings outstanding 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 \$44.1 million at March 31, 2016, leaving a borrowing capacity under the revolving credit facility of \$1.8 billion at March 31, 2016. As of March 31, 2016, this borrowing capacity was limited under the maximum consolidated leverage ratio contained in our credit agreement to \$1.2 billion.

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 revolving credit facility provides for a commitment fee on undrawn amounts ranging from 0.175% to 0.25% and interest on borrowings at LIBOR or the base rate, in each case plus an applicable margin. The applicable margin ranges from 1.25% to 1.625% for LIBOR borrowings and 0.25% to 0.625% for base rate borrowings. The interest rate charged for our



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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 12.5 basis point increase in the interest rate.

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

### Other Long-Term Debt

At March 31, 2016, we had \$173.2 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. 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. Repayment of the mortgage facility is subject to a prepayment penalty.

At March 31, 2016, we had capital lease and other debt obligations of \$94.3 million, which are due at various dates through 2034.

### Commercial Paper

We have a commercial paper program pursuant to which we may issue short-term, unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$1.0 billion. This program provides us with additional short-term financing flexibility and enhances our ability to take advantage of opportunities in the credit markets. The interest rate for the commercial paper notes varies based on duration and market conditions. The maturities of the commercial paper notes may vary, but may not exceed 397 days from the date of issuance. The commercial paper notes are guaranteed by substantially all of our subsidiaries. Proceeds from the issuance of commercial paper notes are used to repay borrowings under the revolving credit facility, to finance acquisitions and for working capital, capital expenditures, share repurchases and/or other general corporate purposes. We plan to use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under the commercial paper program. A downgrade in our credit ratings could negatively impact our ability to issue, or the interest rates for, commercial paper notes.

At March 31, 2016, we had \$926.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 1.23% and a weighted-average remaining term of 21 days.

### Restrictions and Covenants

Our credit agreement, the indentures for our senior unsecured notes, 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 leverage ratio is 3.75x and the maximum capitalization ratio is 70.0%. 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, 2014 plus \$1.53 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 4, 2014.

The indentures for our senior unsecured notes 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 result in the 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.



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As of March 31, 2016, we were in compliance with the requirements of the financial covenants under our debt agreements. Under the terms of our credit agreement, at March 31, 2016, our leverage ratio and capitalization ratio were as follows:

	March 31, 2016	
	Requirement	Actual
Leverage ratio	≤ 3.75x	2.60x
Capitalization ratio	≤ 70.0%	64.9%

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.

**Vehicle Floorplan Payable**

The components of vehicle floorplan payable are as follows:

	March 31, December 31,	
	2016	2015
Vehicle floorplan payable - trade	\$ 2,572.1	\$ 2,565.8
Vehicle floorplan payable - non-trade	1,467.3	1,161.3
Vehicle floorplan payable	\$ 4,039.4	\$ 3,727.1

Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with manufacturers' captive finance subsidiaries. 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 vehicle floorplan facilities. Financing decisions for our used vehicle inventories are dependent on a combination of factors, such as liquidity needs and pricing considerations, among others.

At March 31, 2016, the aggregate capacity under our used vehicle floorplan facilities was \$360.0 million. As of that date, \$318.5 million had been borrowed under those facilities, and the remaining borrowing capacity of \$41.5 million was limited to \$0.4 million based on the eligible used vehicle inventory that could have been pledged as collateral. At December 31, 2015, the aggregate capacity under our used vehicle floorplan facilities was \$350.0 million. As of that date, \$212.5 million had been borrowed under those facilities, and the remaining borrowing capacity of \$137.5 million was limited to \$127.1 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 funds the manufacturer directly for the purchase of new vehicle inventory. Floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

**Cash Flows**

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

	Three Months Ended March 31,	
(In millions)	2016	2015
Net cash provided by operating activities	\$ 198.2	\$ 199.6
Net cash used in investing activities	\$(310.7)	\$(79.6)
Net cash provided by (used in) financing activities	\$ 86.2	\$(121.3)

**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





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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 was relatively flat during the three months ended March 31, 2016, as compared to the same period in 2015, and was impacted by a decrease in earnings and a decrease in working capital requirements.

### 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 three months ended March 31, 2016, as compared to the same period in 2015, primarily due to an increase in cash used in business acquisitions, net of cash acquired, and a decrease in cash received from business divestitures, partially offset by a decrease in purchases of property and equipment.

### Cash Flows from Financing Activities

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

During the three months ended March 31, 2016, we repurchased 7.9 million shares of common stock for an aggregate purchase price of \$370.6 million (average purchase price per share of \$47.20). In addition, during the three months ended March 31, 2016, 8,760 shares were surrendered to us to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During the three months ended March 31, 2015, we repurchased 0.2 million shares of common stock for an aggregate purchase price of \$9.1 million (average purchase price per share of \$60.46), including repurchases for which settlement occurred subsequent to September 30, 2014. In addition, during the three months ended March 31, 2015, 8,999 shares were surrendered to us to satisfy tax withholding obligations in connection with the vesting of restricted stock.

Cash flows from financing activities include changes in commercial paper notes outstanding totaling net proceeds of \$326.5 million during the three months ended March 31, 2016.

During the three months ended March 31, 2016, we borrowed \$440.0 million and repaid \$440.0 million under our revolving credit facility. During the three months ended March 31, 2015, we borrowed \$540.0 million and repaid \$615.0 million under our revolving credit facility, for net repayments of \$75.0 million.

Cash flows from financing activities also include changes in vehicle floorplan payable-non-trade totaling net proceeds of \$132.8 million for the three months ended March 31, 2016, and net payments of \$54.1 million for the three months ended March 31, 2015.

### Recent Accounting Pronouncements

See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements.

### 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 pending acquisitions, strategic initiatives, expected future investments in our business, and 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,” “will” and 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, or 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:

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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 new vehicle sales are impacted by incentive, marketing, and other programs of vehicle manufacturers.

We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.

If we are not able to maintain and enhance our retail brands and reputation or to attract consumers to our own digital channels, or if events occur that damage our retail brands, reputation, or sales channels, our business and financial results may be harmed.

New laws, regulations, or governmental policies regarding fuel economy and greenhouse gas emission standards, or changes to existing standards, may affect vehicle manufacturers' ability to produce cost-effective vehicles or vehicles that consumers demand, which could adversely impact our business, results of operations, financial condition, cash flow, and prospects.

Natural disasters and adverse weather events can disrupt our business.

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 purported 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.

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.

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 subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and commercial paper program that could have a material adverse effect on our profitability.

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 largest stockholders, as a result of their ownership stakes in us, may 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.

Please refer to our most recent Annual Report on Form 10-K for additional discussion of the foregoing risks. These forward-looking statements speak only as of the date of this report, and 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](http://www.autonation.com)), our investor relations website ([investors.autonation.com](http://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:



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•AutoNation’s Twitter feed ([www.twitter.com/autonation](http://www.twitter.com/autonation))

•Mike Jackson’s Twitter feed ([www.twitter.com/CEOMikeJackson](http://www.twitter.com/CEOMikeJackson))

•AutoNation’s Facebook page ([www.facebook.com/autonation](http://www.facebook.com/autonation))

•Mike Jackson’s Facebook page ([www.facebook.com/CEOMikeJackson](http://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 \$4.0 billion of variable rate vehicle floorplan payable at March 31, 2016, and \$3.7 billion at December 31, 2015. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change to our annual floorplan interest expense of \$40.4 million at March 31, 2016, and \$37.3 million at December 31, 2015. 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 \$926.0 million of commercial paper notes outstanding at March 31, 2016. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of \$9.3 million at March 31, 2016.

Our fixed rate long-term debt, primarily consisting of amounts outstanding under our senior unsecured notes and mortgages, totaled \$1.8 billion and had a fair value of \$1.9 billion as of March 31, 2016, and totaled \$1.8 billion and had a fair value of \$1.9 billion as of December 31, 2015.

**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.

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## 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, 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 March 31, 2016.

Period	Total Number of Shares Purchased <sup>(1)</sup>	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) <sup>(1)</sup>
January 1, 2016 - January 31, 2016	442,384	\$ 42.88	442,384	\$ 276.6
February 1, 2016 - February 29, 2016	6,533,845	\$ 46.92	6,533,845	\$ 220.0
March 1, 2016 - March 31, 2016	883,469	\$ 51.47	874,709	\$ 175.0
Total	7,859,698		7,850,938	

Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. In February 2016, our Board of Directors authorized the repurchase of an additional \$250.0 million of shares of our common stock. As of March 31, 2016, \$175.0 million remained available under our stock repurchase authorization limit. The Board's authorization has no expiration date. During the first quarter of 2016, all of the shares reflected in the table above were repurchased under our stock repurchase program, except for 8,760 shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

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ITEM 6. EXHIBITS

Exhibit No.	Description
4.1	Supplemental Indenture, dated as February 29, 2016, relating to the Company's 6.75% Senior Notes due 2018, to the Indenture, dated April 14, 2010 (the "2010 Indenture"), among AutoNation, Inc. and Wells Fargo Bank, National Association.
4.2	Supplemental Indenture to 2010 Indenture, dated as February 29, 2016, relating to the Company's 5.5% Senior Notes due 2020.
4.3	Supplemental Indenture to 2010 Indenture, dated as February 29, 2016, relating to the Company's 3.35% Senior Notes due 2021.
4.4	Supplemental Indenture to 2010 Indenture, dated as February 29, 2016, relating to the Company's 4.5% Senior Notes due 2025.
10.1	Form of Stock Option Agreement under the AutoNation, Inc. 2008 Employee Equity and Incentive Plan (the "2008 Plan") for grants in 2016.
10.2	Form of Restricted Stock Agreement under the 2008 Plan for grants in 2016.
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



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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: April 22, 2016 By: /s/ Christopher Cade

Christopher Cade

Vice President and Chief Accounting Officer

(Duly Authorized Officer and Principal Accounting Officer)