

AUTONATION, INC.

Form 10-Q

October 30, 2018

0.001250.0340.012false--12-31Q320180000350698falseLarge Accelerated FilerAUTONATION, INC.falseAN120000000013000000000.010.01150000000015000000001025621491025621490.055500000030.010.0150000000 income represents income for each of our reportable segments and is defined as operating income less floorplan interest expense.?Corporate and other? is comprised of our other businesses, including collision centers, AutoNation USA stand-alone used vehicle sales and service centers, and automotive auctions.Represents revenue recognized during the period for automotive repair and maintenance services.Earnings per share amounts are calculated discretely and therefore may not add up to the total due to rounding. 0000350698 2018-01-01 2018-09-30 0000350698 2018-10-26 0000350698 2018-09-30 0000350698 2017-12-31 0000350698 an:TradeMember 2018-09-30 0000350698 an:NonTradeMember 2018-09-30 0000350698 an:NonTradeMember 2017-12-31 0000350698 an:TradeMember 2017-12-31 0000350698 an:UsedVehicleMember 2018-07-01 2018-09-30 0000350698 2017-01-01 2017-09-30 0000350698 2017-07-01 2017-09-30 0000350698 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember 2017-01-01 2017-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2017-01-01 2017-09-30 0000350698 an:PartsAndServiceMember 2017-07-01 2017-09-30 0000350698 an:FinanceAndInsuranceNetMember 2017-01-01 2017-09-30 0000350698 an:PartsAndServiceMember 2018-01-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2018-01-01 2018-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2017-07-01 2017-09-30 0000350698 us-gaap:ProductAndServiceOtherMember 2018-07-01 2018-09-30 0000350698 an:PartsAndServiceMember 2017-01-01 2017-09-30 0000350698 an:UsedVehicleMember 2017-07-01 2017-09-30 0000350698 an:UsedVehicleMember 2018-01-01 2018-09-30 0000350698 an:PartsAndServiceMember 2018-07-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember 2018-07-01 2018-09-30 0000350698 an:UsedVehicleMember 2017-01-01 2017-09-30 0000350698 2017-09-30 0000350698 an:FinanceAndInsuranceNetMember 2018-01-01 2018-09-30 0000350698 an:NewVehicleMember 2017-07-01 2017-09-30 0000350698 an:FinanceAndInsuranceNetMember 2017-07-01 2017-09-30 0000350698 an:NewVehicleMember 2018-07-01 2018-09-30 0000350698 an:NewVehicleMember 2018-01-01 2018-09-30 0000350698 us-gaap:TreasuryStockMember 2018-09-30 0000350698 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-09-30 0000350698 us-gaap:RetainedEarningsMember 2017-12-31 0000350698 us-gaap:CommonStockMember 2017-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000350698 us-gaap:TreasuryStockMember 2018-01-01 2018-09-30 0000350698 us-gaap:TreasuryStockMember 2017-12-31 0000350698 us-gaap:RetainedEarningsMember 2018-01-01 2018-09-30 0000350698 us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0000350698 us-gaap:RetainedEarningsMember 2018-09-30 0000350698 us-gaap:CommonStockMember 2018-09-30 0000350698 2016-12-31 0000350698 srt:MaximumMember us-gaap:AccountingStandardsUpdate201602Member 2018-09-30 0000350698 an:CollisionCentersMember 2018-09-30 0000350698 srt:MinimumMember us-gaap:AccountingStandardsUpdate201602Member 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-09-30 0000350698 an:DealershipsMember 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-09-30 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-09-30 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-09-30 0000350698 an:FinanceAndInsuranceNetMember us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-07-01 2018-09-30 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-07-01 2018-09-30 0000350698 an:PartsAndServiceMember us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-09-30 0000350698 an:PartsAndServiceMember us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-09-30 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-07-01 2018-09-30

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**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 September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 1-13107

AutoNation, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

73-1105145

(I.R.S. Employer Identification No.)

200 SW 1st Avenue, Fort Lauderdale, Florida

(Address of principal executive offices)

33301

(Zip Code)

(954) 769-6000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 26, 2018, the registrant had 89,925,190 shares of common stock outstanding.

AUTONATION, INC.
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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In millions, except share and per share data)**

	September 30,	December 31,
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 52.6	\$ 69.2
Receivables, net	800.5	1,111.0
Inventory	3,381.3	3,365.6
Other current assets	203.4	251.7
Total Current Assets	4,437.8	4,797.5
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$1.3 billion and \$1.2 billion, respectively	3,085.5	2,962.7
GOODWILL	1,516.1	1,515.0
OTHER INTANGIBLE ASSETS, NET	595.7	586.8
OTHER ASSETS	484.7	409.5
Total Assets	\$ 10,119.8	\$ 10,271.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable - trade	\$ 2,107.6	\$ 2,179.1
Vehicle floorplan payable - non-trade	1,495.7	1,627.8
Accounts payable	274.4	309.8
Commercial paper	600.0	330.0
Current maturities of long-term debt	5.3	414.5
Other current liabilities	688.1	774.5
Total Current Liabilities	5,171.1	5,635.7
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,962.1	1,959.2
DEFERRED INCOME TAXES	87.5	71.9
OTHER LIABILITIES	281.1	235.4
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$0.01 per share; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 1,500,000,000 shares authorized; 102,562,149 shares issued at September 30, 2018, and December 31, 2017, including shares held in treasury	1.0	1.0
Additional paid-in capital	19.7	4.0
Retained earnings	3,145.6	2,832.2
Treasury stock, at cost; 12,636,903 and 11,002,298 shares held, respectively	(548.3) (467.9)
Total Shareholders' Equity	2,618.0	2,369.3
Total Liabilities and Shareholders' Equity	\$ 10,119.8	\$ 10,271.5

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenue:				
New vehicle	\$2,933.1	\$3,108.4	\$8,685.0	\$8,835.5
Used vehicle	1,281.7	1,228.3	3,910.9	3,670.3
Parts and service	864.0	841.6	2,579.6	2,544.2
Finance and insurance, net	247.4	241.6	736.0	692.0
Other	23.0	12.5	89.6	109.1
TOTAL REVENUE	5,349.2	5,432.4	16,001.1	15,851.1
Cost of sales:				
New vehicle	2,807.7	2,963.6	8,305.1	8,408.2
Used vehicle	1,190.7	1,142.6	3,642.9	3,433.1
Parts and service	473.4	474.2	1,416.2	1,428.2
Other	22.1	6.1	87.5	89.8
TOTAL COST OF SALES (excluding depreciation shown below)	4,493.9	4,586.5	13,451.7	13,359.3
Gross profit:				
New vehicle	125.4	144.8	379.9	427.3
Used vehicle	91.0	85.7	268.0	237.2
Parts and service	390.6	367.4	1,163.4	1,116.0
Finance and insurance	247.4	241.6	736.0	692.0
Other	0.9	6.4	2.1	19.3
TOTAL GROSS PROFIT	855.3	845.9	2,549.4	2,491.8
Selling, general, and administrative expenses	626.2	607.5	1,878.3	1,814.1
Depreciation and amortization	42.9	41.4	124.0	118.0
Franchise rights impairment	—	—	8.1	—
Other income, net	(17.4)	(14.2)	(41.6)	(54.4)
OPERATING INCOME	203.6	211.2	580.6	614.1
Non-operating income (expense) items:				
Floorplan interest expense	(32.7)	(25.1)	(93.4)	(70.7)
Other interest expense	(28.4)	(30.0)	(90.4)	(88.0)
Interest income	0.3	0.2	0.8	0.8
Other income, net	2.3	1.6	3.3	6.4
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	145.1	157.9	400.9	462.6
Income tax provision	32.8	60.3	97.9	179.1
NET INCOME FROM CONTINUING OPERATIONS	112.3	97.6	303.0	283.5
Income (loss) from discontinued operations, net of income taxes	(0.3)	(0.1)	0.3	(0.2)
NET INCOME	\$112.0	\$97.5	\$303.3	\$283.3
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$1.24	\$1.00	\$3.33	\$2.84
Discontinued operations	\$—	\$—	\$—	\$—
Net income	\$1.24	\$1.00	\$3.33	\$2.84
Weighted average common shares outstanding	90.4	97.3	91.1	99.9
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$1.24	\$1.00	\$3.31	\$2.83

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Discontinued operations	\$—	\$—	\$—	\$—
Net income	\$1.23	\$1.00	\$3.31	\$2.82
Weighted average common shares outstanding	90.8	97.7	91.6	100.3
COMMON SHARES OUTSTANDING, net of treasury stock, at period end	89.9	91.2	89.9	91.2

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Table of Contents**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, 2017	102,562,149	\$ 1.0	\$ 4.0	\$ 2,832.2	\$ (467.9)	\$ 2,369.3
Net income	—	—	—	303.3	—	303.3
Repurchases of common stock	—	—	—	—	(100.0)	(100.0)
Stock-based compensation expense	—	—	22.0	—	—	22.0
Shares awarded under stock-based compensation plans, net of shares withheld for taxes	—	—	(6.3)	—	19.6	13.3
Cumulative effect of change in accounting principle - revenue recognition	—	—	—	10.1	—	10.1
BALANCE AT SEPTEMBER 30, 2018	102,562,149	\$ 1.0	\$ 19.7	\$ 3,145.6	\$ (548.3)	\$ 2,618.0

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**AUTONATION, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)**

	Nine Months Ended September 30, 2018 2017	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	\$303.3	\$283.3
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(0.3)	0.2
Depreciation and amortization	124.0	118.0
Amortization of debt issuance costs and accretion of debt discounts	4.2	4.2
Stock-based compensation expense	22.0	18.1
Deferred income tax provision	12.4	7.7
Net gain related to business/property dispositions	(38.5)	(43.8)
Franchise rights impairment	8.1	—
Non-cash impairment charges and valuation adjustments	2.2	—
Other	(2.5)	(5.2)
(Increase) decrease, net of effects from business combinations and divestitures:		
Receivables	309.4	143.6
Inventory	(44.9)	94.1
Other assets	(101.3)	(21.2)
Increase (decrease), net of effects from business combinations and divestitures:		
Vehicle floorplan payable - trade, net	(42.5)	(212.7)
Accounts payable	(28.1)	(25.6)
Other liabilities	7.0	96.6
Net cash provided by continuing operations	534.5	457.3
Net cash provided by (used in) discontinued operations	0.6	(0.3)
Net cash provided by operating activities	535.1	457.0
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property and equipment	(283.2)	(227.6)
Property operating lease buy-outs	—	(3.3)
Proceeds from the sale of property and equipment	24.0	2.6
Proceeds from assets held for sale	10.2	34.7
Insurance recoveries on property and equipment	1.1	1.2
Cash received from business divestitures, net of cash relinquished	144.2	47.8
Cash used in business acquisitions, net of cash acquired	(67.9)	(56.9)
Other	(0.6)	(2.0)
Net cash used in continuing operations	(172.2)	(203.5)
Net cash used in discontinued operations	—	—
Net cash used in investing activities	(172.2)	(203.5)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2018 2017	
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repurchases of common stock	(100.0)	(425.2)
Payment of 6.75% Senior Notes due 2018	(400.0)	—
Proceeds from revolving credit facility	—	907.0
Payments of revolving credit facility	—	(825.0)
Net proceeds from commercial paper	270.0	53.0
Net proceeds from (payments of) vehicle floorplan payable - non-trade	(147.6)	15.4
Payments of mortgage facility	—	(7.6)
Payments of capital leases and other debt obligations	(13.9)	(3.5)
Proceeds from the exercise of stock options	16.0	24.7
Payments of tax withholdings for stock-based awards	(2.7)	(1.1)
Other	(2.5)	—
Net cash used in continuing operations	(380.7)	(262.3)
Net cash used in discontinued operations	—	—
Net cash used in financing activities	(380.7)	(262.3)
DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(17.8)	(8.8)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at beginning of period	71.1	65.4
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at end of period	\$53.3	\$56.6

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 September 30, 2018, we owned and operated 329 new vehicle franchises from 242 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 93% of the new vehicles that we sold during the nine months ended September 30, 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). As of September 30, 2018, we also owned and operated 82 AutoNation-branded collision centers, and together with our vehicle dealerships, our AutoNation USA stores, and our automotive auctions, we owned and operated over 325 locations coast to coast. 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 U.S. generally accepted accounting principles (“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. 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 critical accounting estimates made in the accompanying Unaudited Condensed Consolidated Financial Statements include certain assumptions related to goodwill, other intangible assets, and accruals for chargebacks against revenue recognized from the sale of finance and insurance products. Other significant accounting estimates include certain assumptions related to long-lived assets, assets held for sale, accruals related to self-insurance programs, certain legal proceedings, and estimated tax liabilities.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard (ASC Topic 606) that amends the accounting guidance on revenue recognition. The new accounting standard is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The principles in the standard should be applied using a five-step model that includes 1) identifying the contract(s)

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AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

with a customer, 2) identifying the performance obligations in the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations in the contract, and 5) recognizing revenue when (or as) the performance obligations are satisfied. The standard also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In addition, the standard amends the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, sales of real estate) to be consistent with the standard's guidance on recognition and measurement (including the constraint on revenue). The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent guidance, identifying performance obligations, and immaterial goods and services in a contract.

The new accounting standard update must 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).

The new accounting standard is effective for reporting periods beginning after December 15, 2017. We adopted the accounting standard effective January 1, 2018, using the modified retrospective approach applied only to contracts not completed as of the date of adoption, with no restatement of comparative periods. Therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605. We recognized a net after-tax cumulative effect adjustment to retained earnings of \$10.1 million as of the date of adoption. The details and quantitative impacts of the significant changes are described below.

Finance and Insurance

We participate in future profit pursuant to retrospective commission arrangements with the issuers of certain finance and insurance products, payment of which is contingent upon the annual performance of the portfolio of contracts. We previously recognized this revenue by the amount that would be due at each reporting date based on the performance of the portfolio at such date and recorded amounts due to us as receivables. Under ASC Topic 606, revenue associated with this portion of the transaction price is accelerated as it is considered variable consideration for which we must estimate the amount to which we will be entitled over the contract term, and amounts are reflected as a contract asset until the right to such consideration becomes unconditional, at which time amounts due are reclassified to receivables. Additionally, we previously deferred revenue by the net amount of consideration that we retained for the sale of a contract under our Vehicle Care Program ("VCP"), a vehicle maintenance program that provides a specific number of maintenance services to be redeemed at an AutoNation location over a five-year term. Under ASC Topic 606, we have determined that we act as the principal in this arrangement since we have the primary responsibility to provide the specified services to the customer under the VCP contract. Therefore, we defer the gross revenue on sales of VCP contracts and record such amounts as a contract liability, and reflect the amount due from the third-party administrator for customer claims in Other Current Assets and Other Assets.

Parts and Service

We previously recognized revenue for an automotive repair and maintenance service when the service was completed and recorded amounts due to us as receivables. Under ASC Topic 606, performance obligations associated with automotive repair and maintenance services are satisfied over time, which results in the acceleration of revenue recognition, and amounts due to us are reflected as a contract asset until the right to such consideration becomes unconditional, at which time amounts due to us are reclassified to receivables. Additionally, the timing of revenue recognition associated with customer loyalty points offered for parts and services for select franchises in certain of our stores is now deferred. We previously accrued the incremental cost of loyalty points awarded. Under the new standard,

a customer loyalty program that provides a customer with a material right is accounted for as a separate performance obligation with revenue recognized when the loyalty points are redeemed.

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The following tables summarize the impacts to each financial statement line item affected by the adoption of ASC Topic 606 as of and for the three and nine months ended September 30, 2018.

Consolidated Balance Sheet Line Items

Impact of changes in accounting policies	September 30, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Receivables, net	\$ 800.5	\$ 816.1	\$ (15.6)
Inventory	\$ 3,381.3	\$ 3,386.2	\$ (4.9)
Other current assets	\$ 203.4	\$ 147.4	\$ 56.0
Other assets	\$ 484.7	\$ 424.3	\$ 60.4
Other current liabilities	\$ 688.1	\$ 656.6	\$ 31.5
Deferred income taxes	\$ 87.5	\$ 83.3	\$ 4.2
Other liabilities	\$ 281.1	\$ 234.0	\$ 47.1
Retained earnings	\$ 3,145.6	\$ 3,132.5	\$ 13.1

Consolidated Statement of Income Line Items

Impact of changes in accounting policies	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Revenue:						
Parts and service	\$ 864.0	\$ 863.1	\$ 0.9	\$ 2,579.6	\$ 2,579.7	\$ (0.1)
Finance and insurance	\$ 247.4	\$ 245.9	\$ 1.5	\$ 736.0	\$ 732.1	\$ 3.9
Cost of sales:						
Parts and service	\$ 473.4	\$ 473.0	\$ 0.4	\$ 1,416.2	\$ 1,416.4	\$ (0.2)
Gross profit:						
Parts and service	\$ 390.6	\$ 390.1	\$ 0.5	\$ 1,163.4	\$ 1,163.3	\$ 0.1
Finance and insurance	\$ 247.4	\$ 245.9	\$ 1.5	\$ 736.0	\$ 732.1	\$ 3.9
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	\$ 145.1	\$ 143.1	\$ 2.0	\$ 400.9	\$ 396.9	\$ 4.0
Income tax provision	\$ 32.8	\$ 32.3	\$ 0.5	\$ 97.9	\$ 96.9	\$ 1.0
NET INCOME FROM CONTINUING OPERATIONS	\$ 112.3	\$ 110.8	\$ 1.5	\$ 303.0	\$ 300.0	\$ 3.0
NET INCOME	\$ 112.0	\$ 110.5	\$ 1.5	\$ 303.3	\$ 300.3	\$ 3.0

Consolidated Statement of Cash Flows Line Items

Impact of changes in accounting policies	Nine Months Ended September 30, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Net income	\$ 303.3	\$ 300.3	\$ 3.0
Deferred income tax provision	\$ 12.4	\$ 11.4	\$ 1.0

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(Increase) decrease, net of effects from business combinations and divestitures:

Receivables	\$309.4	\$ 293.8	\$ 15.6
Inventory	\$(44.9)	\$(45.1)	\$ 0.2
Other assets	\$(101.3)	\$(2.9)	\$ (98.4)
Increase (decrease), net of effects from business combinations and divestitures:			
Other liabilities	\$7.0	\$(71.6)	\$ 78.6

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AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update that provides classification guidance on eight specific cash flow issues, for which guidance previously did not exist or was unclear. The amendments in this accounting standard update are effective for periods beginning after December 15, 2017. We adopted this accounting standard update effective January 1, 2018. The activity on our consolidated statement of cash flows was previously classified in accordance with the provisions of the new standard. Therefore, the provisions of the accounting standard update did not impact our consolidated statements of cash flows.

Restricted Cash

In November 2016, the FASB issued an accounting standard update that requires the statement of cash flows explain the change during the period in the total of cash and cash equivalents, as well as restricted cash and restricted cash equivalents. Therefore, restricted cash should be included in the beginning-of-period and end-of-period total amounts presented on the statement of cash flows. The amendments in this accounting standard update are effective for periods beginning after December 15, 2017, and should be applied using a retrospective transition method to each period presented. We adopted this accounting standard update effective January 1, 2018, and made the relevant changes, which were not material, to each period presented in our consolidated statements of cash flows.

Accounting for Leases

In February 2016, the FASB issued an accounting standard update (ASC Topic 842) that amends the accounting guidance on leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The FASB also subsequently issued amendments to the standard, including providing an additional and optional transition method to adopt the new standard, described below, as well as certain practical expedients related to land easements and lessor accounting. The amendments in this accounting standard update are effective for us on January 1, 2019, with early adoption permitted. We will adopt this accounting standard update effective January 1, 2019.

The accounting standard update originally required the use of a modified retrospective approach reflecting the application of the standard to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with the option to elect certain practical expedients. A subsequent amendment to the standard provides an additional and optional transition method that allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (ASC Topic 840) if the optional transition method is elected. While we are still evaluating the method of adoption, we currently anticipate adopting the standard using the optional transition method with no restatement of comparative periods and a cumulative effect adjustment, if any, recognized as of the date of adoption.

We expect that this standard will have a material effect on our financial statements due to the recognition of new ROU assets and lease liabilities on our consolidated balance sheet for real estate and equipment operating leases. As part of our implementation process, we have assessed our lease arrangements, evaluated practical expedient and accounting policy elections, and implemented software to meet the reporting requirements of this standard. We are also currently evaluating the changes in controls and processes that are necessary to implement the new standard, but do not expect material changes. We expect that our leasing activity will continue between now and the adoption date. We expect to elect most of the standard's available practical expedients on adoption. Consequently, on adoption, we expect to recognize additional operating liabilities ranging from \$325 million to \$425 million, with corresponding ROU assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. We have a significant number of real estate leases, including for land and buildings. The majority of our leases for land are classified as operating leases under current lease

accounting guidance. For new leases entered into after adoption, the new lease standard may affect the pattern of expense recognition related to the land component of a new real estate lease, since those land leases may be classified as finance leases under the new standard.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****2. REVENUE RECOGNITION*****Disaggregation of Revenue***

The significant majority of our revenue is from contracts with customers. Taxes assessed by governmental authorities that are directly imposed on revenue transactions are excluded from revenue. In the following table, revenue is disaggregated by major lines of goods and services and timing of transfer of goods and services. We have determined that these categories depict how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors. The table below also includes a reconciliation of the disaggregated revenue with our reportable segments.

Three Months Ended September 30, 2018

	Domestic Import	Premium Luxury	Corporate and other⁽¹⁾	Total	
<u>Major Goods/Service Lines</u>					
New vehicle	\$988.5	\$1,070.3	\$874.3	\$ —	\$2,933.1
Used vehicle	424.4	365.3	463.6	28.4	1,281.7
Parts and service	271.6	235.8	269.4	87.2	864.0
Finance and insurance, net	88.6	94.4	60.0	4.4	247.4
Other	16.6	4.8	1.5	0.1	23.0
	\$1,789.7	\$1,770.6	\$1,668.8	\$ 120.1	\$5,349.2

Timing of Revenue Recognition

Goods and services transferred at a point in time	\$1,613.5	\$1,591.6	\$1,441.5	\$ 35.0	\$4,681.6
Goods and services transferred over time ⁽²⁾	176.2	179.0	227.3	85.1	667.6
	\$1,789.7	\$1,770.6	\$1,668.8	\$ 120.1	\$5,349.2

Nine Months Ended September 30, 2018

	Domestic Import	Premium Luxury	Corporate and other⁽¹⁾	Total	
<u>Major Goods/Service Lines</u>					
New vehicle	\$2,913.7	\$3,045.0	\$2,726.3	\$ —	\$8,685.0
Used vehicle	1,334.4	1,092.3	1,405.9	78.3	3,910.9
Parts and service	810.8	707.1	804.1	257.6	2,579.6
Finance and insurance, net	263.2	275.8	178.6	18.4	736.0
Other	67.4	20.0	1.9	0.3	89.6
	\$5,389.5	\$5,140.2	\$5,116.8	\$ 354.6	\$16,001.1

Timing of Revenue Recognition

Goods and services transferred at a point in time	\$4,870.0	\$4,603.3	\$4,440.5	\$ 100.2	\$14,014.0
Goods and services transferred over time ⁽²⁾	519.5	536.9	676.3	254.4	1,987.1
	\$5,389.5	\$5,140.2	\$5,116.8	\$ 354.6	\$16,001.1

(1) “Corporate and other” is comprised of our other businesses, including collision centers, AutoNation USA stand-alone used vehicle sales and service centers, and automotive auctions.

(2) Represents revenue recognized during the period for automotive repair and maintenance services.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)*****Contract Assets and Liabilities***

When the timing of our provision of goods or services is different from the timing of the payments made by our customers, we recognize either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance). Contract assets primarily relate to our right to consideration for work in process not yet billed at the reporting date associated with automotive repair and maintenance services, as well as our estimate of variable consideration that has been included in the transaction price for certain finance and insurance products (retrospective commissions). These contract assets are reclassified to receivables when the right to consideration becomes unconditional. Contract liabilities primarily relate to upfront payments received from customers for the sale of certain finance and insurance products for which our performance obligations are satisfied, and revenue is recognized, as each underlying service of the multi-year contract is completed during the contract term.

Our receivables from contracts with customers are included in Receivables, net, our current contract asset is included with Other Current Assets, our long-term contract asset is included with Other Assets, our current contract liability is included with Other Current Liabilities, and our long-term contract liability is included with Other Long-Term Liabilities in our consolidated balance sheet.

The opening and closing balances of our receivables from contracts with customers and our current and long-term contract assets and contract liabilities are as follows:

	September 30, 2018	January 1, 2018
Receivables from contracts with customers, net	\$ 569.7	\$ 854.3
Contract Asset (Current)	\$ 24.8	\$ 18.4
Contract Asset (Long-Term)	\$ 13.3	\$ 1.4
Contract Liability (Current)	\$ 31.9	\$ 26.7
Contract Liability (Long-Term)	\$ 64.4	\$ 63.8

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenue recognized in the period from:		
Amounts included in contract liability at the beginning of the period	\$ 6.8	\$ 21.7
Performance obligations satisfied in previous periods	\$ 4.1	\$ 16.0

The differences between the opening and closing balances of our contract assets and contract liabilities primarily result from the timing differences between our performance and the customer's payment, as well as changes in the estimated transaction price related to variable consideration that was constrained for performance obligations satisfied in previous periods. Other significant changes include contract assets of \$8.3 million reclassified to receivables.

Performance Obligations and Significant Judgments and Estimates Related to Revenue RecognitionNew and Used Vehicle

We sell new vehicles at our franchised dealerships and used vehicles at our franchised dealerships and AutoNation USA stores. The transaction price for a vehicle sale is determined with the customer at the time of sale. Customers often trade in their own vehicle to apply toward the purchase of a retail new or used vehicle. The "trade-in" vehicle is a

type of noncash consideration measured at fair value, based on external and internal market data for the specific vehicle, and applied as payment to the contract price for the purchased vehicle.

When we sell a new or used vehicle, we typically transfer control at a point in time upon delivery of the vehicle to the customer, which is generally at time of sale, as the customer is able to direct the use of, and obtain substantially all of the benefits from, the vehicle at such time. We do not directly finance our customers' vehicle purchases or leases. In many cases, we arrange third-party financing for the retail sale or lease of vehicles to our customers in exchange for a fee paid to us by the

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AUTONATION, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

third-party financial institution. We receive payment directly from the customer at the time of sale or from the third-party financial institution (referred to as contracts-in-transit or vehicle receivables, which are part of our receivables from contracts with customers) within a short period of time following the sale. We establish provisions, which are not significant, for estimated returns and warranties on the basis of both historical information and current trends.

We also offer auction services at our AutoNation-branded automotive auctions, revenue from which is included within Used Vehicle wholesale revenue. The transaction price for auction services is based on an established pricing schedule and determined with the customer at the time of sale, and payment is due upon completion of service. We satisfy our performance obligations related to auction services at the point in time that control transfers to the customer, which is when the service is completed.

Parts and Service

We sell parts and automotive services related to customer-paid repairs and maintenance, repairs and maintenance under manufacturer warranties and extended service contracts, and collision-related repairs. We also sell parts through our wholesale and retail counter channels.

Each automotive repair and maintenance service is a single performance obligation that includes both the parts and labor associated with the service. Payment for automotive service work is typically due upon completion of the service, which is generally completed within a short period of time from contract inception. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labor hours applied, and standardized hourly labor rates. We satisfy our performance obligations, transfer control, and recognize revenue over time for automotive repair and maintenance services because we are creating an asset with no alternative use and we have an enforceable right to payment for performance completed to date. We use an input method to recognize revenue and measure progress based on labor hours expended relative to the total labor hours expected to be expended to satisfy the performance obligation. We have determined labor hours expended to be the relevant measure of work performed to complete the automotive repair or maintenance service for the customer. As a practical expedient, since automotive repair and maintenance service contracts have an original duration of one year or less, we do not consider the time value of money, and we do not disclose estimated revenue expected to be recognized in the future for performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period or when we expect to recognize such revenue.

The transaction price for wholesale and retail counter parts sales is determined at the time of sale based on the quantity and price of each product purchased. Payment is typically due at time of sale, or within a short period of time following the sale. We establish provisions, which are not significant, for estimated parts returns based on historical information and current trends. Delivery methods of wholesale and retail counter parts vary; however, we generally consider control of wholesale and retail counter parts to transfer when the products are shipped, which typically occurs the same day as or within a few days of the sale. We also offer customer loyalty points for parts and service for select franchises in a relative few of our stores and we satisfy our performance obligation and recognize revenue when the loyalty points are redeemed. Amounts deferred related to the customer loyalty programs are insignificant.

Finance and Insurance

We sell and receive a commission on the following types of finance and insurance products: extended service contracts, maintenance programs, guaranteed auto protection (known as “GAP,” this protection covers the shortfall between a customer’s loan balance and insurance payoff in the event of a casualty), “tire and wheel” protection, and theft protection products, among others. We offer products that are sold and administered by independent third parties, including the vehicle manufacturers’ captive finance subsidiaries.

Pursuant to our arrangements with these third-party providers, we primarily sell the products on a straight commission basis; however, in other cases, we sell the product, recognize an upfront commission, and participate in future profit pursuant to retrospective commission arrangements with the issuers of those contracts through the life of the related contracts. For retrospective commission arrangements, we are paid annually based on the annual performance of the issuers' product portfolio. For the majority of finance and insurance product sales, our performance obligation is to arrange for the provision of goods or services by another party. Our performance obligation is satisfied when this arrangement is made, which is when the finance and insurance product is delivered to the end-customer, generally at the time of the vehicle sale. As agent, we recognize revenue in the amount of any fee or commission to which we expect to be entitled, which is the net amount of consideration that we

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retain after paying the third-party provider the consideration received in exchange for the goods or services to be fulfilled by that party.

The retrospective commission we earn on each product sold is a form of variable consideration that is constrained due to it being highly susceptible to factors outside our influence and control. Our agreements with the third-party administrators generally provide for an annual retrospective commission payout based on the product portfolio performance for that year. We estimate variable consideration related to retrospective commissions and perform a constraint analysis using the expected value method based on the historical performance of the product portfolios and current trends to estimate the amount of retrospective commissions to which we expect we will be entitled. At each reporting period, we reassess our expectations about the amount of retrospective commission variable consideration to which we expect to be entitled and recognize revenue when we no longer believe a significant revenue reversal is probable. Additionally, we may be charged back for commissions related to finance and insurance products in the event of early termination, default, or prepayment of the contracts by end-customers (“chargebacks”). An estimated refund liability for chargebacks against the revenue recognized from sales of finance and insurance products is recorded in the period in which the related revenue is recognized and is based primarily on our historical chargeback experience. We update our measurement of the chargeback liability at each reporting date for changes in expectations about the amount of chargebacks.

We also sell a vehicle maintenance program (the Vehicle Care Program or “VCP”) where we act as the principal in the sale since we have the primary responsibility to provide the specified services to the customer under the VCP contract. When a VCP product is sold in conjunction with the sale of a vehicle to the same customer, the stand-alone selling prices of each product are based on observable selling prices. Under a VCP contract, a customer purchases a specific number of maintenance services to be redeemed at an AutoNation location over a five-year term from the date of purchase. We satisfy our performance obligations and recognize revenue as maintenance services are rendered, since the customer benefits when we have completed the maintenance service. Although payment is due from the customer at the time of sale and services are rendered at points in time during a five-year contract term, these contracts do not contain a significant financing component. The following table includes estimated revenue expected to be recognized in the future related to VCP performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

	Revenue Expected to Be Recognized by Period			
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years
Revenue expected to be recognized on VCP contracts sold as of period end	\$ 95.5	\$ 31.1	\$ 47.4	\$ 17.0

We also recognize revenue, net of estimated chargebacks, for commissions earned by us for the transfer of financial assets when we arrange installment loans and leases with third-party lenders in connection with customer vehicle purchases.

Other Revenue

The majority of our other revenue is generated from the sale of vehicles to fleet/rental car companies that are specifically ordered for such companies (“fleet” sales). Revenue recognition for fleet sales is very similar to the

recognition of revenue for new vehicles, described above.

Contract Costs

For sales commissions incurred related to sales of vehicles and sales of finance and insurance products for which we act as agent, we have elected as a practical expedient to not capitalize the incremental costs to obtain those contracts since they are point-of-sale transactions and the amortization period would be immediate.

We have determined that the sales commissions and third-party administrator fees incurred related to sales of VCP products qualify for capitalization since these payments are directly related to sales achieved during a time period and would not have been incurred if the contract had not been obtained. Since the capitalized costs are related to services that are transferred during a five-year contract term, we amortize the assets over the contract term of five years consistent with the pattern of transfer of the service to which the assets relate. As of September 30, 2018, we had \$9.5 million of capitalized costs incurred to obtain or fulfill a VCP contract with a customer. We amortized \$0.8 million and \$2.3 million of these capitalized costs during the three and nine months ended September 30, 2018, respectively.

Table of Contents**AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****3. RECEIVABLES, NET**

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

	September 30, December 31,	
	2018	2017
Trade receivables	\$ 126.3	\$ 162.6
Manufacturer receivables	201.5	253.3
Other	32.5	44.9
	360.3	460.8
Less: allowances for doubtful accounts	(4.0)	(5.5)
	356.3	455.3
Contracts-in-transit and vehicle receivables	431.5	655.7
Income taxes receivable (see Note 7)	12.7	—
Receivables, net	\$ 800.5	\$ 1,111.0

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 finance and insurance products. Manufacturer receivables represent amounts due from manufacturers for holdbacks, rebates, incentives, floorplan assistance, and warranty claims. Contracts-in-transit and vehicle receivables primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers. We evaluate our receivables for collectability based on the age of receivables and past collection experience.

4. INVENTORY AND VEHICLE FLOORPLAN PAYABLE

The components of inventory are as follows:

	September 30, December 31,	
	2018	2017
New vehicles	\$ 2,651.0	\$ 2,577.9
Used vehicles	517.7	576.5
Parts, accessories, and other	212.6	211.2
Inventory	\$ 3,381.3	\$ 3,365.6

The components of vehicle floorplan payable are as follows:

	September 30, December 31,	
	2018	2017
Vehicle floorplan payable - trade	\$ 2,107.6	\$ 2,179.1
Vehicle floorplan payable - non-trade	1,495.7	1,627.8
Vehicle floorplan payable	\$ 3,603.3	\$ 3,806.9

Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new and, to a lesser extent, used 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 vehicle 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.

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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 3.4% for the nine months ended September 30, 2018, and 2.7% for the nine months ended September 30, 2017. At September 30, 2018, the aggregate capacity under our new vehicle floorplan facilities to finance our new vehicle inventory was approximately \$4.8 billion, of which \$3.2 billion had been borrowed.

Our used vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 3.4% for the nine months ended September 30, 2018, and 2.7%