

AUTONATION, INC.  
Form 10-Q  
October 28, 2010  
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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, 2010

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)

**200 SW 1<sup>st</sup> Avenue, Fort Lauderdale, Florida**  
(Address of principal executive offices)

**73-1105145**  
(I.R.S. Employer

Identification No.)

**33301**  
(Zip Code)

**(954) 769-6000**

(Registrant's Telephone Number, Including Area Code)

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 ☐

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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 October 25, 2010, the registrant had 147,996,955 shares of common stock outstanding.

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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, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 84.5	\$ 173.5
Receivables, net	392.1	406.4
Inventory	1,739.8	1,392.8
Other current assets	232.1	295.8
Total Current Assets	2,448.5	2,268.5
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$686.7 million and \$626.4 million, respectively	1,780.7	1,713.6
GOODWILL (Note 4)	1,140.4	1,122.8
OTHER INTANGIBLE ASSETS, NET (Note 4)	202.2	174.8
OTHER ASSETS	158.9	127.6
Total Assets	\$ 5,730.7	\$ 5,407.3
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Vehicle floorplan payable - trade	\$ 1,201.5	\$ 1,021.1
Vehicle floorplan payable - non-trade	431.3	353.5
Accounts payable	184.2	151.7
Notes payable and current maturities of long-term obligations	8.0	7.6
Other current liabilities	368.4	329.5
Total Current Liabilities	2,193.4	1,863.4
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,372.6	1,105.0
DEFERRED INCOME TAXES	41.1	24.6
OTHER LIABILITIES	118.4	111.1
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; 193,562,149 shares issued at September 30, 2010, and December 31, 2009, including shares held in treasury	1.9	1.9
Additional paid-in capital	483.6	480.2
Retained earnings	2,380.3	2,221.0
Treasury stock, at cost; 45,590,128 and 21,830,744 shares held, respectively	(860.6)	(399.9)

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Total Shareholders' Equity	2,005.2	2,303.2
Total Liabilities and Shareholders' Equity	\$ 5,730.7	\$ 5,407.3

The accompanying notes are an integral part of these statements.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue:</b>				
New vehicle	\$ 1,773.3	\$ 1,616.4	\$ 4,890.4	\$ 4,127.3
Used vehicle	812.4	637.1	2,327.7	1,852.6
Parts and service	564.1	530.8	1,648.9	1,595.6
Finance and insurance, net	111.9	95.0	311.9	259.9
Other	12.2	11.7	35.9	36.6
<b>TOTAL REVENUE</b>	<b>3,273.9</b>	<b>2,891.0</b>	<b>9,214.8</b>	<b>7,872.0</b>
<b>Cost of Sales:</b>				
New vehicle	1,661.4	1,497.7	4,566.7	3,849.4
Used vehicle	743.2	577.7	2,122.7	1,671.9
Parts and service	318.5	300.2	927.3	897.6
Other	5.4	5.8	15.1	16.4
<b>TOTAL COST OF SALES</b>	<b>2,728.5</b>	<b>2,381.4</b>	<b>7,631.8</b>	<b>6,435.3</b>
<b>Gross Profit:</b>				
New vehicle	111.9	118.7	323.7	277.9
Used vehicle	69.2	59.4	205.0	180.7
Parts and service	245.6	230.6	721.6	698.0
Finance and insurance	111.9	95.0	311.9	259.9
Other	6.8	5.9	20.8	20.2
<b>TOTAL GROSS PROFIT</b>	<b>545.4</b>	<b>509.6</b>	<b>1,583.0</b>	<b>1,436.7</b>
Selling, general, and administrative expenses	402.9	375.5	1,159.4	1,086.7
Depreciation and amortization	18.7	19.2	57.2	57.9
Franchise rights impairment	-	-	-	1.5
Other expenses (income), net	2.9	(3.1)	4.5	(23.7)
<b>OPERATING INCOME</b>	<b>120.9</b>	<b>118.0</b>	<b>361.9</b>	<b>314.3</b>
Floorplan interest expense	(10.8)	(7.6)	(30.2)	(26.5)
Other interest expense	(16.1)	(10.2)	(39.8)	(32.5)
Loss on debt extinguishment	-	-	(19.6)	-
Gain on senior note repurchases	-	0.5	-	13.0
Interest income	0.3	0.3	0.8	0.9
Other gains (losses), net	(0.7)	2.2	(1.1)	4.1
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>93.6</b>	<b>103.2</b>	<b>272.0</b>	<b>273.3</b>
<b>INCOME TAX PROVISION</b>	<b>35.1</b>	<b>38.8</b>	<b>104.8</b>	<b>101.9</b>
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>58.5</b>	<b>64.4</b>	<b>167.2</b>	<b>171.4</b>
Income (loss) from discontinued operations, net of income taxes	(1.6)	0.6	(7.9)	(35.1)

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NET INCOME	\$	56.9	\$	65.0	\$	159.3	\$	136.3
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## BASIC EARNINGS (LOSS) PER SHARE:

Continuing operations	\$	0.40	\$	0.36	\$	1.05	\$	0.97
Discontinued operations	\$	(0.01)	\$	0.00	\$	(0.05)	\$	(0.20)
Net income	\$	0.39	\$	0.36	\$	1.00	\$	0.77
Weighted average common shares outstanding		147.5		178.1		160.0		177.6

## DILUTED EARNINGS (LOSS) PER SHARE:

Continuing operations	\$	0.39	\$	0.36	\$	1.04	\$	0.96
Discontinued operations	\$	(0.01)	\$	0.00	\$	(0.05)	\$	(0.20)
Net income	\$	0.38	\$	0.36	\$	0.99	\$	0.76

Weighted average common shares outstanding		149.6		179.2		161.4		178.4
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## COMMON SHARES OUTSTANDING, net of treasury stock

	148.0	175.6	148.0	175.6
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The accompanying notes are an integral part of these statements.

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**AUTONATION, INC.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

**(In millions, except share data)**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>				
BALANCE AT DECEMBER 31, 2009	193,562,149	\$ 1.9	\$ 480.2	\$ 2,221.0	\$ (399.9)	\$ 2,303.2
Exercise of stock options and issuance of other stock-based awards, including income tax benefit of \$6.3	-	-	(10.2)	-	46.6	36.4
Repurchases of common stock	-	-	-	-	(507.3)	(507.3)
Stock-based compensation expense	-	-	13.6	-	-	13.6
Net income	-	-	-	159.3	-	159.3
BALANCE AT SEPTEMBER 30, 2010	193,562,149	\$ 1.9	\$ 483.6	\$ 2,380.3	\$ (860.6)	\$ 2,005.2

The accompanying notes are an integral part of these statements.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net income	\$ 159.3	\$ 136.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	7.9	35.1
Depreciation and amortization	57.2	57.9
Amortization of debt issuance costs and discounts	2.4	2.6
Stock-based compensation expense	13.6	11.5
Deferred income tax provision	10.9	30.3
Franchise rights impairment	-	1.5
Non-cash impairment charges	3.7	1.2
Write-off of deferred debt issuance costs	3.5	-
Gain on senior note repurchases	-	(13.0)
Gain on corporate headquarters sale-leaseback	-	(16.1)
Net loss (gain) on asset sales and dispositions	0.4	(7.5)
Other	1.2	(1.8)
Changes in assets and liabilities, net of effects from business combinations and divestitures:		
Receivables	11.8	54.8
Inventory	(321.5)	587.3
Other assets	27.2	27.8
Vehicle floorplan payable-trade, net	174.2	(585.3)
Accounts payable	32.1	15.1
Other liabilities	12.5	(21.2)
Net cash provided by continuing operations	196.4	316.5
Net cash provided by discontinued operations	1.3	32.2
Net cash provided by operating activities	197.7	348.7
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(80.3)	(40.5)
Proceeds from the sale of property and equipment	0.2	11.1
Proceeds from assets held for sale	5.8	0.9
Insurance recoveries on property and equipment	1.8	1.9
Cash used in business acquisitions, net of cash acquired	(73.1)	(0.2)
Net change in restricted cash	-	0.1
Proceeds from the sale of restricted investments	1.3	4.8
Cash received from business divestitures, net of cash relinquished	12.4	65.9
Other	(1.1)	0.7
Net cash provided by (used in) continuing operations	(133.0)	44.7
Net cash provided by (used in) discontinued operations	(0.3)	0.1
Net cash provided by (used in) investing activities	(133.3)	44.8

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The accompanying notes are an integral part of these statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(507.3)	(60.1)
Proceeds from revolving credit facilities	325.0	-
Payment of revolving credit facilities	(115.0)	-
Proceeds from 6.75% Senior Unsecured Notes due 2018	394.0	-
Payment of term loan facility	(66.6)	-
Payment of Floating Rate Senior Unsecured Notes	(146.1)	-
Payment of 7% Senior Unsecured Notes	(117.9)	-
Repurchase of Floating Rate Senior Unsecured Notes	-	(40.9)
Repurchase of 7% Senior Unsecured Notes	-	(33.5)
Payment of debt issuance costs	(11.9)	-
Net proceeds from (payments of) vehicle floorplan payable - non-trade	61.8	(157.4)
Payments of mortgage facilities	(5.4)	(5.1)
Payments of long-term debt	(0.3)	(0.5)
Proceeds from the exercise of stock options	30.1	23.5
Tax benefit from stock-based awards	6.3	7.6
Net cash used in continuing operations	(153.3)	(266.4)
Net cash used in discontinued operations	(0.1)	(32.9)
Net cash used in financing activities	(153.4)	(299.3)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(89.0)	94.2
CASH AND CASH EQUIVALENTS at beginning of period	173.5	110.1
CASH AND CASH EQUIVALENTS at end of period	\$ 84.5	\$ 204.3

The accompanying notes are an integral part of these statements.

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**AUTONATION, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In millions, except share and 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, 2010, we owned and operated 251 new vehicle franchises from 206 stores located in major metropolitan markets, predominantly in the Sunbelt region of the United States. We offer a diversified range of automotive products and services, including new vehicles, used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products. We also arrange financing for vehicle purchases through third-party finance sources. For convenience, the terms AutoNation, Company, and we are used to refer collectively to AutoNation, Inc. and its subsidiaries, unless otherwise required by the context. Our dealership operations are conducted by our subsidiaries.

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

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

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

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

**Table of Contents****AUTONATION, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Continued)****2. RECEIVABLES, NET**

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

	September 30, 2010	December 31, 2009
Trade receivables	\$ 88.7	\$ 84.9
Manufacturer receivables	106.9	102.9
Other	31.6	28.9
	227.2	216.7
Less: Allowances	(3.6)	(3.9)
	223.6	212.8
Contracts-in-transit and vehicle receivables	151.4	170.2
Income tax refundable (See Note 6)	17.1	23.4
Receivables, net	\$ 392.1	\$ 406.4

Contracts-in-transit and vehicle receivables primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers.

**3. INVENTORY AND VEHICLE FLOORPLAN PAYABLE**

The components of inventory are as follows:

	September 30, 2010	December 31, 2009
New vehicles	\$ 1,323.2	\$ 1,068.1
Used vehicles	306.0	219.5
Parts, accessories, and other	110.6	105.2
	\$ 1,739.8	\$ 1,392.8

The components of vehicle floorplan payables are as follows:

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	September 30, 2010	December 31, 2009
Vehicle floorplan payable - trade	\$ 1,201.5	\$ 1,021.1
Vehicle floorplan payable - non-trade	431.3	353.5
	\$ 1,632.8	\$ 1,374.6

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. 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.

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**AUTONATION, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

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 floorplan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Floorplan facilities are primarily collateralized by vehicle inventories and related receivables.

Our vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 2.6% for the nine months ended September 30, 2010, and 2.5% for the nine months ended September 30, 2009. At September 30, 2010, the aggregate capacity under our floorplan credit agreements with various lenders to finance a portion of our used vehicle inventory was \$170.0 million, of which \$91.1 million had been borrowed. At September 30, 2010, the aggregate capacity under all of our floorplan credit facilities to finance vehicles was approximately \$2.5 billion, of which \$1.6 billion had been borrowed.