

AUTONATION, INC.
Form 10-K
February 11, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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

73-1105145

(State or other jurisdiction of incorporation or organization)

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

200 SW 1st Ave

33301

Fort Lauderdale, Florida

(Zip Code)

(Address of principal executive offices)

(954) 769-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, Par Value \$0.01 Per Share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 new registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer

Accelerated filer

Smaller reporting company

Non-accelerated filer

(Do not check if a 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 June 30, 2014, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$4.4 billion based on the closing price of the common stock on the New York Stock Exchange on such date (for the purpose of this calculation, the registrant assumed that each of its directors, executive officers, and greater than 10% stockholders was an affiliate of the registrant as of June 30, 2014).

As of February 9, 2015, the registrant had 113,578,092 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014 are incorporated herein by reference in Part III.

AUTONATION, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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PART I

ITEM 1. BUSINESS

General

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of December 31, 2014, we owned and operated 276 new vehicle franchises from 232 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe are some of the most recognizable and well-known in our key markets, sell 34 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 95% of the new vehicles that we sold in 2014, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, Chrysler, BMW, and Volkswagen.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service,” which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources. The following charts present the contribution to total revenue and gross profit by each of new vehicle sales, used vehicle sales, parts and service, and finance and insurance in 2014.

We were incorporated in Delaware in 1991. 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 store operations are conducted by our subsidiaries. The term “digital channels” refers to our websites and mobile applications, including mobile phone and tablet applications.

Reportable Segments

As of December 31, 2014, we had three reportable segments: Domestic, Import, and Premium Luxury. These segments are comprised of retail automotive franchises that sell the following new vehicle brands:

Domestic		Import		Premium Luxury	
Buick	Ford	Acura	Nissan	Alfa Romeo	Maserati
Cadillac	GMC	Fiat	Scion	Audi	Mercedes-Benz
Chevrolet	Jeep	Honda	Subaru	Bentley	Mini
Chrysler	Lincoln	Hyundai	Toyota	BMW	Porsche
Dodge	Ram	Infiniti	Volkswagen	Land Rover	smart
		Mazda	Volvo	Lexus	
		Mitsubishi			

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The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products. For the year ended December 31, 2014, Domestic revenue represented 33% of total revenue, Import revenue represented 35% of total revenue, and Premium Luxury revenue represented 31% of total revenue. For additional financial information regarding our three reportable segments, please refer to Note 20 of the Notes to Consolidated Financial Statements set forth in Part II, Item 8 of this Form 10-K. Except to the extent that differences among reportable segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis.

Business Strategy

We seek to create long-term value for our stockholders by being the best-run, most profitable automotive retailer in the United States. 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. To achieve and sustain operational excellence, we are pursuing the following strategies:

• Create an industry-leading automotive retail customer experience in our stores and through our digital channels.

We seek to deliver a consistently superior customer experience by offering a large selection of inventory, customer-friendly, transparent sales and service processes, and competitive pricing. We believe that this will benefit us by encouraging our customers to bring their vehicles to our stores for all of their vehicle service, maintenance, and collision repair needs and also by driving repeat and referral vehicle sales business.

We have invested and will continue to invest significantly in the AutoNation retail brand with the goals of enhancing our strong customer satisfaction and expanding our market share. Our Domestic and Import stores have been renamed to include the AutoNation retail brand, which enables us to leverage our advertising efforts and digital channels to market our stores, new and used vehicle inventory, and parts and service business.

We are also investing significantly to build a seamless, end-to-end customer experience in our stores and through our digital channels, as well as to improve our ability to generate business through those channels. As part of our strategic initiatives, we are beginning to implement “AutoNation Express,” which is designed to enable our customers to complete certain automotive retail- and service-related transactions through our digital channels. We expect to continue to enhance our capabilities so that we may offer an integrated in-store and digital customer experience and also increase traffic to our digital channels. Our plans for our digital channels include features such as selecting and reserving a vehicle with a guaranteed price, scheduling a test drive, receiving a purchase offer on a vehicle, applying for financing options, arranging service appointments, and receiving updates on and paying for maintenance and repair services.

• Leverage our significant scale and cost structure to improve our operating efficiency.

As the largest automotive retailer in the United States, we are uniquely positioned to leverage our significant scale so that we are able to achieve competitive operating margins by centralizing and streamlining various business processes. We manage our new and used vehicle inventories so that our stores’ supply and mix of vehicles is in line with seasonal sales trends and also minimizes our carrying costs. Additionally, we are able to improve financial controls and lower servicing costs by maintaining key store-level accounting and administrative activities in our Shared Services Center located in Irving, Texas. Finally, we leverage our scale to reduce costs related to purchasing certain equipment, supplies, and services through national vendor relationships.

• Continue to build vehicle brand density in our core markets where we operate.

We have retail operations in 15 states with a focus on major metropolitan areas, and we seek to offer all of our core vehicle brands within all of our key markets. We will continue to actively pursue acquisitions and new store opportunities that meet our return on investment threshold, with a focus on enhancing brand representation within our existing geographic footprint as well as markets that can be supported by our existing management infrastructure.

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Our business benefits from a well-diversified portfolio of automotive retail franchises. In 2014, approximately 39% of our segment income was generated by Premium Luxury franchises, approximately 31% by Import franchises, and approximately 30% by Domestic franchises. We believe that our business also benefits from diverse revenue streams generated by our new and used vehicle sales, parts and service business, and finance and insurance sales. Our higher-margin parts and service business has historically been less sensitive to macroeconomic conditions as compared to new and used vehicle sales.

Our capital allocation strategy is focused on maximizing stockholder returns. The first priority of our capital allocation strategy is to maintain a strong balance sheet. Second, we invest capital in our business to maintain and upgrade our existing facilities and to build new facilities for existing franchises, as well as for other strategic and technology initiatives. Third, we deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership acquisitions and/or build facilities for newly awarded franchises. From January 1, 2012 through December 31, 2014, we repurchased over 27 million shares of common stock for an aggregate purchase price of \$1.1 billion. Also during this timeframe, we purchased 19 franchises and were awarded 12 new franchises from manufacturers (9 of which have commenced operations, and 3 of which we expect will commence operations in 2015 or 2016). Our capital allocation decisions are based on factors such as the expected rate of return on our investment, the market price of our common stock versus our view of its intrinsic value, the market price of our debt, the potential impact on our capital structure, our ability to complete dealership acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements. For additional information regarding our capital allocation, please refer to “Liquidity and Capital Resources – Capital Allocation” in Part II, Item 7 of this Form 10 K.

Operations

Each of our stores acquires new vehicles for retail sale either directly from the applicable automotive manufacturer or distributor or through dealer trades with other stores of the same franchise. We generally acquire used vehicles from customers, primarily through trade-ins, as well as through auctions, lease terminations, and other sources, and we generally recondition used vehicles acquired for retail sale in our parts and service departments. Used vehicles that we do not sell at our stores generally are sold at wholesale prices through auctions. See also “Inventory Management” in Part II, Item 7 of this Form 10-K.

Our stores provide a wide range of vehicle maintenance, repair, and collision repair services, including manufacturer recall repairs and other warranty work that can be performed only at franchised dealerships and customer-pay service work. Our parts and service departments also provide reconditioning repair work for used vehicles acquired by our used vehicle departments and minor preparatory work for new vehicles acquired by our new vehicle departments. In addition to our retail business, we also have a wholesale parts operation, which sells automotive parts to both collision repair shops and independent vehicle repair providers.

We offer a wide variety of automotive finance and insurance products to our customers. We arrange for our customers to finance vehicles through installment loans or leases with third-party lenders, including the vehicle manufacturers’ and distributors’ captive finance subsidiaries, in exchange for a commission payable to us. We do not directly finance our customers’ vehicle leases or purchases, and our exposure to loss in connection with these financing arrangements generally is limited to the commissions that we receive.

We also offer our customers various vehicle protection products, including 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. These products are underwritten and administered by independent third parties, including the vehicle manufacturers’ and distributors’ captive finance subsidiaries. We primarily sell the products on a straight commission basis; however, we also participate in future underwriting profit for certain products pursuant to retrospective commission arrangements. See also “Critical Accounting Policies and Estimates – Chargeback Reserve” in Part II, Item 7 of this Form 10-K.

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As of December 31, 2014, we operated stores in the following states:

State	Number of Stores	Number of Franchises	% of Total Revenue ⁽¹⁾
Florida	57	66	26
Texas	40	49	22
California	39	44	18
Colorado	17	24	7
Arizona	15	17	6
Georgia	10	11	4
Nevada	10	11	4
Washington	16	22	3
Illinois	7	7	3
Tennessee	7	8	2
Ohio	4	4	1
Minnesota	1	1	1
Virginia	2	2	1
Alabama	3	5	1
Maryland	4	5	1
Total	232	276	100

⁽¹⁾ Revenue by state includes non-store activities, such as collision centers and an auction operation.

The following table sets forth information regarding new vehicle revenues and retail new vehicle unit sales for the year ended, and the number of franchises owned as of, December 31, 2014:

	New Vehicle Revenues (in millions)	Retail New Vehicle Unit Sales	% of Total Retail New Vehicle Units Sold	Franchises Owned
Domestic:				
Ford, Lincoln	\$1,769.6	52,245	16.4	39
Chevrolet, Buick, Cadillac, GMC	1,123.9	31,201	9.8	44
Chrysler, Jeep, Dodge	671.8	19,197	6.1	29
Domestic Total	3,565.3	102,643	32.3	112
Import:				
Honda	910.0	37,087	11.7	22
Toyota	1,644.6	61,318	19.3	20
Nissan	845.0	33,516	10.5	21
Other imports	640.4	22,145	6.9	39
Import Total	4,040.0	154,066	48.4	102
Premium Luxury:				
Mercedes-Benz	1,466.2	24,993	7.9	25
BMW	853.8	16,123	5.1	11
Lexus	382.1	8,839	2.8	3
Audi	255.2	5,000	1.6	8
Other premium luxury	409.6	6,344	1.9	15
Premium Luxury Total	3,366.9	61,299	19.3	62
	\$10,972.2	318,008	100.0	276

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Agreements with Vehicle Manufacturers

Framework Agreements

We have entered into framework agreements with most major vehicle manufacturers and distributors. These agreements, which are in addition to the franchise agreements described below, contain provisions relating to our management, operation, advertising and marketing, and acquisition and ownership structure of automotive stores franchised by such manufacturers. These agreements contain certain requirements pertaining to our operating performance (with respect to matters such as sales volume, sales effectiveness, and customer satisfaction), which, if we do not satisfy, adversely impact our ability to make further acquisitions of such manufacturers' stores or could result in us being compelled to take certain actions, such as divesting a significantly underperforming store, subject to applicable state franchise laws. Additionally, these agreements set limits (nationally, regionally, and in local markets) on the number of stores that we may acquire of the particular manufacturer and contain certain restrictions on our ability to name and brand our stores. Some of these framework agreements give the manufacturer or distributor the right to acquire at fair market value, or the right to compel us to sell, the automotive stores franchised by that manufacturer or distributor under specified circumstances in the event of a change in control of our company (generally including certain material changes in the composition of our Board of Directors during a specified time period, the acquisition of 20% or more of the voting stock of our Company by another vehicle manufacturer or distributor, or the acquisition of 50% or more of our voting stock by a person, entity, or group not affiliated with a vehicle manufacturer or distributor) or other extraordinary corporate transactions such as a merger or sale of all or substantially all of our assets. In addition, we have granted certain manufacturers the right to acquire, at fair market value, our automotive dealerships franchised by such manufacturers in specified circumstances in the event of our default under certain of our debt agreements.

Franchise Agreements

We operate each of our new vehicle stores under a franchise agreement with a vehicle manufacturer or distributor. The franchise agreements grant the franchised automotive store a non-exclusive right to sell the manufacturer's or distributor's brand of vehicles and offer related parts and service within a specified market area. These franchise agreements grant our stores the right to use the relevant manufacturer's or distributor's trademarks in connection with their operations, and they also impose numerous operational requirements and restrictions relating to inventory levels, working capital levels, the sales process, marketing and branding, showroom and service facilities, signage, personnel, changes in management, and monthly financial reporting, among other things. The contractual terms of our stores' franchise agreements provide for various durations, ranging from one year to no expiration date, and in certain cases manufacturers have undertaken to renew such franchises upon expiration so long as the store is in compliance with the terms of the agreement. We generally expect our franchise agreements to survive for the foreseeable future and, when the agreements do not have indefinite terms, anticipate routine renewals of the agreements without substantial cost or modification. Our stores' franchise agreements provide for termination of the agreement by the manufacturer or non-renewal for a variety of causes (including performance deficiencies in such areas as sales volume, sales effectiveness, and customer satisfaction). However, in general, the states in which we operate have automotive dealership franchise laws that provide that, notwithstanding the terms of any franchise agreement, it is unlawful for a manufacturer to terminate or not renew a franchise unless "good cause" exists. It generally is difficult, outside of bankruptcy, for a manufacturer to terminate, or not renew, a franchise under these laws, which were designed to protect dealers. In addition, in our experience and historically in the automotive retail industry, dealership franchise agreements are rarely involuntarily terminated or not renewed by the manufacturer outside of bankruptcy. From time to time, certain manufacturers assert sales and customer satisfaction performance deficiencies under the terms of our framework and franchise agreements. We generally work with these manufacturers to address the asserted performance issues. For additional information, please refer to the risk factor captioned "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" in Part I, Item 1A of this Form 10-K.

Regulations

We operate in a highly regulated industry. A number of state and federal laws and regulations affect our business. In every state in which we operate, we must obtain various licenses in order to operate our businesses, including dealer, sales and finance, and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our conduct of business, including those relating to our sales, operations, finance and insurance, advertising, and employment

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practices. These laws and regulations include state franchise laws and regulations, consumer protection laws, privacy laws, escheatment laws, anti-money laundering laws, and other extensive laws and regulations applicable to new and used motor vehicle dealers, as well as a variety of other laws and regulations. These laws also include federal and state wage and hour, anti-discrimination, and other employment practices laws. Furthermore, new laws and regulations, particularly at the federal level, may be enacted that could also affect our business. See the risk factor “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” in Part I, Item 1A of this Form 10-K.

Automotive and Other Laws and Regulations

Our operations are subject to the National Traffic and Motor Vehicle Safety Act, Federal Motor Vehicle Safety Standards promulgated by the United States Department of Transportation, and the rules and regulations of various state motor vehicle regulatory agencies. The imported automobiles we purchase are subject to United States customs duties and, in the ordinary course of our business we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

Our financing activities with customers are subject to federal truth-in-lending, consumer leasing, and equal credit opportunity laws and regulations as well as state and local motor vehicle finance laws, leasing laws, installment finance laws, usury laws, and other installment sales and leasing laws and regulations, some of which regulate finance and other fees and charges that may be imposed or received in connection with motor vehicle retail installment sales and leasing. Claims arising out of actual or alleged violations of law may be asserted against us or our stores by individuals, a class of individuals, or governmental entities and may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct store operations and fines.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the “CFPB”), a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. The Dodd-Frank Act also provided the Federal Trade Commission (the “FTC”) with new and expanded authority regarding automotive dealers, and the FTC has implemented an enforcement initiative relating to the advertising practices of automotive dealers. See the risk factor “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” in Part I, Item 1A of this Form 10-K.

Environmental, Health, and Safety Laws and Regulations

Our operations involve the use, handling, storage, and contracting for recycling and/or disposal of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires, and fuel. Consequently, our business is subject to a complex variety of federal, state, and local requirements that regulate the environment and public health and safety.

Most of our stores utilize aboveground storage tanks, and to a lesser extent underground storage tanks, primarily for petroleum-based products. Storage tanks are subject to periodic testing, containment, upgrading, and removal under the Resource Conservation and Recovery Act and its state law counterparts. Clean-up or other remedial action may be necessary in the event of leaks or other discharges from storage tanks or other sources. In addition, water quality protection programs under the federal Water Pollution Control Act (commonly known as the Clean Water Act), the Safe Drinking Water Act, and comparable state and local programs govern certain discharges from some of our operations. Similarly, certain air emissions from operations, such as auto body painting, may be subject to the federal Clean Air Act and related state and local laws. Certain health and safety standards promulgated by the Occupational Safety and Health Administration of the United States Department of Labor and related state agencies also apply.

Some of our stores are parties to proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, typically in connection with materials that were sent to former recycling, treatment, and/or

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disposal facilities owned and operated by independent businesses. The remediation or clean-up of facilities where the release of a regulated hazardous substance occurred is required under CERCLA and other laws.

We have a proactive strategy related to environmental, health, and safety laws and regulations, which includes contracting with third-party vendors to inspect our facilities routinely in an effort to ensure compliance. We incur significant costs to comply with applicable environmental, health, and safety laws and regulations in the ordinary course of our business. We do not anticipate, however, that the costs of such compliance will have a material adverse effect on our business, results of operations, cash flows, or financial condition, although such outcome is possible given the nature of our operations and the extensive environmental, health, and safety regulatory framework. We do not have any material known environmental commitments or contingencies.

Competition

We operate in a highly competitive industry. We believe that the principal competitive factors in the automotive retail business are location, service, price, selection, and online and mobile offerings. Each of our markets includes a large number of well-capitalized competitors that have extensive automotive retail managerial experience and strong retail locations and facilities. According to CNW Marketing Research, Inc., the total number of U.S. franchised automotive dealerships was approximately 15,400 and 15,900 at the end of each of 2014 and 2013, and the total number of U.S. independent used vehicle dealers was approximately 35,300 and 37,000 at the end of 2014 and 2013, respectively. We face competition from (i) several public companies that operate numerous automotive retail stores on a regional or national basis, including franchised dealers that sell new and used vehicles as well as non-franchised dealers that sell only used vehicles, (ii) private companies that operate automotive retail stores in our markets, and (iii) online and mobile sales platforms. We compete with dealers that sell the same vehicle brands that we sell, as well as those that sell other vehicle brands that we do not represent in a particular market. Our new vehicle store competitors have franchise agreements with the various vehicle manufacturers and, as such, generally have access to new vehicles on the same terms as we have. We also compete with other dealers for qualified employees, particularly for general managers and sales and service personnel.

In general, the vehicle manufacturers have designated marketing and sales areas within which only one franchised dealer of a given vehicle brand may operate. Under most of our framework agreements with the vehicle manufacturers, our ability to acquire multiple dealers of a given vehicle brand within a particular market is limited. We are also restricted by various state franchise laws from relocating our stores or establishing new stores of a particular vehicle brand within any area that is served by another dealer of the same vehicle brand, and we generally need the manufacturer to approve the relocation or grant a new franchise in order to relocate or establish a store. However, to the extent that a market has multiple dealers of a particular vehicle brand, as most of our key markets do with respect to most vehicle brands we sell, we face significant intra-brand competition.

We also compete with independent automobile service shops and service center chains. We believe that the principal competitive factors in the parts and service business are price, location, the use of factory-approved replacement parts, expertise with the particular vehicle lines, and customer service. We also compete with a broad range of financial institutions in our finance and insurance business. We believe that the principal competitive factors in the finance and insurance business are product selection, convenience, price, contract terms, and the ability to finance vehicle protection and aftermarket products.

Insurance and Bonding

Our business exposes us to the risk of liabilities arising out of our operations. For example, liabilities may arise out of claims of employees, customers, or other third parties for personal injury or property damage occurring in the course of our operations. We could also be subject to fines and civil and criminal penalties in connection with alleged violations of federal and state laws or regulatory requirements.

The automotive retail business is also subject to substantial risk of property loss due to the significant concentration of property values at store locations. In our case in particular, our operations are concentrated in states and regions in which natural disasters and severe weather events (such as hail storms, hurricanes, earthquakes, fires, tornadoes, snow storms, and landslides) may subject us to substantial risk of property loss and operational disruption. Under self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles, and claims-handling expenses as part of our various insurance programs, including property and casualty, workers' compensation, and

employee medical benefits.

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Costs in excess of this retained risk per claim may be insured under various contracts with third-party insurance carriers. We estimate the ultimate costs of these retained insurance risks based on actuarial evaluation and historical claims experience, adjusted for current trends and changes in claims-handling procedures. The level of risk we retain may change in the future as insurance market conditions or other factors affecting the economics of our insurance purchasing change. Although we have, subject to certain limitations and exclusions, substantial insurance, we cannot assure you that we will not be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Provisions for retained losses and deductibles are made by charges to expense based upon periodic evaluations of the estimated ultimate liabilities on reported and unreported claims. The insurance companies that underwrite our insurance require that we secure certain of our obligations for deductible reimbursements with collateral. Our collateral requirements are set by the insurance companies and, to date, have been satisfied by posting surety bonds, letters of credit, and/or cash deposits. Our collateral requirements may change from time to time based on, among other things, our claims experience.

Employees

As of December 31, 2014, we employed approximately 24,000 full-time and part-time employees, approximately 200 of whom were covered by collective bargaining agreements. We believe that we have good relations with our employees.

Seasonality

In a stable environment, our operations generally experience higher volumes of vehicle unit sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, demand for vehicles and light trucks is generally lower during the winter months than in other seasons, particularly in regions of the United States where stores may be subject to adverse winter conditions. However, we typically experience higher sales of Premium Luxury vehicles, which have higher average selling prices and gross profit per vehicle retailed, in the fourth quarter. Revenue and operating results may be impacted significantly from quarter to quarter by changing economic conditions, vehicle manufacturer incentive programs, and actual or threatened severe weather events.

Trademarks

We own a number of registered service marks and trademarks, including, among other marks, AutoNation®. Pursuant to agreements with vehicle manufacturers, we have the right to use and display manufacturers' trademarks, logos, and designs at our stores and in our advertising and promotional materials, subject to certain restrictions. We also have licenses pursuant to various agreements with third parties authorizing the use and display of the marks and/or logos of such third parties, subject to certain restrictions. The current registrations of our service marks and trademarks are effective for varying periods of time, which we may renew periodically, provided that we comply with all applicable laws.

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Executive Officers of AutoNation

The following sets forth certain information regarding our executive officers as of February 9, 2015. Beneficial ownership includes shares that may be acquired through the exercise of outstanding stock options within 60 days of February 9, 2015, as well as shares of restricted stock.

Name	Age	Position	Years with AutoNation	Years in Automotive Industry	Number of Shares of Common Stock Beneficially Owned
Mike Jackson	66	Chairman of the Board, Chief Executive Officer and President	15	44	1,091,076
Jonathan P. Ferrando	49	Executive Vice President - General Counsel, Corporate Development and Human Resources	18	18	469,848
William R. Berman	48	Executive Vice President and Chief Operating Officer	15	27	30,539
Cheryl Scully	42	Executive Vice President and Chief Financial Officer	7	16	19,726
Alan J. McLaren	48	Senior Vice President, Customer Care	3	30	15,385

Mike Jackson has served as our Chief Executive Officer and Director since September 1999, as our Chairman of the Board since January 2003, and as our President since February 2015. From October 1998 until September 1999, Mr. Jackson served as Chief Executive Officer of Mercedes-Benz USA, LLC, a North American operating unit of DaimlerChrysler AG, a multinational automotive manufacturing company. From April 1997 until September 1999, Mr. Jackson also served as President of Mercedes-Benz USA. From July 1990 until March 1997, Mr. Jackson served in various capacities at Mercedes-Benz USA, including as Executive Vice President immediately prior to his appointment as President of Mercedes-Benz USA. Mr. Jackson was also the managing partner from March 1979 to July 1990 of Euro Motorcars of Bethesda, Maryland, a regional group that owned and operated eleven automotive dealership franchises, including Mercedes-Benz and other brands of automobiles. In January 2014, Mr. Jackson was appointed to the Board of Directors of the Federal Reserve Bank of Atlanta, after previously serving on the Board of Directors of the Federal Reserve Bank of Atlanta's Miami Branch.

Jonathan P. Ferrando has served as our Executive Vice President - General Counsel, Corporate Development and Human Resources since March 2011. Prior thereto, he served as the Company's Executive Vice President, General Counsel and Secretary from March 2005 until March 2011, and as the Company's Senior Vice President, General Counsel and Secretary from January 2000 until March 2005. In addition to his role as General Counsel, Mr. Ferrando assumed responsibility for our human resources and labor relations functions in September 2004, and he assumed responsibility for our corporate development function in March 2011. Mr. Ferrando joined our Company in July 1996 and served in various capacities within our Company, including as Senior Vice President and General Counsel of our Automotive Retail Group from March 1998 until January 2000. Prior to joining our company, Mr. Ferrando was a corporate attorney with Skadden, Arps, Slate, Meagher & Flom from 1991 until 1996.

William R. Berman has served as our Executive Vice President and Chief Operating Officer since February 2015. Since 1999, Mr. Berman has served in various leadership roles within the Company, including as Senior Vice President, Sales from October 2014 until February 2015, and as President of the Company's Western Region, with responsibility for stores located in California, Washington, Nevada, and Arizona, from October 2008 through September 2014.

Cheryl Scully has served as our Executive Vice President and Chief Financial Officer since March 2014. Prior thereto, Ms. Scully was appointed Interim Chief Financial Officer in January 2014, and she served as Treasurer, Vice President Investor Relations, a role she assumed in April 2010. From May 2009 to March 2010, Ms. Scully served as the Company's Vice President, Treasurer. From November 2006 until April 2009, she served as Vice President,

Treasurer of JM Family Enterprises, Inc., a diversified automotive company.

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Alan J. McLaren has served as our Senior Vice President, Customer Care, with responsibility for corporate initiatives in the area of parts and service, since January 2012. From February 2007 until December 2011, he was a senior executive with Mercedes-Benz USA, where he served as Vice President, Customer Services and President of Mercedes-Benz Manhattan. From June 2001 until February 2007, he was a senior executive with DaimlerChrysler Australia/Pacific.

Available Information

Our website is located at www.autonation.com, and our Investor Relations website is located at investors.autonation.com. The information on or accessible through our websites and social media channels is not incorporated by reference in this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on our Investor Relations website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC").

ITEM 1A. RISK FACTORS

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 Annual Report on Form 10-K, including without limitation statements regarding our strategic initiatives and 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. These forward-looking statements speak only as of the date of this report or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include the following:

The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.

We believe that many factors affect sales of new vehicles and automotive retailers' gross profit margins in the United States and in our particular geographic markets, including the economy, fuel prices, credit availability, interest rates, consumer confidence, consumer shopping preferences and the success of third-party online and mobile sales platforms, the level of personal discretionary spending, unemployment rates, the state of housing markets, vehicle production levels and capacity, auto emission and fuel economy standards, the rate of inflation, currency exchange rates, manufacturer incentives (and consumers' reaction to such offers), intense industry competition, the prospects of war, other international conflicts or terrorist attacks, severe weather events, product quality, affordability and innovation, the number of consumers whose vehicle leases are expiring, and the length of consumer loans on existing vehicles. Changes in interest rates can significantly impact industry new vehicle sales and vehicle affordability due to the direct relationship between interest rates and monthly loan payments, a critical factor for many vehicle buyers, and the impact interest rates have on customers' borrowing capacity and disposable income. Sales of certain new vehicles, particularly larger trucks and sport utility vehicles that historically have provided us with higher gross margins, are sensitive to fuel prices and the level of construction activity. In addition, volatility in fuel prices can cause rapid shifts

in consumer preferences which are difficult to accommodate given the long lead-time of inventory acquisition.

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Approximately 16.5 million, 15.6 million, and 14.5 million new vehicles were sold in the United States in 2014, 2013, and 2012, respectively. While we expect that the annual rate of U.S. new vehicle unit sales will improve in 2015 as compared to 2014, there can be no assurance that it will. If new vehicle production exceeds the new vehicle industry selling rate, our new vehicle margins could be adversely impacted by excess supply and any resulting changes in consumer incentive, marketing, and other programs of vehicle manufacturers. See the risk factor “Our new vehicle sales are impacted by the consumer incentive, marketing, and other programs of vehicle manufacturers” below. Further, our performance may differ from the performance of the automotive retail industry due to particular economic conditions and other factors in the geographic markets in which we operate. Economic conditions and the other factors described above may also materially adversely impact our sales of used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

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.

We believe that we have built an excellent reputation as an automotive retailer in the United States. During the first half of 2013, we transitioned our Domestic and Import stores to a unified AutoNation retail brand. We believe that our continued success will depend on our ability to maintain and enhance the value of our retail brands across all of our sales channels, including in the communities in which we operate, and to attract consumers to our own digital channels. Consumers are increasingly shopping for new and used vehicles, automotive repair and maintenance services, and other automotive products and services online and through mobile applications, including through third-party online and mobile sales platforms, with which we compete, that are designed to generate consumer sales leads that are sold to automotive dealers. If we fail to preserve the value of our retail brands, to maintain our reputation, or to attract consumers to our own digital channels, our business could be adversely impacted. An isolated business incident at a single store could materially adversely affect our other stores, retail brands, reputation, and sales channels, particularly if such incident results in adverse publicity, governmental investigations, or litigation. In addition, the growing use of social media by consumers increases the speed and extent that information and opinions can be shared, and negative posts or comments on social media about AutoNation or any of our stores could materially damage our retail brands, reputation, and sales channels.

We have invested and will continue to invest substantial resources in marketing activities with the goals of, among other things, extending and enhancing the AutoNation retail brand, attracting consumers to our own digital channels, and reducing our use of third-party online and mobile sales platforms. There can be no assurance that our marketing strategies will be successful or that the amount we invest in marketing activities will result in improved financial results. If our marketing initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.

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

The success of our stores is dependent on vehicle manufacturers in several key respects. First, we rely exclusively on the various vehicle manufacturers for our new vehicle inventory. Our ability to sell new vehicles is dependent on a vehicle manufacturer’s ability to produce and allocate to our stores an attractive, high-quality, and desirable product mix at the right time in order to satisfy customer demand. Second, manufacturers generally support their franchisees by providing direct financial assistance in various areas, including, among others, floorplan assistance and advertising assistance. Third, manufacturers provide product warranties and, in some cases, service contracts to customers. Our stores perform warranty and service contract work for vehicles under manufacturer product warranties and service contracts, and direct bill the manufacturer as opposed to invoicing the store customer. At any particular time, we have significant receivables from manufacturers for warranty and service work performed for customers. In addition, we rely on manufacturers to varying extents for original equipment manufactured replacement parts, training, product brochures and point of sale materials, and other items for our stores. Our business, results of operations, and financial condition could be materially adversely affected as a result of any event that has a material adverse effect on the vehicle manufacturers or distributors that are our primary franchisors.

The core brands of vehicles that we sell, representing approximately 95% of the new vehicles that we sold in 2014, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, Chrysler, BMW, and Volkswagen. We are

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subject to a concentration of risk in the event of adverse events or financial distress, including bankruptcy, impacting one or more of these manufacturers.

Vehicle manufacturers may be adversely impacted by economic downturns or recessions, significant declines in the sales of their new vehicles, natural disasters, increases in interest rates, adverse fluctuations in currency exchange rates, declines in their credit ratings, labor strikes or similar disruptions (including within their major suppliers), supply shortages or rising raw material costs, rising employee benefit costs, vehicle recall campaigns, adverse publicity that may reduce consumer demand for their products (including due to bankruptcy), product defects, litigation, poor product mix or unappealing vehicle design, governmental laws and regulations (including fuel economy requirements), import product restrictions, or other adverse events. These and other risks could materially adversely affect any manufacturer and impact its ability to profitably design, market, produce, or distribute new vehicles, which in turn could materially adversely affect our ability to obtain or finance our desired new vehicle inventories, our ability to take advantage of manufacturer financial assistance programs, our ability to collect in full or on a timely basis our manufacturer warranty and other receivables, and/or our ability to obtain other goods and services provided by the impacted manufacturer.

Our business could be materially adversely impacted by the bankruptcy of a major vehicle manufacturer or related lender. For example, (i) a manufacturer in bankruptcy could attempt to terminate all or certain of our franchises, in which case we may not receive adequate compensation for our franchises, (ii) consumer demand for such manufacturer's products could be materially adversely affected, (iii) a lender in bankruptcy could attempt to terminate our floorplan financing and demand repayment of any amounts outstanding, (iv) we may be unable to arrange financing for our customers for their vehicle purchases and leases through such lender, in which case we would be required to seek financing with alternate financing sources, which may be difficult to obtain on similar terms, if at all, (v) we may be unable to collect some or all of our significant receivables that are due from such manufacturer or lender, and we may be subject to preference claims relating to payments made by such manufacturer or lender prior to bankruptcy, and (vi) such manufacturer may be relieved of its indemnification obligations with respect to product liability claims. Additionally, any such bankruptcy may result in us being required to incur impairment charges with respect to the inventory, fixed assets, and intangible assets related to certain franchises, which could adversely impact our results of operations, financial condition, and our ability to remain in compliance with the financial ratios contained in our debt agreements.

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.

Vehicle manufacturers are subject to government-mandated fuel economy and greenhouse gas, or GHG, emission standards, which continue to change and become more stringent over time. In May 2010, the Environmental Protection Agency and the National Highway Transportation Safety Administration issued a joint final rule implementing harmonized federal standards for fuel economy and GHG emissions standards, which will substantially increase fuel economy requirements. These and other laws and regulations could materially adversely affect, particularly during periods when fuel prices are low, the ability of manufacturers to produce, and our ability to sell, vehicles in demand by consumers at affordable prices, which could materially adversely impact our business, results of operations, financial condition, cash flow, and prospects.

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

Most vehicle manufacturers from time to time establish various incentive and marketing programs designed to spur consumer demand for their vehicles. These programs impact our operations, particularly our sales of new vehicles. Since these programs are often not announced in advance, they can be difficult to plan for when ordering inventory. In addition, these programs, in particular those involving volume-based incentives, can be difficult to manage and can materially impact vehicle pricing. Furthermore, manufacturers may modify and discontinue these incentive and marketing programs from time to time, which could have a material adverse effect on our results of operations and cash flows.

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Natural disasters and adverse weather events can disrupt our business.

Our stores are concentrated in states and regions in the United States, including primarily Florida, Texas, and California, in which actual or threatened natural disasters and severe weather events (such as hail storms, hurricanes, earthquakes, fires, tornadoes, snow storms, and landslides) may disrupt our store operations, which may adversely impact our business, results of operations, financial condition, and cash flows. In addition to business interruption, the automotive retail business is subject to substantial risk of property loss due to the significant concentration of property values at store locations. Although we have, subject to certain deductibles, limitations, and exclusions, substantial insurance, we cannot assure you that we will not be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

In addition, natural disasters may adversely impact new vehicle production and the global automotive supply chain, which in turn could materially adversely impact our business, results of operations, financial conditions, and cash flows. In 2011, the earthquake and tsunami that struck Japan and the flooding in Thailand caused significant production and supply chain disruptions that resulted in significantly reduced new vehicle production and lower new vehicle shipments by Japanese manufacturers. These disruptions also impacted non-Japanese manufacturers that rely on components produced in Japan and/or Thailand.

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.

Vehicle manufacturers and distributors with whom we hold franchises have significant influence over the operations of our stores. The terms and conditions of our framework, franchise, and related agreements and the manufacturers' interests and objectives may, in certain circumstances, conflict with our interests and objectives. For example, manufacturers can set performance standards with respect to sales volume, sales effectiveness, and customer satisfaction, and can influence our ability to acquire additional stores, the naming and marketing of our stores, the operations of our e-commerce sites, our selection of store management, product stocking and advertising spending levels, and the level at which we capitalize our stores. Manufacturers also impose minimum facility requirements that can require significant capital expenditures. Manufacturers may also have certain rights to restrict our ability to provide guaranties of our operating companies, pledges of the capital stock of our subsidiaries, and liens on our assets, which could adversely impact our ability to obtain financing for our business and operations on favorable terms or at desired levels. From time to time, we are precluded under agreements with certain manufacturers from acquiring additional franchises, or subject to other adverse actions, to the extent we are not meeting certain performance criteria at our existing stores (with respect to matters such as sales volume, sales effectiveness, and customer satisfaction) until our performance improves in accordance with the agreements, subject to applicable state franchise laws.

Manufacturers also have the right to establish new franchises or relocate existing franchises, subject to applicable state franchise laws. The establishment or relocation of franchises in our markets could have a material adverse effect on the financial condition, results of operations, cash flows, and prospects of our stores in the market in which the franchise action is taken.

Our framework, franchise, and related agreements also grant the manufacturer the right to terminate or compel us to sell our franchise for a variety of reasons (including uncured performance deficiencies, any unapproved change of ownership or management, or any unapproved transfer of franchise rights or impairment of financial standing or failure to meet capital requirements), subject to applicable state franchise laws. From time to time, certain major manufacturers assert sales and customer satisfaction performance deficiencies under the terms of our framework and franchise agreements. Additionally, our framework agreements contain restrictions regarding a change in control, which may be outside of our control. See "Agreements with Vehicle Manufacturers" in Part I, Item 1 of this Form 10-K. While we believe that we will be able to renew all of our franchise agreements, we cannot guarantee that all of our franchise agreements will be renewed or that the terms of the renewals will be favorable to us. We cannot assure you that our stores will be able to comply with manufacturers' sales, customer satisfaction performance, facility, and other requirements in the future, which may affect our ability to acquire new stores or renew our franchise agreements, or subject us to other adverse actions, including termination or compelled sale of a franchise, any of which could have a material adverse effect on our financial condition, results of operations, cash flows, and prospects. Furthermore, we

rely on the protection of state franchise laws in the states

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in which we operate and if those laws are repealed or weakened, our framework, franchise, and related agreements may become more susceptible to termination, non-renewal, or renegotiation.

In addition, we have granted certain manufacturers the right to acquire, at fair market value, our automotive dealerships franchised by that manufacturer in specified circumstances in the event of our default under certain of our debt agreements.

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.

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 are currently defending several purported class action lawsuits in California arising out of alleged violations of state wage and hour laws relating to compensation of automotive technicians. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, results of operations, financial condition, cash flows, or prospects. 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 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.

The automotive retail industry, including our facilities and operations, is subject to a wide range of federal, state, and local laws and regulations, such as those relating to motor vehicle sales, retail installment sales, leasing, finance and insurance, advertising, licensing, consumer protection, consumer privacy, escheatment, anti-money laundering, environmental, vehicle emissions and fuel economy, health and safety, and employment practices. With respect to motor vehicle sales, retail installment sales, leasing, finance and insurance, and advertising, we are subject to various laws and regulations, the violation of which could subject us to consumer class action or other lawsuits or governmental investigations and adverse publicity, in addition to administrative, civil, or criminal sanctions. With respect to employment practices, we are subject to various laws and regulations, including complex federal, state, and local wage and hour and anti-discrimination laws. We are also subject to lawsuits and governmental investigations alleging violations of these laws and regulations, including purported class action lawsuits, which could result in significant liability, fines, and penalties. See the risk factor “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” above. The violation of other laws and regulations to which we are subject also can result in administrative, civil, or criminal sanctions against us, which may include a cease and desist order against the subject operations or even revocation or suspension of our license to operate the subject business, as well as significant fines and penalties. We currently devote significant resources to comply with applicable federal, state, and local regulation of health, safety, environmental, zoning, and land use regulations, and we may need to spend additional time, effort, and money to keep our operations and existing or acquired facilities in compliance therewith. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able to satisfy them. Failure to comply with applicable laws and regulations or the unfavorable resolution of one or more lawsuits or governmental investigations may have an adverse effect on our business, results of operations, financial condition, cash flows, and prospects.

The Dodd-Frank Act, which was signed into law on July 21, 2010, established the CFPB, a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance

products, through its regulation of automotive finance companies and other financial institutions. In addition, the CFPB recently issued a proposed rule, pursuant to its authority under the Dodd-Frank Act, to enable it to possess supervisory authority with respect to certain non-bank lenders, including automotive finance companies, participating in automotive financing. The Dodd-

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Frank Act also provided the FTC with new and expanded authority regarding automotive dealers, and the FTC has implemented an enforcement initiative relating to the advertising practices of automotive dealers.

In March 2013, the CFPB issued supervisory guidance highlighting its concern that the practice of automotive dealers being compensated for arranging customer financing through discretionary markup of wholesale rates offered by financial institutions (“dealer markup”) results in a significant risk of pricing disparity in violation of The Equal Credit Opportunity Act (“ECOA”). The CFPB recommended that financial institutions under its jurisdiction take steps to ensure compliance with the ECOA, which may include imposing controls on dealer markup, monitoring and addressing the effects of dealer markup policies, and eliminating dealer discretion to markup buy rates and fairly compensating dealers using a different mechanism. In response, certain financial institutions are conducting monitoring programs relating to dealer markups and may take further steps. In December 2013, the CFPB and the United States Department of Justice (the “DOJ”), based on a proxy methodology that combines geography-based and name-based probabilities, alleged that certain presumed-minority borrowers who had obtained automobile financing from a national lender were charged higher dealer markups as a result of such lender’s policy and practice of allowing dealer markup. In connection with the investigation, the lender consented to the issuance of a consent order and agreed to pay damages, to implement a compliance plan, and to pay a monetary penalty. Additional investigations and actions by the CFPB and the DOJ against automotive lenders are likely to occur in the future. Continued pressure from the CFPB, DOJ, and other federal agencies could lead to significant changes in the manner that dealers are compensated for arranging customer financing, and while it is difficult to predict how any such changes might impact us, any adverse changes could have a material adverse impact on our finance and insurance business and results of operations. Additionally, the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, is expected to increase our annual employee health care costs that we fund, with the most significant increases commencing in 2015, and significantly increase our cost of compliance and compliance risk related to offering health care benefits.

Furthermore, 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. The labor policy of the current administration could lead to increased unionization efforts, which could lead to higher labor costs, disrupt our store operations, and reduce our profitability.

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 business is dependent upon the efficient operation of our information systems. We rely on our information systems to manage, among other things, our sales, inventory, and service efforts, including through our digital channels, and customer information, as well as to prepare our consolidated financial and operating data. The failure of our information systems to perform as designed or the failure to maintain and enhance or protect the integrity of these systems could disrupt our business operations, impact sales and results of operations, expose us to customer or third-party claims, or result in adverse publicity. Additionally, we collect, process, and retain sensitive and confidential customer information in the normal course of our business. Despite the security measures we have in place and any additional measures we may implement in the future, our facilities and systems, and those of our third-party service providers, could experience security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. For example, several well-known retailers have disclosed high-profile security breaches, involving sophisticated and highly targeted attacks on their company’s infrastructure or their customers’ data, which were not recognized or detected until after such retailers had been affected notwithstanding the preventative measures such retailers had in place. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, whether by us directly or our third-party service providers, could damage our reputation, expose us to the risks of litigation and liability, disrupt our business, or otherwise affect our results of operations.

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.

The credit agreement governing our revolving credit facility, our mortgage facility, and the indentures relating to our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain covenants that limit the discretion of our management with respect to various business matters. These covenants place restrictions on, among other things, our

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ability to incur additional indebtedness, to create liens or other encumbrances, and to sell or otherwise dispose of assets and to merge or consolidate with other entities. A failure by us to comply with the obligations contained in any of our debt agreements could result in an event of default, which could permit acceleration of the related debt as well as acceleration of debt under other debt agreements that contain cross-acceleration or cross-default provisions. If any debt is accelerated, our liquid assets may not be sufficient to repay in full such indebtedness and our other indebtedness. Additionally, we have granted certain manufacturers the right to acquire, at fair market value, our automotive stores franchised by those manufacturers in specified circumstances in the event of our default under our debt agreements.

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and a maximum capitalization ratio. See “Liquidity and Capital Resources — Restrictions and Covenants” in Part II, Item 7 of this Form 10-K. If our earnings decline, we may be unable to comply with the financial ratios required by our credit agreement. In such case, we would seek an amendment or waiver of our credit agreement or consider other options, such as raising capital through an equity issuance to pay down debt, which could be dilutive to stockholders. There can be no assurance that our lenders would agree to an amendment or waiver of our credit agreement. In the event we obtain an amendment or waiver of our credit agreement, we would likely incur additional fees and higher interest expense. As of December 31, 2014, we had \$2.1 billion of total non-vehicle debt (including amounts outstanding under our mortgage facility and capital leases) and \$3.1 billion of vehicle floorplan financing. Our substantial indebtedness could have important consequences. For example:

• We may have difficulty satisfying our debt service obligations and, if we fail to comply with these requirements, an event of default could result;

We may be required to dedicate a substantial portion of our cash flow from operations to make required

- payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures, acquisitions, and other general corporate activities;

• Covenants relating to our indebtedness may limit our ability to obtain financing for working capital, capital expenditures, acquisitions, and other general corporate activities;

• Covenants relating to our indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

• We may be more vulnerable to the impact of economic downturns and adverse developments in our business;

• We may be placed at a competitive disadvantage against any less leveraged competitors;

• Our variable interest rate debt will fluctuate with changing market conditions and, accordingly, our interest expense will increase if interest rates rise; and

• Future share repurchases may be limited by the maximum leverage ratio described above.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations, prospects, and ability to satisfy our debt service obligations.

We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and term loan facility that could have a material adverse effect on our profitability.

Most of our debt, including our vehicle floorplan payable, is subject to variable interest rates. Our variable interest rate debt will fluctuate with changing market conditions and, accordingly, our interest expense will increase if interest rates rise. In addition, our net inventory carrying cost (new vehicle floorplan interest expense net of floorplan assistance that we receive from automotive manufacturers) may increase due to changes in interest rates, inventory levels, and manufacturer assistance. We cannot assure you that a significant increase in interest rates would not have a material adverse effect on our business, financial condition, results of operations, or cash flows.

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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.

Based on filings made with the SEC through February 9, 2015, ESL Investments, Inc. together with certain of its investment affiliates (collectively, “ESL”) beneficially owns approximately 20% of the outstanding shares of our common stock. As a result, ESL may have the ability to exert substantial influence over actions to be taken or approved by our stockholders, including the election of directors and any transactions involving a change of control. Based on filings made with the SEC through February 9, 2015, William H. Gates III beneficially owns approximately 16% of the outstanding shares of our common stock, through holdings by Cascade Investment, L.L.C. (“Cascade”), which is solely owned by Mr. Gates, and the Bill & Melinda Gates Foundation Trust (the “Trust”), of which he is a co-trustee. As a result, Cascade and the Trust may have the ability to exert substantial influence over actions to be taken or approved by our stockholders. In addition, Michael Larson, the chief investment officer for William H. Gates III and Business Manager for Cascade, serves as our lead independent director. Cascade and the Trust, therefore, may also have the ability to exert substantial influence over actions to be taken or approved by our Board.

In the future, our largest stockholders may acquire or dispose of shares of our common stock and thereby increase or decrease their ownership stake in us. Based on filings made with the SEC through February 9, 2015, since January 1, 2014, ESL has disposed of approximately 7.8 million shares of our common stock. Significant fluctuations in the levels of ownership of our largest stockholders could impact the volume of trading, liquidity, and market price of our common stock.

In the aggregate, based on filings made with the SEC through February 9, 2015, ESL, Cascade, the Trust, our executive officers, and our directors beneficially own approximately 37% of our outstanding shares. Future share repurchases by the Company, together with any future share purchases by our affiliates, will reduce our “public float” (shares owned by non-affiliate stockholders and available for trading). Such reduction in our public float could decrease the volume of trading and liquidity of our common stock, could lead to increased volatility in the market price of our common stock, or could adversely impact the market price of our common stock.

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.

Goodwill and indefinite-lived intangible assets are subject to impairment assessments at least annually (or more frequently when events or changes in circumstances indicate that an impairment may have occurred) by applying a fair-value based test. Our principal intangible assets are goodwill and our rights under our franchise agreements with vehicle manufacturers. A decrease in our market capitalization or profitability increases the risk of goodwill impairment. Negative or declining cash flows or a decline in actual or planned revenues for our stores increases the risk of franchise rights impairment. An impairment loss could have a material adverse impact on our results of operations and shareholders’ equity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We lease our current corporate headquarters facility in Fort Lauderdale, Florida, pursuant to a lease expiring on December 31, 2020. As of February 2015, we also own or lease numerous facilities relating to our operations under each of our reportable segments. These facilities are located in the following 15 states: Alabama, Arizona, California, Colorado, Florida, Georgia, Illinois, Maryland, Minnesota, Nevada, Ohio, Tennessee, Texas, Virginia, and Washington. These facilities consist primarily of automobile showrooms, display lots, service facilities, collision repair centers, supply facilities, automobile storage lots, parking lots, and offices. We believe that our facilities are sufficient for our current needs and are in good condition in all material respects.

ITEM 3. 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, 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 are currently defending several purported class action lawsuits in California arising out of alleged violations of state wage and hour laws relating to compensation of automotive technicians. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, 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 business, results of operations, financial condition, cash flow, and prospects.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders, and Dividends

Our common stock is traded on the New York Stock Exchange under the symbol "AN." The following table sets forth the high and low sales prices of our common stock for the periods indicated.

	High	Low
2014		
Fourth Quarter	\$61.42	\$46.16
Third Quarter	\$61.29	\$48.90
Second Quarter	\$59.71	\$51.79
First Quarter	\$54.14	\$46.38
2013		
Fourth Quarter	\$53.01	\$46.62
Third Quarter	\$54.49	\$43.56
Second Quarter	\$47.91	\$40.30
First Quarter	\$48.92	\$38.93

As of February 9, 2015, there were 1,848 holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

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.

Issuer Purchases of Equity Securities

The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during 2014.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) ⁽¹⁾
October 1, 2014 – October 31, 2014	1,405,594	\$49.35	1,405,594	\$280.6
November 1, 2014 – November 30, 2014	—	\$—	—	\$280.6
December 1, 2014 – December 31, 2014	487	\$60.88	—	\$280.6
Total for three months ended December 31, 2014	1,406,081		1,405,594	
Total for twelve months ended December 31, 2014	9,449,083		9,402,331	

⁽¹⁾ Our Board of Directors from time to time authorizes the repurchase of shares of our common stock up to a certain monetary limit. As of December 31, 2014, \$280.6 million remained available under our stock repurchase authorization limit. Our stock repurchase program does not have an expiration date. In 2014, all of our shares were repurchased under our stock repurchase program, except for 46,752 shares that were surrendered to AutoNation to

satisfy tax withholding obligations in connection with the vesting of restricted stock (11,203 shares in the first quarter of 2014, 33,274 shares in the second quarter of 2014, 1,788 shares in the third quarter of 2014, and 487 shares in the fourth quarter of 2014).

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Stock Performance Graph

The following graph and table compare the cumulative total stockholder return on our common stock from December 31, 2009 through December 31, 2014 with the performance of: (i) the Standard & Poor's ("S&P") 500 Index and (ii) a self-constructed peer group consisting of other public companies in the automotive retail market, referred to as the "Public Auto Retail Peer Group." The Public Auto Retail Peer Group consists of Asbury Automotive Group, Inc., CarMax, Inc., Group 1 Automotive, Inc., Lithia Motors, Inc., Penske Automotive Group, Inc., and Sonic Automotive, Inc., and these companies are weighted by market capitalization. We have created these comparisons using data supplied by Research Data Group, Inc. The comparisons reflected in the graph and table are not intended to forecast the future performance of our stock and may not be indicative of future performance. The graph and table assume that \$100 was invested on December 31, 2009 in each of our common stock, the S&P 500 Index, and the Public Auto Retail Peer Group and that any dividends were reinvested.

Comparison of Five-Year Cumulative Return for AutoNation, Inc., the S&P 500 Index, and the Public Auto Retail Peer Group

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	12/09	12/10	12/11	12/12	12/13	12/14
AutoNation Inc.	100.00	147.26	192.53	207.31	259.48	315.46
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
Public Auto Retail Peer Group	100.00	132.08	137.64	182.96	248.60	324.08

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ITEM 6. SELECTED FINANCIAL DATA

You should read the following Selected Financial Data in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our Consolidated Financial Statements and Notes thereto, and other financial information included elsewhere in this Form 10-K.

	As of and for the Years Ended December 31,				
(In millions, except per share data and unit sales)	2014	2013	2012	2011	2010
Consolidated Statements of Income Data:					
Revenue	\$19,108.8	\$17,517.6	\$15,667.5	\$13,832.3	\$12,461.0
Operating income less floorplan interest expense ⁽¹⁾	\$767.5	\$686.9	\$599.8	\$529.3	\$454.5
Income from continuing operations before income taxes	\$682.3	\$604.4	\$516.8	\$461.3	\$381.7
Net income	\$418.7	\$374.9	\$316.4	\$281.4	\$226.6
Basic earnings (loss) per share:					
Continuing operations	\$3.58	\$3.10	\$2.56	\$1.96	\$1.50
Discontinued operations	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.06)
Net income (loss)	\$3.57	\$3.09	\$2.56	\$1.94	\$1.44
Weighted average common shares outstanding	117.3	121.3	123.8	144.8	156.9
Diluted earnings (loss) per share:					
Continuing operations	\$3.53	\$3.05	\$2.52	\$1.93	\$1.49
Discontinued operations	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.06)
Net income (loss)	\$3.52	\$3.04	\$2.52	\$1.91	\$1.43
Weighted average common shares outstanding	118.9	123.3	125.8	147.3	158.6
Common shares outstanding, net of treasury stock	113.3	120.9	120.9	135.8	148.4
Consolidated Balance Sheets Data:					
Total assets	\$8,399.7	\$7,914.1	\$7,203.0	\$6,198.8	\$5,974.2
Long-term debt, net of current maturities	\$2,103.4	\$1,809.8	\$2,066.3	\$1,634.4	\$1,340.6
Shareholders’ equity	\$2,072.1	\$2,061.7	\$1,688.5	\$1,894.6	\$2,078.9
Retail vehicle unit sales (continuing operations):					
New vehicle	318,008	292,922	267,784	224,034	206,456
Used vehicle	214,910	204,572	180,955	171,094	160,126
Total	532,918	497,494	448,739	395,128	366,582

Operating income less floorplan interest expense is calculated by subtracting floorplan interest expense from

⁽¹⁾ operating income, and is used as a key measure of profitability by management. Operating income and floorplan interest expense are each presented in our financial statements.

See the Notes to Consolidated Financial Statements for discussion of Shareholders’ Equity (Note 9), Income Taxes (Note 11), Earnings (Loss) Per Share (Note 12), Divestitures (Note 13), Acquisitions (Note 14), and Segment Information (Note 20), and the effect on comparability of year-to-year data. See Part II, Item 5 of this Form 10-K for a discussion of our dividend policy.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Part I, including matters set forth in the "Risk Factors" section of this Form 10-K, and our Consolidated Financial Statements and notes thereto included in Part II, Item 8 of this Form 10-K.

Except to the extent that differences among reportable segments are material to an understanding of our business taken as a whole, we present the discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations on a consolidated basis.

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of December 31, 2014, we owned and operated 276 new vehicle franchises from 232 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 34 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 95% of the new vehicles that we sold in 2014, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, Chrysler, BMW, and Volkswagen.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service," which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products, which include vehicle service and other protection products, as well as the arranging of financing for vehicle purchases through third-party finance sources.

As of December 31, 2014, we had three reportable segments: Domestic, Import, and Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by General Motors, Ford, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, and Lexus. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the year ended December 31, 2014, new vehicle sales accounted for approximately 57% of our total revenue, but approximately 22% of our total gross profit. Used vehicle sales accounted for approximately 23% of our total revenue, and approximately 12% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 19% of total revenue, contributed approximately 65% of our gross profit.

Results of Operations

We had net income from continuing operations of \$419.8 million and diluted earnings per share of \$3.53 in 2014, as compared to net income from continuing operations of \$375.8 million and diluted earnings per share of \$3.05 in 2013, and net income from continuing operations of \$317.3 million and diluted earnings per share of \$2.52 in 2012.

The 2014 results were impacted by a net gain related to business/property dispositions of \$8.1 million (\$5.0 million after-tax), primarily related to the divestiture of our customer lead distribution business.

The 2013 results were impacted by a net gain related to property dispositions of \$7.2 million (\$4.5 million after-tax), and a favorable tax adjustment of \$3.4 million.

The 2012 results were impacted by a non-cash franchise rights impairment charge of \$4.2 million (\$2.6 million after-tax).

Market Conditions

Full-year U.S. industry new vehicle unit sales were 16.5 million in 2014, as compared to 15.6 million in 2013 and 14.5 million in 2012. In 2014, new vehicle industry sales were driven in part by replacement demand. Based on industry data, the average age of cars and trucks in the United States is at a record high of 11.4 years compared to an average age of 9.8 years during the period from 2002 to 2007. Attractive products and continued access to affordable credit were also

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supportive of a strong selling environment. We expect continued growth in new vehicle unit sales in 2015, with full-year U.S. industry new vehicle unit sales above 17 million. However, actual sales may materially differ. During 2014, the warranty component of our parts and service business benefited from the rise of manufacturer recalls in our Domestic and Import segment. Additionally, after several years of decline, the number of recent-model-year vehicles in operation has begun to grow due to increases in the annual rate of new vehicle sales in the United States since 2009. The growth in that portion of our service base, together with our customer retention efforts, has benefited the customer-pay service and warranty components of our parts and service business, and we believe that it will continue to benefit those components for the next several years. While the number of older vehicles in operation is expected to decline over the next few years, we believe that overall our parts and service business will benefit from the mix shift in our service base toward newer vehicles.

Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or market in 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 67,424 units in new vehicle inventory at December 31, 2014, and 72,095 units at December 31, 2013.

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. Used vehicles that are not sold on a retail basis are generally liquidated at wholesale auctions. We record estimated losses on used vehicle inventory. Our used vehicle inventory balance was net of cumulative write-downs of \$3.3 million at December 31, 2014, and \$1.8 million at December 31, 2013.

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 \$3.5 million at December 31, 2014, and \$3.6 million at December 31, 2013.

Critical Accounting Policies and Estimates

We prepare our 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 at 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 Consolidated Financial Statements. Set forth below are the policies and estimates that we have identified as critical to our business operations and an understanding of our results of operations, based on the high degree of judgment or complexity in their application.

Goodwill

Goodwill for our Domestic, Import, and Premium Luxury reporting units is tested for impairment annually on April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill impairment test. We completed our qualitative assessment of potential goodwill impairment as of April 30, 2014, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts.

As of December 31, 2014, we have \$175.1 million of goodwill related to the Domestic reporting unit, \$551.6 million related to the Import reporting unit, and \$588.0 million related to the Premium Luxury reporting unit.

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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 on April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred.

Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a quantitative impairment test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2014. Based on our qualitative assessment, we determined that we should perform a quantitative test for franchise rights related to one store, and no impairment charges resulted from this quantitative test. For the remainder of our franchise rights, we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts.

The quantitative impairment test for intangibles with indefinite lives is dependent on many variables used to determine the fair value of our franchise rights. See Note 5 of the Notes to Consolidated Financial Statements for additional information on how fair value measurements are derived for our franchise rights for the quantitative impairment test.

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 evaluating potential impairment of long-lived assets held and used, we first compare the carrying amount of the asset group to the asset group's estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying amount of the asset group, we then compare the carrying amount of the asset group to the asset group's estimated fair value to determine if impairment exists. The fair value measurements for our long-lived assets held and used were based on Level 3 inputs, which considered information obtained from third-party real estate valuation sources. See Note 17 of the Notes to Consolidated Financial Statements for more information about our fair value measurements. We recognize an impairment loss if the amount of the asset group's carrying amount exceeds the asset group's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset group becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated over the remaining useful life of that asset.

During 2014, there were no significant impairment charges recorded for the carrying value of long-lived assets held and used in continuing operations.

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. Any subsequent change in the fair value less cost to sell (increase or decrease) of each asset held for sale 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 or disposal group at the time it was initially classified as held for sale. Such valuations include estimations of fair values and incremental direct costs to transact a sale. The fair value measurements for our long-lived assets held for sale were based on Level 3 inputs, which considered information obtained from third-party real estate valuation sources, or, in certain cases, pending agreements to sell the related assets.

We had assets held for sale in continuing operations of \$64.7 million at December 31, 2014, and \$59.8 million at December 31, 2013. We recorded impairment charges of \$1.1 million in 2014 associated with assets held for sale in continuing operations.

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We had assets held for sale in discontinued operations of \$23.2 million at December 31, 2014, and \$34.5 million at December 31, 2013. During 2014, there were no significant impairment charges associated with assets held for sale in discontinued operations.

Our impairment loss calculations contain uncertainties because they require us to make assumptions and to apply judgment to estimate future undiscounted cash flows and asset fair values, including forecasting useful lives of the assets. 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.

Chargeback Reserve

Revenue on finance and insurance products represents commissions earned by us for: (i) loans and leases placed with financial institutions in connection with customer vehicle purchases financed, (ii) vehicle service contracts sold, and (iii) other protection products sold. We primarily sell these products on a straight commission basis; however we also participate in future underwriting profit on certain extended service contracts pursuant to retrospective commission arrangements, which are recognized as earned.

We may be charged back for commissions related to financing, vehicle service contracts, or other protection products in the event of early termination, default, or prepayment of the contracts by customers (“chargebacks”). However, our exposure to loss generally is limited to the commissions that we receive. These commissions are recorded at the time of the sale of the vehicles, net of an estimated liability for chargebacks.

We estimate our liability for chargebacks on an individual product basis using our historical chargeback experience, based primarily on cancellation data we receive from third parties that sell and administer these products. Our estimated liability for chargebacks totaled \$84.9 million at December 31, 2014, and \$67.6 million at December 31, 2013.

Chargebacks are influenced by the volume of vehicle sales in recent years and increases or decreases in early termination rates resulting from cancellation of vehicle service contracts and other protection products, defaults, refinancings, payoffs before maturity, and other factors. While we consider these factors in the estimation of our chargeback liability, actual events may differ from our estimates, which could result in a change in our estimated liability for chargebacks. The increase in our liability for chargebacks is largely attributable to an increase in sales of vehicle service contracts in recent years, which have higher cancellation rates compared to other products, as well as an overall increase in the cancellation rate of finance and insurance products. Our actual chargeback experience has not been materially different from our recorded estimates. A 10% change in our estimated cancellation rates would have changed our estimated liability for chargebacks at December 31, 2014, by approximately \$8.5 million.

See Note 19 of the Notes to Consolidated Financial Statements for further information regarding chargeback liabilities.

Self Insurance Reserves

Under our self insurance programs, we retain various levels of aggregate loss limits, per claim deductibles, and claims-handling expenses as part of our various insurance programs, including property and casualty, employee medical benefits, automobile, and workers’ compensation. Costs in excess of this retained risk per claim may be insured under various contracts with third-party insurance carriers. We review our claim and loss history on a periodic basis to assist in assessing our future liability. The ultimate costs of these retained insurance risks are estimated by management and by third-party actuarial evaluation of historical claims experience, adjusted for current trends and changes in claims-handling procedures. Our results could be materially impacted by claims and other expenses related to our self insurance programs if future occurrences and claims differ from these assumptions and historical trends. Self insurance reserves totaled \$71.4 million at December 31, 2014, and \$66.3 million at December 31, 2013. We believe our actual loss experience has not been materially different from our recorded estimates.

Revenue Recognition

Revenue consists of the sales of new and used vehicles, sales of parts and services, commissions from finance and insurance products, and sales of other products. We recognize revenue in the period in which products are sold or services are provided. We recognize vehicle and finance and insurance revenue when a sales contract has been executed, the vehicle has been delivered, and payment has been received or financing has been arranged. Rebates,

holdbacks, floorplan assistance, and certain other incentives received from manufacturers are recorded as a reduction of the cost of the vehicle

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and recognized into income upon the sale of the vehicle or when earned under a specific manufacturer program, whichever is later. See Note 1 of the Notes to Consolidated Financial Statements for further information regarding revenue recognition.

Income Taxes

Estimates and judgments are used in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We regularly evaluate the recoverability of our deferred tax assets and provide valuation allowances to offset portions of deferred tax assets due to uncertainty surrounding the future realization of such deferred tax assets. Valuation allowances are based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and the implementation of tax-planning strategies. We adjust the valuation allowance in the period we determine it is more likely than not that deferred tax assets will or will not be realized. If a change in circumstances results in a change in our ability to realize our deferred tax assets, our tax provision would be adjusted in the period when the change in circumstances occurs.

Accounting for our income taxes also requires significant judgment in the evaluation of our uncertain tax positions and in the calculation of our provision for income taxes. Accounting standards prescribe a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate available evidence to determine if it appears more likely than not that an uncertain tax position will be sustained on an audit by a taxing authority, based solely on the technical merits of the tax position. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settling the uncertain tax position.

Although we believe we have adequately reserved for our uncertain tax positions, the ultimate outcome of these tax matters may differ from our expectations. We adjust our reserves in light of changing facts and circumstances, such as the completion of a tax audit, expiration of a statute of limitations, the refinement of an estimate, and interest accruals associated with uncertain tax positions until they are resolved. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

Our future effective tax rates could be affected by changes in our deferred tax assets or liabilities, the valuation of our uncertain tax positions, or by changes in tax laws, regulations, accounting principles, or interpretations thereof.

Other

Additionally, estimates have been made by us in the accompanying Consolidated Financial Statements including allowances for doubtful accounts, accruals related to certain legal proceedings, and certain assumptions related to determining stock-based compensation.

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Reported Operating Data

(\$ in millions, except per vehicle data)	Years Ended December 31,				2012	2013 vs. 2012	
	2014	2013	2014 vs. 2013 Variance Favorable / (Unfavorable)	% Variance		Variance Favorable / (Unfavorable)	% Variance
Revenue:							
New vehicle	\$10,972.2	\$9,949.6	\$1,022.6	10.3	\$8,906.2	\$1,043.4	11.7
Retail used vehicle	3,988.9	3,697.9	291.0	7.9	3,230.0	467.9	14.5
Wholesale	396.8	429.5	(32.7)	(7.6)	484.3	(54.8)	(11.3)
Used vehicle	4,385.7	4,127.4	258.3	6.3	3,714.3	413.1	11.1
Finance and insurance, net	750.8	674.0	76.8	11.4	571.2	102.8	18.0
Total variable operations ⁽¹⁾	16,108.7	14,751.0	1,357.7	9.2	13,191.7	1,559.3	11.8
Parts and service	2,822.5	2,597.4	225.1	8.7	2,399.2	198.2	8.3
Other	177.6	169.2	8.4		76.6	92.6	
Total revenue	\$19,108.8	\$17,517.6	\$1,591.2	9.1	\$15,667.5	\$1,850.1	11.8
Gross profit:							
New vehicle	\$650.1	\$616.4	\$33.7	5.5	\$579.5	\$36.9	6.4
Retail used vehicle	363.2	325.2	38.0	11.7	293.7	31.5	10.7
Wholesale	(2.6)	4.5	(7.1)		5.5	(1.0)	
Used vehicle	360.6	329.7	30.9	9.4	299.2	30.5	10.2
Finance and insurance	750.8	674.0	76.8	11.4	571.2	102.8	18.0
Total variable operations ⁽¹⁾	1,761.5	1,620.1	141.4	8.7	1,449.9	170.2	11.7
Parts and service	1,196.6	1,105.8	90.8	8.2	1,008.0	97.8	9.7
Other	30.6	34.0	(3.4)		28.3	5.7	
Total gross profit	2,988.7	2,759.9	228.8	8.3	2,486.2	273.7	11.0
Selling, general, and administrative expenses	2,079.6	1,935.0	(144.6)	(7.5)	1,749.3	(185.7)	(10.6)
Depreciation and amortization	106.9	95.3	(11.6)		87.3	(8.0)	
Franchise rights impairment	—	—	—		4.2	4.2	
Other expenses (income), net	(18.6)	(10.7)	7.9		0.1	10.8	
Operating income	820.8	740.3	80.5	10.9	645.3	95.0	14.7
Non-operating income (expense) items:							
Floorplan interest expense	(53.3)	(53.4)	0.1		(45.5)	(7.9)	
Other interest expense	(86.7)	(88.3)	1.6		(86.9)	(1.4)	
Loss on debt extinguishment	(1.6)	—	(1.6)		—	—	
Interest income	0.2	0.2	—		0.3	(0.1)	
Other income, net	2.9	5.6	(2.7)		3.6	2.0	
Income from continuing operations before income taxes	\$682.3	\$604.4	\$77.9	12.9	\$516.8	\$87.6	17.0
Retail vehicle unit sales:							
New vehicle	318,008	292,922	25,086	8.6	267,784	25,138	9.4
Used vehicle	214,910	204,572	10,338	5.1	180,955	23,617	13.1
	532,918	497,494	35,424	7.1	448,739	48,755	10.9
Revenue per vehicle retailed:							
New vehicle	\$34,503	\$33,967	\$536	1.6	\$33,259	\$708	2.1
Used vehicle	\$18,561	\$18,076	\$485	2.7	\$17,850	\$226	1.3
Gross profit per vehicle retailed:							

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New vehicle	\$2,044	\$2,104	\$(60) (2.9) \$2,164	\$(60) (2.8)
Used vehicle	\$1,690	\$1,590	\$100	6.3	\$1,623	\$(33) (2.0)
Finance and insurance	\$1,409	\$1,355	\$54	4.0	\$1,273	\$82	6.4	
Total variable operations ⁽²⁾	\$3,310	\$3,247	\$63	1.9	\$3,219	\$28	0.9	

⁽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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	Years Ended December 31,		
	2014 (%)	2013 (%)	2012 (%)
Revenue mix percentages:			
New vehicle	57.4	56.8	56.8
Used vehicle	23.0	23.6	23.7
Parts and service	14.8	14.8	15.3
Finance and insurance, net	3.9	3.8	3.6
Other	0.9	1.0	0.6
Total	100.0	100.0	100.0
Gross profit mix percentages:			
New vehicle	21.8	22.3	23.3
Used vehicle	12.1	11.9	12.0
Parts and service	40.0	40.1	40.5
Finance and insurance	25.1	24.4	23.0
Other	1.0	1.3	1.2
Total	100.0	100.0	100.0
Operating items as a percentage of revenue:			
Gross profit:			
New vehicle	5.9	6.2	6.5
Used vehicle-retail	9.1	8.8	9.1
Parts and service	42.4	42.6	42.0
Total	15.6	15.8	15.9
Selling, general, and administrative expenses	10.9	11.0	11.2
Operating income	4.3	4.2	4.1
Other operating items as a percentage of total gross profit:			
Selling, general, and administrative expenses	69.6	70.1	70.4
Operating income	27.5	26.8	26.0
	December 31,		
	2014	2013	
Days supply:			
New vehicle (industry standard of selling days)	54 days	62 days	
Used vehicle (trailing calendar month days)	38 days	35 days	

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Same Store Operating Data

We have presented below our operating results on a same store basis to reflect our internal performance. The “Same Store” amounts presented below include the results of dealerships for the identical months in each period presented in the comparison, commencing with the first full month in which the dealership was owned by us. For example, the results for a dealership acquired in February 2013 would be included only in our same store comparison of 2014 to 2013, not in our same store comparison of 2013 to 2012. Therefore, the amounts presented in the year 2013 column that is being compared to the 2014 column may differ from the amounts presented in the year 2013 column that is being compared to the year 2012 column.

(\$ in millions, except per vehicle data)	Years Ended December 31,				Years Ended December 31,			
	2014	2013	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	\$10,748.9	\$9,911.8	\$837.1	8.4	\$9,551.3	\$8,896.4	\$654.9	7.4
Retail used vehicle	3,917.3	3,684.3	233.0	6.3	3,554.5	3,227.0	327.5	10.1
Wholesale	390.0	427.0	(37.0)	(8.7)	411.3	483.8	(72.5)	(15.0)
Used vehicle	4,307.3	4,111.3	196.0	4.8	3,965.8	3,710.8	255.0	6.9
Finance and insurance, net	738.1	671.8	66.3	9.9	651.6	570.6	81.0	14.2
Total variable operations ⁽¹⁾	15,794.3	14,694.9	1,099.4	7.5	14,168.7	13,177.8	990.9	7.5
Parts and service	2,773.5	2,585.6	187.9	7.3	2,520.6	2,398.4	122.2	5.1
Other	169.1	137.6	31.5		152.4	76.6	75.8	
Total revenue	\$18,736.9	\$17,418.1	\$1,318.8	7.6	\$16,841.7	\$15,652.8	\$1,188.9	7.6
Gross profit:								
New vehicle	\$635.7	\$614.3	\$21.4	3.5	\$591.1	\$578.9	\$12.2	2.1
Retail used vehicle	356.1	323.3	32.8	10.1	314.9	293.4	21.5	7.3
Wholesale	(2.6)	4.5	(7.1)		4.4	5.5	(1.1)	
Used vehicle	353.5	327.8	25.7	7.8	319.3	298.9	20.4	6.8
Finance and insurance	738.1	671.8	66.3	9.9	651.6	570.6	81.0	14.2
Total variable operations ⁽¹⁾	1,727.3	1,613.9	113.4	7.0	1,562.0	1,448.4	113.6	7.8
Parts and service	1,174.3	1,100.7	73.6	6.7	1,072.0	1,007.6	64.4	6.4
Other	29.8	25.8	4.0		33.7	28.4	5.3	
Total gross profit	\$2,931.4	\$2,740.4	\$191.0	7.0	\$2,667.7	\$2,484.4	\$183.3	7.4
Retail vehicle unit sales:								
New vehicle	311,128	291,421	19,707	6.8	281,664	267,537	14,127	5.3
Used vehicle	210,702	203,498	7,204	3.5	197,233	180,842	16,391	9.1
Total	521,830	494,919	26,911	5.4	478,897	448,379	30,518	6.8
Revenue per vehicle retailed:								
New vehicle	\$34,548	\$34,012	\$536	1.6	\$33,910	\$33,253	\$657	2.0
Used vehicle	\$18,592	\$18,105	\$487	2.7	\$18,022	\$17,844	\$178	1.0
Gross profit per vehicle retailed:								
New vehicle	\$2,043	\$2,108	\$(65)	(3.1)	\$2,099	\$2,164	\$(65)	(3.0)
Used vehicle	\$1,690	\$1,589	\$101	6.4	\$1,597	\$1,622	\$(25)	(1.5)

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Finance and insurance	\$1,414	\$1,357	\$57	4.2	\$1,361	\$1,273	\$88	6.9
Total variable operations ⁽²⁾	\$3,315	\$3,252	\$63	1.9	\$3,252	\$3,218	\$34	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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	Years Ended December 31,		Years Ended December 31,	
	2014 (%)	2013 (%)	2013 (%)	2012 (%)
Revenue mix percentages:				
New vehicle	57.4	56.9	56.7	56.8
Used vehicle	23.0	23.6	23.5	23.7
Parts and service	14.8	14.8	15.0	15.3
Finance and insurance, net	3.9	3.9	3.9	3.6
Other	0.9	0.8	0.9	0.6
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	21.7	22.4	22.2	23.3
Used vehicle	12.1	12.0	12.0	12.0
Parts and service	40.1	40.2	40.2	40.6
Finance and insurance	25.2	24.5	24.4	23.0
Other	0.9	0.9	1.2	1.1
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	5.9	6.2	6.2	6.5
Used vehicle-retail	9.1	8.8	8.9	9.1
Parts and service	42.3	42.6	42.5	42.0
Total	15.6	15.7	15.8	15.9

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New Vehicle

(\$ in millions, except per vehicle data)	Years Ended December 31,		2014 vs. 2013		2012	2013 vs. 2012	
	2014	2013	Variance Favorable / (Unfavorable)	% Variance		Variance Favorable / (Unfavorable)	% Variance
Reported:							
Revenue	\$10,972.2	\$9,949.6	\$1,022.6	10.3	\$8,906.2	\$1,043.4	11.7
Gross profit	\$650.1	\$616.4	\$33.7	5.5	\$579.5	\$36.9	6.4
Retail vehicle unit sales	318,008	292,922	25,086	8.6	267,784	25,138	9.4
Revenue per vehicle retailed	\$34,503	\$33,967	\$536	1.6	\$33,259	\$708	2.1
Gross profit per vehicle retailed	\$2,044	\$2,104	\$(60)	(2.9)	\$2,164	\$(60)	(2.8)
Gross profit as a percentage of revenue	5.9	% 6.2			6.5	%	
Days supply (industry standard of selling days)	54 days	62 days					

	Years Ended December 31,		2014 vs. 2013		2013	2012	2013 vs. 2012	
	2014	2013	Variance Favorable / (Unfavorable)	% Variance			Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue	\$10,748.9	\$9,911.8	\$837.1	8.4	\$9,551.3	\$8,896.4	\$654.9	7.4
Gross profit	\$635.7	\$614.3	\$21.4	3.5	\$591.1	\$578.9	\$12.2	2.1
Retail vehicle unit sales	311,128	291,421	19,707	6.8	281,664	267,537	14,127	5.3
Revenue per vehicle retailed	\$34,548	\$34,012	\$536	1.6	\$33,910	\$33,253	\$657	2.0
Gross profit per vehicle retailed	\$2,043	\$2,108	\$(65)	(3.1)	\$2,099	\$2,164	\$(65)	(3.0)
Gross profit as a percentage of revenue	5.9	% 6.2			6.2	% 6.5	%	

2014 compared to 2013

Same store new vehicle revenue increased during 2014, as compared to 2013, as a result of increases in same store unit volume and revenue per new vehicle retailed. The increase in same store unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. New product offerings from automotive manufacturers also favorably impacted same store unit volume.

Same store revenue per new vehicle retailed during 2014 benefited from an increase in the average selling prices for Domestic and Premium Luxury vehicles, partially offset by a decrease in the average selling price for Import vehicles. Same store revenue per new vehicle retailed also benefited from a shift in mix toward Premium Luxury vehicles, which have relatively higher average selling prices.

Same store gross profit per new vehicle retailed decreased during 2014, as compared to 2013, primarily due to a decrease in gross profit per vehicle retailed for Import vehicles. This decrease was partially offset by a shift in mix toward Premium Luxury vehicles, which have a relatively higher average gross profit per vehicle retailed.

2013 compared to 2012

Same store new vehicle revenue increased during 2013, as compared to 2012, as a result of an increase in same store unit volume and an increase in revenue per new vehicle retailed. The increase in same store unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. An improved credit environment and an increase in new product

offerings from automotive manufacturers also favorably impacted same store unit volume.

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Same store revenue per new vehicle retailed during 2013 benefited from an increase in the average selling prices for new vehicles in all three segments, as well as a shift in mix away from import vehicles, which have relatively lower average selling prices.

Same store gross profit per new vehicle retailed decreased during 2013, as compared to 2012, primarily due to a decrease in gross profit per vehicle retailed for import vehicles.

New Vehicle Inventories

Our new vehicle inventories were \$2.3 billion or 54 days supply at December 31, 2014, as compared to new vehicle inventories of \$2.3 billion or 62 days supply at December 31, 2013. We had 67,424 units in new vehicle inventory at December 31, 2014, and 72,095 units at December 31, 2013.

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)	Years Ended December 31,				
	2014	2013	Variance 2014 vs. 2013	2012	Variance 2013 vs. 2012
Floorplan assistance	\$106.2	\$92.7	\$13.5	\$73.5	\$19.2
New vehicle floorplan interest expense	(50.6)	(51.2)	0.6	(43.7)	(7.5)
Net new vehicle inventory carrying benefit	\$55.6	\$41.5	\$14.1	\$29.8	\$11.7

2014 compared to 2013

The net new vehicle inventory carrying benefit increased in 2014, as compared to 2013, due to an increase in floorplan assistance. Floorplan assistance increased due to higher new vehicle sales and an increase in the floorplan assistance rate per unit.

2013 compared to 2012

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

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Used Vehicle

(\$ in millions, except per vehicle data)	Years Ended December 31,		2014 vs. 2013		2012	2013 vs. 2012	
	2014	2013	Variance Favorable / (Unfavorable)	% Variance		Variance Favorable / (Unfavorable)	% Variance
Reported:							
Retail revenue	\$3,988.9	\$3,697.9	\$291.0	7.9	\$3,230.0	\$467.9	14.5
Wholesale revenue	396.8	429.5	(32.7)	(7.6)	484.3	(54.8)	(11.3)
Total revenue	\$4,385.7	\$4,127.4	\$258.3	6.3	\$3,714.3	\$413.1	11.1
Retail gross profit	\$363.2	\$325.2	\$38.0	11.7	\$293.7	\$31.5	10.7
Wholesale gross profit	(2.6)	4.5	(7.1)		5.5	(1.0)	
Total gross profit	\$360.6	\$329.7	\$30.9	9.4	\$299.2	\$30.5	10.2
Retail vehicle unit sales	214,910	204,572	10,338	5.1	180,955	23,617	13.1
Revenue per vehicle retailed	\$18,561	\$18,076	\$485	2.7	\$17,850	\$226	1.3
Gross profit per vehicle retailed	\$1,690	\$1,590	\$100	6.3	\$1,623	\$(33)	(2.0)
Gross profit as a percentage of retail revenue	9.1%	8.8%			9.1%		
Days supply (trailing calendar month days)	38 days	35 days					

	Years Ended December 31,		2014 vs. 2013		2013	2012	2013 vs. 2012	
	2014	2013	Variance Favorable / (Unfavorable)	% Variance			Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Retail revenue	\$3,917.3	\$3,684.3	\$233.0	6.3	\$3,554.5	\$3,227.0	\$327.5	10.1
Wholesale revenue	390.0	427.0	(37.0)	(8.7)	411.3	483.8	(72.5)	(15.0)
Total revenue	\$4,307.3	\$4,111.3	\$196.0	4.8	\$3,965.8	\$3,710.8	\$255.0	6.9
Retail gross profit	\$356.1	\$323.3	\$32.8	10.1	\$314.9	\$293.4	\$21.5	7.3
Wholesale gross profit	(2.6)	4.5	(7.1)		4.4	5.5	(1.1)	
Total gross profit	\$353.5	\$327.8	\$25.7	7.8	\$319.3	\$298.9	\$20.4	6.8
Retail vehicle unit sales	210,702	203,498	7,204	3.5	197,233	180,842	16,391	9.1
Revenue per vehicle retailed	\$18,592	\$18,105	\$487	2.7	\$18,022	\$17,844	\$178	1.0
Gross profit per vehicle retailed	\$1,690	\$1,589	\$101	6.4	\$1,597	\$1,622	\$(25)	(1.5)
Gross profit as a percentage of retail revenue	9.1%	8.8%			8.9%	9.1%		

2014 compared to 2013

Same store retail used vehicle revenue increased during 2014, as compared to 2013, due to increases in same store unit volume and revenue per used vehicle retailed. Same store unit volume benefited from an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume.

Same store revenue per used vehicle retailed benefited from an increase in the average selling prices of used vehicles for all three segments, a shift in mix away from Import vehicles, which have relatively lower average selling prices, and an increase in sales of certified pre-owned vehicles, which have relatively higher average selling prices.

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Same store gross profit per used vehicle retailed increased during 2014, as compared to 2013, due to an increase in the gross profit per vehicle retailed for Import and Premium Luxury vehicles and a shift in mix away from Import vehicles, which have a relatively lower average gross profit per vehicle retailed.

2013 compared to 2012

Same store retail used vehicle revenue increased during 2013, as compared to 2012, due to an increase in same store unit volume and an increase in revenue per used vehicle retailed. Same store unit volume benefited from an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume.

Same store revenue per used vehicle retailed during 2013 benefited from a shift in mix toward premium luxury vehicles, which have relatively higher average selling prices, partially offset by a decrease in the average selling price for import vehicles.

Same store gross profit per used vehicle retailed decreased during 2013, as compared to 2012, due in part to compressed margins on certified pre-owned vehicles for premium luxury vehicles.

Used Vehicle Inventories

Used vehicle inventories were \$437.6 million or 38 days supply at December 31, 2014, compared to \$346.5 million or 35 days supply at December 31, 2013.

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Parts & Service

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

(\$ in millions)	Years Ended December 31,				2012	2013 vs. 2012		
	2014	2013	2014 vs. 2013 Variance Favorable / (Unfavorable)			Variance Favorable / (Unfavorable)	% Variance	
Reported:								
Revenue	\$2,822.5	\$2,597.4	\$225.1	8.7	\$2,399.2	\$198.2	8.3	
Gross profit	\$1,196.6	\$1,105.8	\$90.8	8.2	\$1,008.0	\$97.8	9.7	
Gross profit as a percentage of revenue	42.4	% 42.6	%		42.0	%		
	Years Ended December 31,				2013	2012	2013 vs. 2012	
	2014	2013	2014 vs. 2013 Variance Favorable / (Unfavorable)				Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue	\$2,773.5	\$2,585.6	\$187.9	7.3	\$2,520.6	\$2,398.4	\$122.2	5.1
Gross profit	\$1,174.3	\$1,100.7	\$73.6	6.7	\$1,072.0	\$1,007.6	\$64.4	6.4
Gross profit as a percentage of revenue	42.3	% 42.6	%		42.5	% 42.0	%	

2014 compared to 2013

Same store parts and service gross profit increased during 2014, as compared to 2013, primarily due to increases in gross profit associated with warranty of \$32.5 million, the preparation of vehicles for sale of \$12.7 million, customer-pay service of \$11.3 million, and collision business of \$10.1 million.

Warranty gross profit benefited from the rise of manufacturer recalls in our Domestic and Import segments, an increase in volume, improved margin performance, and an increase in manufacturer-paid vehicle maintenance. Gross profit associated with the preparation of vehicles for sale benefited from higher new and used vehicle unit volume. Customer-pay service gross profit benefited from improved operational execution and increased volume. Gross profit associated with our collision business benefited from increased volume referred by automotive insurance providers as well as increase in the average repair value.

2013 compared to 2012

Same store parts and service gross profit increased during 2013, as compared to 2012, primarily due to increases in gross profit associated with warranty of \$25.2 million, the preparation of vehicles for sale of \$19.1 million, customer-pay service of \$15.6 million, and collision business of \$6.2 million.

Warranty gross profit benefited from an increase in warranty service due to improved market conditions, the rise of manufacturer recalls in the automotive industry, and an increase in manufacturer-paid vehicle maintenance. See "Market Conditions" above. Gross profit associated with the preparation of vehicles for sale benefited from higher new and used vehicle unit volume. Customer-pay service gross profit benefited from improved operational execution and improved margin performance. Gross profit associated with our collision business benefited from increased volume, improved productivity, and improved margin performance.

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Finance and Insurance

(\$ in millions, except per vehicle data)	Years Ended December 31,				2012	2013 vs. 2012		
	2014	2013	2014 vs. 2013 Variance Favorable / (Unfavorable)	% Variance		Variance Favorable / (Unfavorable)	% Variance	
Reported:								
Revenue and gross profit	\$750.8	\$674.0	\$76.8	11.4	\$571.2	\$102.8	18.0	
Gross profit per vehicle retailed	\$1,409	\$1,355	\$54	4.0	\$1,273	\$82	6.4	
	Years Ended December 31,				2013	2012	2013 vs. 2012	
	2014	2013	2014 vs. 2013 Variance Favorable / (Unfavorable)	% Variance			Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue and gross profit	\$738.1	\$671.8	\$66.3	9.9	\$651.6	\$81.0	14.2	
Gross profit per vehicle retailed	\$1,414	\$1,357	\$57	4.2	\$1,361	\$88	6.9	

2014 compared to 2013

Same store finance and insurance revenue and gross profit increased during 2014, as compared to 2013, due to increases in new and used vehicle unit volume and same store finance and insurance revenue and gross profit per vehicle retailed.

Same store finance and insurance revenue and gross profit per vehicle retailed benefited from a shift in mix toward more profitable vehicle service contracts and an increase in product penetration for vehicle service contracts.

2013 compared to 2012

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

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

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Segment Results

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

(\$ in millions)	Years Ended December 31,				2012	Variance	
	2014	2013	Variance Favorable / (Unfavorable)	% Variance		Favorable / (Unfavorable)	% Variance
Revenue:							
Domestic	\$6,359.5	\$5,835.3	\$524.2	9.0	\$5,131.6	\$703.7	13.7
Import	6,717.8	6,375.0	342.8	5.4	5,827.5	547.5	9.4
Premium Luxury	5,889.3	5,152.3	737.0	14.3	4,553.3	599.0	13.2
Total	18,966.6	17,362.6	1,604.0	9.2	15,512.4	1,850.2	11.9
Corporate and other	142.2	155.0	(12.8)	(8.3)	155.1	(0.1)	(0.1)
Total consolidated revenue	\$19,108.8	\$17,517.6	\$1,591.2	9.1	\$15,667.5	\$1,850.1	11.8
Segment income*:							
Domestic	\$285.0	\$246.6	\$38.4	15.6	\$209.4	\$37.2	17.8
Import	291.3	280.1	11.2	4.0	257.9	22.2	8.6
Premium Luxury	366.1	321.4	44.7	13.9	270.4	51.0	18.9
Total segment income	942.4	848.1	94.3	11.1	737.7	110.4	15.0
Corporate and other	(174.9)	(161.2)	(13.7)		(137.9)	(23.3)	
Floorplan interest expense	53.3	53.4	0.1		45.5	(7.9)	
Operating income	\$820.8	\$740.3	\$80.5	10.9	\$645.3	\$95.0	14.7
* 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	102,643	96,229	6,414	6.7	85,947	10,282	12.0
Import	154,066	143,325	10,741	7.5	133,912	9,413	7.0
Premium Luxury	61,299	53,368	7,931	14.9	47,925	5,443	11.4
Total	318,008	292,922	25,086	8.6	267,784	25,138	9.4

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Domestic

The Domestic segment operating results included the following:

(\$ in millions)	Years Ended December 31,							
	2014	2013	Variance Favorable / (Unfavorable)	% Variance	2012	Variance Favorable / (Unfavorable)	% Variance	
Revenue	\$6,359.5	\$5,835.3	\$524.2	9.0	\$5,131.6	\$703.7	13.7	
Segment income	\$285.0	\$246.6	\$38.4	15.6	\$209.4	\$37.2	17.8	
Retail new vehicle unit sales	102,643	96,229	6,414	6.7	85,947	10,282	12.0	

2014 compared to 2013

Domestic revenue increased during 2014, as compared to 2013, primarily due to an increase in new and used vehicle unit volume and an increase in revenue per new and used vehicle retailed. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. The increase in used vehicle unit volume was primarily due to an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume.

Domestic segment income increased during 2014, as compared to 2013, 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 per vehicle retailed and higher vehicle unit volume. Increases in Domestic segment income were partially offset by an increase in variable expenses.

2013 compared to 2012

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

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

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Import

The Import segment operating results included the following:

(\$ in millions)	Years Ended December 31,						
	2014	2013	Variance Favorable / (Unfavorable)	% Variance	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue	\$6,717.8	\$6,375.0	\$342.8	5.4	\$5,827.5	\$547.5	9.4
Segment income	\$291.3	\$280.1	\$11.2	4.0	\$257.9	\$22.2	8.6
Retail new vehicle unit sales	154,066	143,325	10,741	7.5	133,912	9,413	7.0

2014 compared to 2013

Import revenue increased during 2014, as compared to 2013, primarily due to an increase in new vehicle unit volume. The increase in new vehicle unit volume was primarily due to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year. New product offerings from automotive manufacturers also favorably impacted new vehicle unit volume. New vehicle unit volume also benefited from the acquisitions we completed in the second and fourth quarters of 2013.

Import segment income increased during 2014, as compared to 2013, primarily due to an increase in finance and insurance revenue and gross profit, which benefited from an increase in finance and insurance revenue and gross profit per vehicle retailed and higher new vehicle unit volume. Import segment income also benefited from an increase in parts and service gross profit and the recent acquisitions noted in the paragraph above. These increases were partially offset by an increase in variable expenses and a decrease in new vehicle gross profit due to a decrease in new vehicle gross profit per vehicle retailed.

2013 compared to 2012

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

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

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Premium Luxury

The Premium Luxury segment operating results included the following:

Years Ended December 31,

(\$ in millions)	2014	2013	Variance Favorable / (Unfavorable)	% Variance	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue	\$5,889.3	\$5,152.3	\$737.0	14.3	\$4,553.3	\$599.0	13.2
Segment income	\$366.1	\$321.4	\$44.7	13.9	\$270.4	\$51.0	18.9
Retail new vehicle unit sales	61,299	53,368	7,931	14.9	47,925	5,443	11.4

2014 compared to 2013

Premium Luxury revenue increased during 2014, as compared to the same period in 2013 primarily due to an increase in new and used vehicle unit volume and an increase in revenue per new and used vehicle retailed. The increase in new vehicle unit volume was due in part to replacement demand and improved market conditions, including increased consumer borrowing and improved consumer confidence as compared to the prior year, as well as new product offerings from automotive manufacturers. The increase in used vehicle unit volume was primarily due to an increase in sales of certified pre-owned vehicles, as well as an increase in trade-in volume. New and used vehicle unit volume also benefited from the acquisitions we completed in the fourth quarter of 2014.

Premium Luxury segment income increased during 2014, as compared to 2013, primarily due to an increase in parts and service gross profit and an increase in new vehicle gross profit, which benefited from higher new vehicle unit volume. Additionally, Premium Luxury segment income benefited from an increase in finance and insurance revenue and gross profit, which benefited from higher vehicle unit volume and an increase in finance and insurance revenue and gross profit per vehicle retailed. Premium Luxury segment income also benefited from the acquisitions we completed in the fourth quarter of 2014. Increases in Premium Luxury segment income were partially offset by an increase in variable expenses.

2013 compared to 2012

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

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

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Selling, General, and Administrative Expenses

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

(\$ in millions)	Years Ended December 31,		Variance		2012	Variance		
	2014	2013	Favorable / (Unfavorable)	% Variance		Favorable / (Unfavorable)	% Variance	
Reported:								
Compensation	\$1,362.5	\$1,252.9	\$(109.6)	(8.7)	\$1,137.3	\$(115.6)	(10.2)	
Advertising	164.9	166.4	1.5	0.9	135.7	(30.7)	(22.6)	
Store and corporate overhead	552.2	515.7	(36.5)	(7.1)	476.3	(39.4)	(8.3)	
Total	\$2,079.6	\$1,935.0	\$(144.6)	(7.5)	\$1,749.3	\$(185.7)	(10.6)	
SG&A as a % of total gross profit:								
Compensation	45.6	45.4	(20)	bps	45.7	30	bps	
Advertising	5.5	6.0	50	bps	5.5	(50)	bps	
Store and corporate overhead	18.5	18.7	20	bps	19.2	50	bps	
Total	69.6	70.1	50	bps	70.4	30	bps	

2014 compared to 2013

SG&A expenses increased in 2014, as compared to 2013, primarily due to a performance-driven increase in compensation expense, an increase in store and corporate overhead expenses, and an increase in gross advertising expenditures excluding the impact of expenses incurred in 2013 related to our re-branding initiative noted below. As a percentage of total gross profit, SG&A expenses decreased to 69.6% in 2014 from 70.1% in 2013 resulting from our continued effective management of our cost structure and improved gross profit.

2013 compared to 2012

SG&A expenses increased in 2013, as compared to 2012, primarily due to a performance-driven increase in compensation expense and increases in gross advertising expenditures and store and corporate overhead expenses. As a percentage of total gross profit, SG&A expenses decreased to 70.1% in 2013 from 70.4% in 2012 resulting from our continued effective management of our cost structure, improved associate productivity, and improved gross profit, partially offset by an increase in expenses resulting from our re-branding initiative noted below.

Strategic Initiatives

We have invested and will continue to invest significantly in the AutoNation retail brand with the goals of enhancing our strong customer satisfaction and expanding our market share. In 2013, we incurred non-recurring SG&A expenses of approximately \$18 million, primarily comprised of advertising expenses, related to the re-branding of our Domestic and Import stores under the AutoNation retail brand. We are also investing significantly to build a seamless, end-to-end customer experience in our stores and through our digital channels, as well as to improve our ability to generate business through those channels. A portion of the expenses associated with these strategic initiatives have been and will be capitalized and amortized over future periods.

Operating Expenses (Income), Net

During 2014, we recognized a gain related to the divestiture of two Import stores of \$4.4 million (\$2.7 million after-tax), a gain related to a legal settlement of \$4.0 million (\$2.5 million after-tax), and a net gain related to business/property

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dispositions of \$8.1 million (\$5.0 million after-tax), primarily related to the divestiture of our customer lead distribution business. During 2013, we recognized a net gain related to property dispositions of \$7.2 million (\$4.5 million after-tax).

Non-Operating Income (Expenses)

Floorplan Interest Expense

Floorplan interest expense was \$53.3 million in 2014, \$53.4 million in 2013, and \$45.5 million in 2012. Floorplan interest expense in 2014 was relatively flat compared to 2013. The increase in floorplan interest expense of \$7.9 million in 2013, as compared to 2012, was primarily the result of higher average vehicle floorplan balances, partially offset by lower negotiated floorplan interest rates.

Other Interest Expense

Other interest expense was incurred primarily on borrowings under our outstanding senior unsecured notes, credit agreement, and mortgage facility. Other interest expense in 2014 was relatively flat compared to 2013 and 2012.

Loss on Debt Extinguishment

We expensed \$1.6 million pre-tax in the fourth quarter of 2014 related to a debt refinancing transaction. This expense included \$0.4 million for the write-off of previously deferred debt issuance costs. See "Liquidity and Capital Resources - Debt Refinancing Transaction" below.

Provision for Income Taxes

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

Our effective income tax rate was 38.5% in 2014. See Note 11 of the Notes to Consolidated Financial Statements for discussion of our unrecognized tax benefits. We do not expect that our unrecognized tax benefits will significantly increase or decrease during the twelve months beginning January 1, 2015.

Our effective income tax rate was 37.8% in 2013, which reflected the benefit of certain favorable tax adjustments. During 2013, we completed a restructuring of certain of our subsidiaries, a consequence of which was the release of a valuation allowance of \$3.4 million, which was reflected as a benefit in our income tax provision in 2013. Our effective income tax rate was 38.6% in 2012.

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, and other adjustments related to disposed operations.

Liquidity and Capital Resources

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

Debt Refinancing Transaction

On December 3, 2014, we amended and restated our existing unsecured credit agreement (as amended and restated, our "credit agreement"). The credit agreement amendment, among other things, (1) replaced our \$500.0 million term loan facility and \$1.2 billion revolving credit facility under our prior credit agreement with a \$1.8 billion revolving credit facility, (2) provided lower commitment fees and loan margins as set forth in the credit agreement, (3) increased the

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maximum capitalization ratio from 65.0% to 70.0% and (4) extended the stated termination date to December 3, 2019. See “Long-Term Debt - Credit Agreement” and “Long-Term Debt - Restrictions and Covenants” below for additional information regarding our credit agreement and our financial covenants. The indebtedness outstanding under the prior credit agreement was paid off with proceeds from our amended credit agreement.

Available Liquidity Resources

We had the following sources of liquidity available for the years ended December 31, 2014 and 2013:

(In millions)	December 31, 2014	December 31, 2013
Cash and Cash Equivalents	\$75.4	\$69.2
Revolving Credit Facility ⁽¹⁾	\$644.4	\$854.4
Secured Used Floorplan Facilities ⁽²⁾	\$50.2	\$50.0

Based on aggregate borrowings outstanding of \$1.1 billion and outstanding letters of credit of \$45.6 million at (1) December 31, 2014, and aggregate borrowings outstanding of \$300.0 million and outstanding letters of credit of \$45.6 million at December 31, 2013. See “Long-Term Debt – Credit Agreement” for additional information.

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

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. At December 31, 2014, surety bonds, letters of credit, and cash deposits totaled \$93.7 million, including the \$45.6 million of letters of credit outstanding under our revolving credit facility. We do not currently provide cash collateral for outstanding letters of credit.

In February 2014, 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, guarantees of debt securities, warrants, subscription rights, depositary shares or stock purchase contracts, as well as units that include any of those securities.

Capital Allocation

Our capital allocation strategy is focused on maximizing stockholder returns. The first priority of our capital allocation strategy is to maintain a strong balance sheet. Second, we invest capital in our business to maintain and upgrade our existing facilities and to build new facilities, as well as for other strategic and technology initiatives. Third, we deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership acquisitions 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 acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

Share Repurchases

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

(In millions, except per share data)	2014	2013	2012
Shares repurchased	9.4	1.1	16.6
Aggregate purchase price	\$485.1	\$53.5	\$580.6
Average purchase price per share	\$51.59	\$47.37	\$34.89

The decision to repurchase shares at any given point in time is based on such factors 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

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

Senior Note Repurchases and Debt Prepayment

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

Capital Expenditures

The following table sets forth information regarding our capital expenditures over the past three years:

(In millions)	2014	2013	2012
Purchases of property and equipment, including operating lease buy-outs ⁽¹⁾	\$ 197.8	\$ 207.2	\$ 183.6

⁽¹⁾ Includes accrued construction in progress and excludes property acquired under capital leases.

Excluding land purchased for future sites and lease buy-outs, and net of related asset sales, we anticipate that our capital expenditures, including accrued construction in progress, will be approximately \$235 million in 2015 primarily related to our store facilities.

Acquisitions and Divestitures

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

(In millions)	2014	2013	2012
Cash received from (used in) business acquisitions, net ⁽¹⁾	\$(205.2)	\$(87.9)	\$(141.6)
Cash received from (used in) business divestitures, net	\$41.4	\$10.1	\$6.8

⁽¹⁾ Excludes capital leases and deferred purchase price commitments.

We purchased five stores and related assets during 2014, compared to five in 2013 and six in 2012. In January 2015, we purchased one store and related assets in Reno, Nevada, and in February 2015, we purchased one store and related assets in the Atlanta, Georgia market.

During 2014, we divested two Import stores and our customer lead distribution business, which is reported in the "Corporate and other" category of our segment information.

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

The following table sets forth our non-vehicle long-term debt as of December 31, 2014 and 2013:

(In millions)	2014	2013
6.75% Senior Notes due 2018	\$397.1	\$396.3
5.5% Senior Notes due 2020	350.0	350.0
Term loan facility due 2016	—	500.0
Revolving credit facility due 2016	—	300.0
Revolving credit facility due 2019	1,110.0	—
Mortgage facility ⁽¹⁾	185.5	194.7
Capital leases and other debt	85.8	98.9
	2,128.4	1,839.9
Less: current maturities	(25.0	) (30.1
Long-term debt, net of current maturities	\$2,103.4	\$1,809.8

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

Senior Unsecured Notes

At December 31, 2014, we had outstanding \$397.1 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 December 31, 2014, 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.

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

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 December 31, 2014, we had borrowings outstanding of \$1.1 billion 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 \$45.6 million at December 31, 2014, leaving an additional borrowing capacity under the revolving credit facility of \$644.4 million at December 31, 2014.

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 of 0.20% and various interest rates on borrowings generally at LIBOR plus 1.50%. The credit spread 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 credit spread.

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

Vehicle Floorplan Payable

Vehicle floorplan payable-trade totaled \$2.1 billion at December 31, 2014 and \$2.1 billion at December 31, 2013.

Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with manufacturers' captive finance subsidiaries.

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Vehicle floorplan payable-non-trade totaled \$1.0 billion at December 31, 2014, and \$898.9 million at December 31, 2013, and represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders, as well as amounts borrowed under our secured used vehicle floorplan facilities, which are primarily collateralized by used vehicle inventories and related receivables.

At December 31, 2014, the aggregate capacity under our used vehicle floorplan facilities was \$315.0 million. As of that date, \$236.0 million had been borrowed under those facilities, and the remaining borrowing capacity of \$79.0 million was limited to \$50.2 million based on the eligible used vehicle inventory that could have been pledged as collateral.

At December 31, 2013, the aggregate capacity under our used vehicle floorplan facilities was \$275.0 million. As of that date, \$177.3 million had been borrowed under those facilities, and the remaining borrowing capacity of \$97.7 million was limited to \$50.0 million based on the eligible used vehicle inventory that could have been pledged as collateral.

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

Other Debt

At December 31, 2014, we had \$185.5 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 December 31, 2014, we had capital lease and other debt obligations of \$85.8 million, which are due at various dates through 2034.

Restrictions and Covenants

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

Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. Under our credit agreement, the maximum leverage ratio is 3.75x (no change from our prior credit agreement) and the maximum capitalization ratio is 70.0% (compared to 65.0% under the prior credit agreement). 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 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain certain limited covenants, including limitations on liens and sale and leaseback transactions, but do not contain restricted payments covenants or debt incurrence restrictions. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

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

default under other material indebtedness of AutoNation.

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As of December 31, 2014, we were in compliance with the requirements of the financial covenants under our debt agreements. Under the terms of our credit agreement, at December 31, 2014, our leverage ratio and capitalization ratio were as follows:

	December 31, 2014	
	Requirement	Actual
Leverage ratio	≤ 3.75x	2.30x
Capitalization ratio	≤ 70.0%	59.2%

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.

In the event of a downgrade in our credit ratings, none of the covenants described above would be impacted. In addition, availability under the credit agreement described above would not be impacted should a downgrade in the senior unsecured debt credit ratings occur.

Cash Flows

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

(In millions)	Years Ended December 31,		
	2014	2013	2012
Net cash provided by operating activities	\$485.1	\$484.1	\$316.6
Net cash used in investing activities	\$(376.0)	) \$(257.8)	) \$(297.8)
Net cash used in financing activities	\$(102.9)	) \$(226.8)	) \$(35.7)
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 and proceeds from vehicle floorplan payable-trade. Our primary uses of cash from operating activities are repayments of vehicle floorplan payable-trade, personnel-related expenditures, and payments related to taxes and leased properties.

2014 compared to 2013

Net cash provided by operating activities was relatively flat during 2014, as compared to 2013, and was impacted by an increase in working capital and higher earnings.

During 2014, we paid \$7.2 million in connection with refinancing our indebtedness. Cash flows from operating activities reflect \$1.2 million of these cash payments that we charged to expense related to this refinancing transaction. In addition, we charged to expense \$0.4 million of previously deferred debt issuance costs. Cash flows from financing activities, discussed below, reflect \$6.0 million of debt issuance costs that are being amortized to interest expense over the term of our credit agreement.

2013 compared to 2012

Net cash provided by operating activities increased during 2013, as compared to 2012, primarily due to a decrease in working capital requirements and an increase in earnings.

Cash Flows from Investing Activities

Net cash flows from investing activities consist primarily of cash used in capital additions, activity from business acquisitions, business divestitures, property dispositions, purchases and sales of investments, and other transactions. We will make facility and infrastructure upgrades and improvements from time to time as we identify projects that are required to maintain our current business or that we expect to provide us with acceptable rates of return. Excluding land

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purchased for future sites and lease buy-outs, and net of related asset sales, we project that 2015 capital expenditures, including accrued construction in progress, will be approximately \$235 million.

2014 compared to 2013

Net cash used in investing activities increased during 2014, as compared to 2013, primarily due to an increase in cash used in business acquisitions, net of cash acquired, an increase in property and equipment purchases, and a decrease in proceeds from the disposal of assets held for sale, partially offset by a decrease in property operating lease buy-outs and an increase in cash received from business divestitures, net of cash relinquished.

2013 compared to 2012

Net cash used in investing activities decreased during 2013 as compared to 2012, primarily due to a decrease in cash used in business acquisitions.

Cash Flows from Financing Activities

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

2014 compared to 2013

Under our share repurchase program authorized by our Board of Directors, during 2014, we repurchased 9.4 million shares of common stock for an aggregate purchase price of \$485.1 million (average purchase price per share of \$51.59). Additionally, 46,752 shares were surrendered to AutoNation in 2014 to satisfy tax withholding obligations in connection with the vesting of restricted stock. During 2013, we repurchased 1.1 million shares of our common stock for an aggregate purchase price of \$53.5 million (average purchase price per share of \$47.37). Additionally, 44,738 shares were surrendered to AutoNation in 2013 to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During 2014, we amended and restated our existing unsecured credit agreement and replaced our \$500.0 million term loan facility and \$1.2 billion revolving credit facility with a \$1.8 billion revolving credit facility. The indebtedness outstanding under the prior credit agreement was paid off with proceeds from our amended credit agreement. We also paid \$6.0 million in connection with refinancing our indebtedness. These debt issuance costs are reflected in cash flows from financing activities and will be amortized to interest expense over the term of our credit agreement.

During 2014, we borrowed \$2.8 billion and repaid \$2.0 billion under our revolving credit facilities, for net borrowings of \$810.0 million. During 2013, we borrowed \$0.8 billion and repaid \$1.1 billion under our revolving credit facilities, for net repayments of \$240.0 million.

We made payments of capital lease and other debt obligations of \$24.7 million during 2014 and \$26.2 million during 2013.

Cash flows from financing activities include changes in vehicle floorplan payable-non-trade (vehicle floorplan payables with lenders other than the automotive manufacturers' captive finance subsidiaries for that franchise) totaling net proceeds of \$61.6 million during 2014 compared to net proceeds of \$89.0 million in 2013.

During 2014, cash flows from financing activities were also impacted by an increase in proceeds from the exercise of stock options as compared to 2013.

2013 compared to 2012

Net cash used in financing activities increased during 2013, as compared to 2012, primarily due to the net impact of the debt activity that occurred in 2012, described below, as well as an increase in net repayments under our revolving credit facility, partially offset by a decrease in repurchases of common stock.

On February 1, 2012, we issued \$350.0 million aggregate principal amount of 5.5% Senior Notes due 2020. See "Long-Term Debt - Senior Unsecured Notes" above for additional information regarding our 5.5% Senior Notes due 2020. Cash flows from financing activities in 2012 reflect cash payments of \$6.0 million for debt issuance costs that are being amortized to expense over the term of the related debt.

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On April 16, 2012, we redeemed all of our outstanding 7% Senior Notes due 2014 at 100% of principal, for which we paid \$14.7 million.

Contractual Payment Obligations

The following table summarizes our payment obligations under certain contracts at December 31, 2014. The amounts presented are based upon, among other things, the terms of any relevant agreements. Future events, including acquisitions, divestitures, new or revised operating lease agreements, borrowings or repayments under our credit agreement, and purchases or refinancing of our securities could cause actual payments to differ significantly from these amounts.

(In millions)	Payments Due by Period				
	Total	Less Than 1 Year (2015)	1 - 3 Years (2016 and 2017)	3 - 5 Years (2018 and 2019)	More Than 5 Years (2020 and thereafter)
Vehicle floorplan payable (Note 3) ⁽¹⁾	\$3,097.2	\$3,097.2	\$—	\$—	\$—
Long-term debt, including capital leases (Note 7) ⁽¹⁾⁽²⁾	2,128.4	25.0	187.7	1,551.1	364.6
Interest payments ⁽³⁾	254.2	61.7	118.4	58.3	15.8
Operating lease and other commitments (Note 8) ⁽¹⁾⁽⁴⁾	412.9	43.2	78.9	65.4	225.4
Unrecognized tax benefits, net (Note 11) ⁽¹⁾	6.6	—	2.4	—	4.2
Deferred compensation obligations ⁽⁵⁾	63.4	1.9	—	—	61.5
Estimated chargeback liability (Note 19) ⁽¹⁾⁽⁶⁾	84.9	47.7	33.4	3.7	0.1
Estimated self insurance obligations (Note 6) ⁽¹⁾⁽⁷⁾	71.4	24.9	24.0	11.1	11.4
Purchase obligations ⁽⁸⁾	199.1	152.2	45.9	0.3	0.7
Total	\$6,318.1	\$3,453.8	\$490.7	\$1,689.9	\$683.7

⁽¹⁾ See Notes to Consolidated Financial Statements.

⁽²⁾ Amounts for long-term debt obligations exclude \$2.9 million of unamortized debt discount related to our 6.75% Senior Notes due 2018.

Primarily represents scheduled fixed interest payments on our outstanding senior unsecured notes, mortgage

⁽³⁾ facility, and capital leases. Estimates of future interest payments for vehicle floorplan payables and other variable rate debt are excluded.

⁽⁴⁾ Amounts for operating lease commitments do not include certain operating expenses such as maintenance, insurance, and real estate taxes. In 2014, these charges totaled approximately \$24 million.

⁽⁵⁾ Due to uncertainty regarding timing of payments expected beyond one year, long-term obligations for deferred compensation arrangements have been classified in the "More Than 5 Years" column.

⁽⁶⁾ Our estimated chargeback obligations do not have scheduled maturities, however, the timing of future payments is estimated based on historical patterns.

⁽⁷⁾ Our estimated self insurance obligations are based on management estimates and actuarial calculations. Although these obligations do not have scheduled maturities, the timing of future payments is estimated based on historical patterns.

⁽⁸⁾ Primarily represents purchase orders and contracts in connection with information technology and communication systems, as well as real estate construction projects and acquisition-related commitments.

We expect that the amounts above will be funded through cash flows from operations or borrowings under our credit agreement. In the case of payments due upon the maturity of our debt instruments, we currently expect to be able to refinance such instruments in the normal course of business.

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. At December 31, 2014, surety bonds, letters of credit, and cash

deposits totaled \$93.7 million, of which \$45.6 million represented letters of credit. We do not currently provide cash

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collateral for outstanding letters of credit. We have negotiated a letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under this revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit.

As further discussed in Note 11 of the Notes to Consolidated Financial Statements, there are various tax matters where the ultimate resolution may result in us owing additional tax payments.

Off-Balance Sheet Arrangements

As of December 31, 2014, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

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 Annual Report on Form 10-K, including without limitation statements regarding our strategic initiatives and 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. These forward-looking statements speak only as of the date of this report, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.

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.

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

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.

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

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.

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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 term loan facility that could have a material adverse effect on our profitability.

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

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.

Additional Information

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

• AutoNation's Twitter feed (www.twitter.com/autonation)

• Mike Jackson's Twitter feed (www.twitter.com/CEOMikeJackson)

• AutoNation's Facebook page (www.facebook.com/autonation)

• Mike Jackson's Facebook page (www.facebook.com/CEOMikeJackson)

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our primary market risk exposure is increasing 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 \$3.1 billion of variable rate vehicle floorplan payable at December 31, 2014, and \$3.0 billion at December 31, 2013. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change of \$31.0 million in 2014 and \$30.3 million in 2013 to our annual floorplan interest expense. Our exposure to changes in

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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 \$1.1 billion of other variable rate debt outstanding at December 31, 2014 and \$0.8 billion at December 31, 2013. Based on the amounts outstanding at year-end, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of \$11.1 million in 2014 and \$8.0 million in 2013.

Our fixed rate debt, consisting of amounts outstanding under senior unsecured notes, mortgages, and capital lease and other debt obligations, totaled \$1.0 billion and had a fair value of \$1.1 billion as of December 31, 2014, and totaled \$1.0 billion and had a fair value of \$1.1 billion as of December 31, 2013.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AutoNation, Inc.:

We have audited the accompanying consolidated balance sheets of AutoNation, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AutoNation, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AutoNation, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 11, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

February 11, 2015

Fort Lauderdale, Florida

Certified Public Accountants

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AutoNation, Inc.:

We have audited AutoNation, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AutoNation, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on AutoNation, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AutoNation, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AutoNation, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 11, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

February 11, 2015

Fort Lauderdale, Florida

Certified Public Accountants

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AUTONATION, INC.
 CONSOLIDATED BALANCE SHEETS
 As of December 31,
 (In millions, except share and per share data)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$75.4	\$69.2
Receivables, net	817.8	740.9
Inventory	2,899.0	2,827.2
Other current assets	207.0	192.7
Total Current Assets	3,999.2	3,830.0
PROPERTY AND EQUIPMENT, NET	2,422.0	2,235.3
GOODWILL, NET	1,314.7	1,259.6
OTHER INTANGIBLE ASSETS, NET	354.7	335.1
OTHER ASSETS	309.1	254.1
Total Assets	\$8,399.7	\$7,914.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable - trade	\$2,090.7	\$2,130.1
Vehicle floorplan payable - non-trade	1,006.5	898.9
Accounts payable	264.7	263.0
Current maturities of long-term debt	25.0	30.1
Other current liabilities	495.1	429.7
Total Current Liabilities	3,882.0	3,751.8
LONG-TERM DEBT, NET OF CURRENT MATURITIES	2,103.4	1,809.8
DEFERRED INCOME TAXES	137.9	116.5
OTHER LIABILITIES	204.3	174.3
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$0.01 per share; 5,000,000 shares authorized; none issued—		—
Common stock, par value \$0.01 per share; 1,500,000,000 shares authorized; 163,562,149 shares issued at December 31, 2014 and 2013, including shares held in 1.6 treasury		1.6
Additional paid-in capital	61.8	42.8
Retained earnings	3,756.6	3,337.9
Treasury stock, at cost; 50,248,909 and 42,646,753 shares held, respectively	(1,747.9	) (1,320.6
Total Shareholders' Equity	2,072.1	2,061.7
Total Liabilities and Shareholders' Equity	\$8,399.7	\$7,914.1

See accompanying Notes to Consolidated Financial Statements.

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AUTONATION, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31,
(In millions, except per share data)

	2014	2013	2012
Revenue:			
New vehicle	\$10,972.2	\$9,949.6	\$8,906.2
Used vehicle	4,385.7	4,127.4	3,714.3
Parts and service	2,822.5	2,597.4	2,399.2
Finance and insurance, net	750.8	674.0	571.2
Other	177.6	169.2	76.6
TOTAL REVENUE	19,108.8	17,517.6	15,667.5
Cost of Sales:			
New vehicle	10,322.1	9,333.2	8,326.7
Used vehicle	4,025.1	3,797.7	3,415.1
Parts and service	1,625.9	1,491.6	1,391.2
Other	147.0	135.2	48.3
TOTAL COST OF SALES (excluding depreciation shown below)	16,120.1	14,757.7	13,181.3
Gross Profit:			
New vehicle	650.1	616.4	579.5
Used vehicle	360.6	329.7	299.2
Parts and service	1,196.6	1,105.8	1,008.0
Finance and insurance	750.8	674.0	571.2
Other	30.6	34.0	28.3
TOTAL GROSS PROFIT	2,988.7	2,759.9	2,486.2
Selling, general, and administrative expenses	2,079.6	1,935.0	1,749.3
Depreciation and amortization	106.9	95.3	87.3
Franchise rights impairment	—	—	4.2
Other expenses (income), net	(18.6)	) (10.7)	) 0.1
OPERATING INCOME	820.8	740.3	645.3
Non-operating income (expense) items:			
Floorplan interest expense	(53.3)	) (53.4)	) (45.5)
Other interest expense	(86.7)	) (88.3)	) (86.9)
Loss on debt extinguishment	(1.6)) —) —
Interest income	0.2	0.2	0.3
Other income, net	2.9	5.6	3.6
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	682.3	604.4	516.8
Income tax provision	262.5	228.6	199.5
NET INCOME FROM CONTINUING OPERATIONS	419.8	375.8	317.3
Loss from discontinued operations, net of income taxes	(1.1)	) (0.9)	) (0.9)
NET INCOME	\$418.7	\$374.9	\$316.4
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	\$3.58	\$3.10	\$2.56
Discontinued operations	\$(0.01)	) \$(0.01)	) \$(0.01)
Net income	\$3.57	\$3.09	\$2.56
Weighted average common shares outstanding	117.3	121.3	123.8
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	\$3.53	\$3.05	\$2.52

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Discontinued operations	\$ (0.01)	\$ (0.01)	\$ (0.01)
Net income	\$ 3.52		\$ 3.04		\$ 2.52	
Weighted average common shares outstanding	118.9		123.3		125.8	
COMMON SHARES OUTSTANDING, net of treasury stock, at period end	113.3		120.9		120.9	

See accompanying Notes to Consolidated Financial Statements.

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AUTONATION, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2014, 2013, and 2012

(In millions, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2011	163,562,149	\$1.6	\$19.6	\$2,646.6	\$(773.2)	\$1,894.6
Net income	—	—	—	316.4	—	316.4
Repurchases of common stock	—	—	—	—	(582.3)	(582.3)
Stock-based compensation expense	—	—	18.6	—	—	18.6
Shares awarded under stock-based compensation plans, including excess income tax benefit of \$10.6	—	—	(11.6)	—	52.8	41.2
BALANCE AT DECEMBER 31, 2012	163,562,149	\$1.6	\$26.6	\$2,963.0	\$(1,302.7)	\$1,688.5
Net income	—	—	—	374.9	—	374.9
Repurchases of common stock	—	—	—	—	(55.7)	(55.7)
Stock-based compensation expense	—	—	21.3	—	—	21.3
Shares awarded under stock-based compensation plans, including excess income tax benefit of \$10.0	—	—	(5.1)	—	37.8	32.7
BALANCE AT DECEMBER 31, 2013	163,562,149	\$1.6	\$42.8	\$3,337.9	\$(1,320.6)	\$2,061.7
Net income	—	—	—	418.7	—	418.7
Repurchases of common stock	—	—	—	—	(487.7)	(487.7)
Stock-based compensation expense	—	—	26.3	—	—	26.3
Shares awarded under stock-based compensation plans, including excess income tax benefit of \$18.0	—	—	(7.3)	—	60.4	53.1
BALANCE AT DECEMBER 31, 2014	163,562,149	\$1.6	\$61.8	\$3,756.6	\$(1,747.9)	\$2,072.1

See accompanying Notes to Consolidated Financial Statements.

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AUTONATION, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Years Ended December 31,
 (In millions)

	2014	2013	2012	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Net income	\$418.7	\$374.9	\$316.4	
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss from discontinued operations	1.1	0.9	0.9	
Depreciation and amortization	106.9	95.3	87.3	
Amortization of debt issuance costs and accretion of debt discounts	5.7	5.7	5.6	
Stock-based compensation expense	26.3	21.3	18.6	
Franchise rights impairment	—	—	4.2	
Non-cash impairment charges	1.1	0.7	0.8	
Write-off of deferred debt issuance costs	0.4	—	—	
Net gain on asset sales and dispositions	(13.8	) (9.8	) (0.3)
Deferred income tax provision	9.5	9.9	26.8	
Excess tax benefit from stock-based awards	(18.0	) (10.0	) (10.6)
Other	(2.0	) (6.8	) (4.0)
(Increase) decrease, net of effects from business combinations and divestitures:				
Receivables	(80.3	) (46.3	) (112.0)
Inventory	(27.3	) (400.1	) (474.7)
Other assets	(41.1	) (21.5	) (35.8)
Increase (decrease), net of effects from business combinations and divestitures:				
Vehicle floorplan payable-trade, net	(27.2	) 364.2	404.0	
Accounts payable	7.5	36.7	30.4	
Other liabilities	118.7	63.8	60.0	
Net cash provided by continuing operations	486.2	478.9	317.6	
Net cash provided by (used in) discontinued operations	(1.1	) 5.2	(1.0)
Net cash provided by operating activities	485.1	484.1	316.6	
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:				
Purchases of property and equipment	(209.2	) (160.8	) (160.6)
Property operating lease buy-outs	(0.4	) (41.9	) (16.8)
Proceeds from the sale of property and equipment	5.5	3.1	0.6	
Proceeds from the disposal of assets held for sale	2.6	22.7	15.3	
Insurance recoveries on property and equipment	—	2.5	1.0	
Cash used in business acquisitions, net of cash acquired	(205.2	) (87.9	) (141.6)
Cash received from business divestitures, net of cash relinquished	41.4	10.1	6.8	
Proceeds from the sales of restricted investments	0.5	—	0.4	
Other	(11.2	) (5.6	) (2.9)
Net cash used in continuing operations	(376.0	) (257.8	) (297.8)
Net cash used in discontinued operations	—	—	—	
Net cash used in investing activities	(376.0) (257.8) (297.8)

See accompanying Notes to Consolidated Financial Statements.

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AUTONATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31,
(In millions)
(Continued)

	2014	2013	2012
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Repurchases of common stock	(487.7	) (67.3	) (575.6
Proceeds from 5.5% Senior Notes due 2020	—	—	350.0
Payment of term loan facility	(500.0) —	—
Payment of 7% Senior Notes due 2014	—	—	(14.7
Proceeds from revolving credit facilities	2,780.0	815.0	1,280.0
Payments of revolving credit facilities	(1,970.0	) (1,055.0	) (1,235.0
Payment of debt issuance costs	(6.0	) —	(6.0
Net proceeds from vehicle floorplan payable - non-trade	61.6	89.0	138.1
Payments of mortgage facilities	(9.2	) (8.7	) (8.1
Payments of capital lease and other debt obligations	(24.7	) (26.2	) (5.0
Proceeds from the exercise of stock options	35.1	22.7	30.6
Excess tax benefit from stock-based awards	18.0	10.0	10.6
Net cash used in continuing operations	(102.9	) (220.5	) (35.1
Net cash used in discontinued operations	—	(6.3	) (0.6
Net cash used in financing activities	(102.9	) (226.8	) (35.7
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6.2	(0.5	) (16.9
CASH AND CASH EQUIVALENTS at beginning of period	69.2	69.7	86.6
CASH AND CASH EQUIVALENTS at end of period	\$75.4	\$69.2	\$69.7

See accompanying Notes to Consolidated Financial Statements.

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AUTONATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tables in millions, except per share data)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of December 31, 2014, we owned and operated 276 new vehicle franchises from 232 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 34 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 95% of the new vehicles that we sold in 2014, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, Chrysler, BMW, and Volkswagen.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service,” which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products, which include vehicle service 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.

Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of AutoNation, Inc. and its subsidiaries. All of our automotive dealership subsidiaries are indirectly wholly owned by the parent company, AutoNation, Inc. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates

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 Consolidated Financial Statements include certain assumptions related to goodwill, intangible assets, long-lived assets, and 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.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less as of the date of purchase to be cash equivalents unless the investments are legally or contractually restricted for more than three months. Under our cash management system, outstanding checks that are in excess of the cash balances at certain banks are included in Accounts Payable in the Consolidated Balance Sheets and changes in these amounts are reflected in operating cash flows in the accompanying Consolidated Statements of Cash Flows.

Inventory

Inventory consists primarily of new and used vehicles held for sale, valued at the lower of cost or market using the specific identification method. Cost includes acquisition, reconditioning, dealer installed accessories, and transportation expenses. Additionally, we receive floorplan interest assistance from certain manufacturers. This assistance is reflected as a reduction to the inventory cost and as a reduction to cost of sales as the vehicles are sold. At December 31, 2014 and 2013,

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inventory cost had been reduced by \$17.9 million and \$19.7 million, respectively, for interest assistance received from manufacturers. Parts, accessories, and other inventory are valued at the lower of acquisition cost (first-in, first-out) or market. See Note 3 of the Notes to Consolidated Financial Statements for more detailed information about our inventory.

Property and Equipment, net

Property and equipment are recorded at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance, and repairs are charged to expense as incurred. In addition, we capitalize interest on borrowings during the active construction period of capital projects. Capitalized interest is added to the cost of the assets and depreciated over the estimated useful lives of the assets. Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability and included in current and/or long-term debt based on the lease term. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in Other Expenses (Income), Net in the Consolidated Statements of Income. See Note 4 of the Notes to Consolidated Financial Statements for detailed information about our property and equipment.

Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method.

Leasehold improvements and capitalized lease assets are amortized to depreciation expense over the estimated useful life of the asset or the respective lease term used in determining lease classification, whichever is shorter. The range of estimated useful lives is as follows:

Buildings and improvements 5 to 40 years

Furniture, fixtures, and equipment 3 to 12 years

We continually evaluate property and equipment, including leasehold improvements, to determine whether events or changes in circumstances have occurred that may warrant revision of the estimated useful life or whether the remaining balance should be evaluated for possible impairment. We use an estimate of the related undiscounted cash flows over the remaining life of the property and equipment in assessing whether an asset has been impaired. We measure impairment losses based upon the amount by which the carrying amount of the asset exceeds the fair value. See Note 17 of the Notes to Consolidated Financial Statements for information about our fair value measurements. During 2014, there were no significant impairment charges recorded for the carrying value of long-lived assets held and used in continuing operations. During 2013, we fully impaired certain long-lived assets held and used in continuing operations and recorded a non-cash impairment charge of \$0.7 million. This charge is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the “Corporate and other” category of our segment information.

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. Assets held for sale in both continuing operations and discontinued operations are reported in the “Corporate and other” category of our segment information.

We had assets held for sale of \$64.7 million at December 31, 2014, and \$59.8 million at December 31, 2013, included in continuing operations. We recorded an impairment charge of \$1.1 million in 2014 associated with assets held for sale in continuing operations. This charge is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the “Corporate and other” category of our segment information. We recorded no impairment charges in 2013 associated with assets held for sale in continuing operations.

We had assets held for sale of \$23.2 million at December 31, 2014, and \$34.5 million at December 31, 2013, included in discontinued operations. During 2014 and 2013, there were no significant impairment charges associated with assets held for sale in discontinued operations.

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During 2013, we recognized a gain of \$8.1 million (\$5.0 million after-tax) related to the sale of a continuing operations held for sale property. This gain is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the “Corporate and other” category of our segment information. Goodwill and Other Intangible Assets, net

Goodwill consists of the cost of acquired businesses in excess of the fair value of the net assets acquired. Additionally, other intangible assets are separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of our intent to do so.

Our principal identifiable intangible assets are rights under franchise agreements with vehicle manufacturers. We generally expect our franchise agreements to survive for the foreseeable future and, when the agreements do not have indefinite terms, anticipate routine renewals of the agreements without substantial cost. The contractual terms of our franchise agreements provide for various durations, ranging from one year to no expiration date, and in certain cases, manufacturers have undertaken to renew such franchises upon expiration so long as the dealership is in compliance with the terms of the agreement. However, in general, the states in which we operate have automotive dealership franchise laws that provide that, notwithstanding the terms of any franchise agreement, it is unlawful for a manufacturer to terminate or not renew a franchise unless “good cause” exists. It is generally difficult, outside of bankruptcy, for a manufacturer to terminate or not renew a franchise under these franchise laws, which were designed to protect dealers. In addition, in our experience and historically in the automotive retail industry, dealership franchise agreements are rarely involuntarily terminated or not renewed by the manufacturer outside of bankruptcy.

Accordingly, we believe that our franchise agreements will contribute to cash flows for the foreseeable future and have indefinite lives. Other intangible assets are amortized using a straight-line method over their useful lives, generally ranging from three to twenty-nine years.

We do not amortize goodwill or franchise rights assets. Goodwill and franchise rights are tested for impairment annually or more frequently when events or changes in circumstances indicate that impairment may have occurred. We completed our annual impairment tests for both goodwill and franchise rights as of April 30, 2014. Based on our qualitative assessment of potential goodwill impairment, we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts and we recorded no goodwill impairment charges during 2014. Based on our qualitative assessment of potential franchise rights impairment, we determined that we should perform a quantitative test for franchise rights related to one store, and no impairment charges resulted from this quantitative test. For the remainder of our franchise rights, we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts based on our qualitative assessment and we were therefore not required to perform a quantitative test.

We completed our qualitative annual impairment tests for both goodwill and franchise rights as of April 30, 2013, and determined that we were not required to perform quantitative tests.

We completed our annual impairment tests for both goodwill and franchise rights as of April 30, 2012. Based on our qualitative assessment of potential goodwill impairment, we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts and we recorded no goodwill impairment charges during 2012. We recorded \$4.2 million (\$2.6 million after-tax) of non-cash impairment charges related to rights under a Premium Luxury store’s franchise agreement as a result of the annual franchise impairment test during 2012. The non-cash impairment charge was recorded to reduce the carrying value of the store’s franchise agreement to its estimated fair value, and is classified as Franchise Rights Impairment in the accompanying Consolidated Statements of Income.

See Note 5 of the Notes to Consolidated Financial Statements for more information about our goodwill and other intangible assets.

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Other Current Assets

Other current assets consist of various items, including, among other items, property and equipment held for sale in continuing operations and discontinued operations, current deferred tax assets, and prepaid expenses.

Other Assets

Other assets consist of various items, including, among other items, service loaner and rental vehicle inventory, net, the cash surrender value of corporate-owned life insurance held in a Rabbi Trust for deferred compensation plan participants, and the long-term portions of notes receivable and debt issuance costs. Debt issuance costs are amortized to Other Interest Expense in the accompanying Consolidated Statements of Income.

Other Current Liabilities

Other current liabilities consist of various items payable within one year including, among other items, accruals for payroll and benefits, sales taxes, the current portions of finance and insurance chargeback liabilities and self-insurance reserves, customer deposits, deferred revenue, and accrued expenses.

Other Liabilities

Other liabilities consist of various items payable beyond one year including, among other items, the long-term portions of deferred compensation obligations, finance and insurance chargeback liabilities, and self-insurance reserves.

Employee Savings Plans

We offer a 401(k) plan to all of our employees and provide a matching contribution to certain employees that participate in the plan. We provided a matching contribution of \$5.9 million in 2014, \$5.2 million in 2013, and \$3.5 million in 2012. Employer matching contributions are subject to a 3-year graded vesting period for employees hired subsequent to January 1, 2011, and are fully vested immediately upon contribution for employees hired prior to January 1, 2011.

We offer a deferred compensation plan (the "Plan") to provide certain employees and non-employee directors with the opportunity to accumulate assets for retirement on a tax-deferred basis. Participants in the Plan are allowed to defer a portion of their compensation and are fully vested in their respective deferrals and earnings. Participants may choose from a variety of investment options, which determine their earnings credits. We provided a matching contribution to employee participants in the Plan of \$0.6 million for 2014, \$0.5 million for 2013, and \$0.5 million in 2012. One-third of the matching contribution is vested and credited to participants on the first business day of the subsequent calendar year, and an additional one-third vests and is credited on each of the first and second anniversaries of such date. We may also make discretionary contributions, which vest three years after the effective date of the discretionary contribution. Participants eligible for a matching contribution under the Plan are not eligible for a matching contribution in our 401(k) plan. The balances due to participants in the Plan were \$63.4 million as of December 31, 2014, and \$51.7 million as of December 31, 2013, and are included in Other Current Liabilities and Other Liabilities in the accompanying Consolidated Balance Sheets.

Stock-Based Compensation

We grant stock-based awards in the form of stock options, restricted stock, and restricted stock units ("RSUs"). Stock options granted under all plans are non-qualified. Upon exercise, shares of common stock are issued from our treasury stock. We use the Black-Scholes valuation model to determine compensation expense associated with our stock options. Restricted stock awards, which are considered nonvested share awards as defined under generally accepted accounting principles, and RSUs are issued from our treasury stock. Compensation cost for restricted stock awards and RSUs is based on the closing price of our common stock on the date of grant. Certain of our equity-based compensation plans contain provisions that provide for vesting of awards upon retirement. Accordingly, compensation

cost for stock-based awards is recognized on a straight-line basis, net of estimated forfeitures, over the shorter of the stated vesting period or the period

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until employees become retirement-eligible. See Note 10 of the Notes to Consolidated Financial Statements for more information about our stock-based compensation arrangements.

Revenue Recognition

Revenue consists of the sales of new and used vehicles, sales of parts and automotive services, commissions from finance and insurance products, and sales of other products. We recognize revenue (which excludes sales taxes) in the period in which products are sold or services are provided. The automotive services we provide include, but are not limited to, customer-paid repairs and maintenance, as well as repairs and maintenance under manufacturer warranties and extended service contracts. We recognize vehicle and finance and insurance revenue when a sales contract has been executed, the vehicle has been delivered, and payment has been received or financing has been arranged.

Revenue on finance and insurance products represents commissions earned by us for: (i) loans and leases placed with financial institutions in connection with customer vehicle purchases financed, (ii) vehicle service contracts sold, and (iii) other protection products sold.

We sell and receive a commission, which is recognized upon sale, on the following types of 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. The products we offer include 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, we may sell the product, recognize commission, and participate in future profit pursuant to retrospective commission arrangements, which is recognized as earned. Certain commissions earned from the sales of finance and insurance products are subject to chargeback should the contracts be terminated prior to their expirations. An estimated liability for chargebacks against revenue recognized from sales of finance and insurance products is recorded in the period in which the related revenue is recognized. Our estimated liability for chargebacks is based primarily on our historical chargeback experience, and is influenced by the volume of vehicle sales in recent years and increases or decreases in early termination rates resulting from cancellation of vehicle service contracts and other protection products, defaults, refinancings and payoffs before maturity, and other factors. Chargeback liabilities were \$84.9 million at December 31, 2014, and \$67.6 million at December 31, 2013. See Note 19 of the Notes to Consolidated Financial Statements for more information regarding chargeback liabilities.

Insurance

Under our self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles, and claims-handling expenses as part of our various insurance programs, including property and casualty, employee medical benefits, automobile, and workers’ compensation. Costs in excess of this retained risk per claim may be insured under various contracts with third-party insurance carriers. We review our claim and loss history on a periodic basis to assist in assessing our future liability. The ultimate costs of these retained insurance risks are estimated by management and by third-party actuarial evaluation of historical claims experience, adjusted for current trends and changes in claims-handling procedures. See Note 6 of the Notes to Consolidated Financial Statements for more information on our self-insurance reserves.

Manufacturer Incentives and Other Rebates

We receive various incentives from manufacturers based on achieving certain objectives, such as specified sales volume targets, as well as other objectives, including maintaining standards of a particular vehicle brand, which may include but are not limited to facility image and design requirements, customer satisfaction survey results, and training standards, among others. These incentives are typically based upon units purchased or sold. These manufacturer

incentives are recognized as a reduction of new vehicle cost of sales when earned, generally at the time the related vehicles are sold or upon attainment of the particular program goals, whichever is later.

We also receive manufacturer rebates and assistance for holdbacks, floorplan interest, and non-reimbursement-based advertising expenses (described below), which are reflected as a reduction in the carrying value of each vehicle purchased by us. We recognize holdbacks, floorplan interest assistance, non-reimbursement-based advertising rebates, cash

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incentives, and other rebates received from manufacturers that are tied to specific vehicles as a reduction to cost of sales as the related vehicles are sold.

Advertising

We generally expense the cost of advertising as incurred, net of earned manufacturer reimbursements for specific advertising costs and other discounts. Advertising expense, net of manufacturer advertising reimbursements, was \$164.9 million in 2014, \$166.4 million in 2013, and \$135.7 million in 2012, and is reflected as a component of Selling, General, and Administrative Expenses in the accompanying Consolidated Statements of Income.

Manufacturer advertising rebates that are reimbursements of costs associated with specific advertising expenses are earned in accordance with the respective manufacturers' reimbursement-based advertising assistance programs, which is typically after we have incurred the corresponding advertising expenses, and are reflected as a reduction of advertising expense. Manufacturer advertising reimbursements classified as an offset to advertising expenses were \$47.1 million in 2014, \$42.4 million in 2013, and \$38.3 million in 2012. All other non-reimbursement-based manufacturer advertising rebates that are not associated with specific advertising expenses are recorded as a reduction of inventory and recognized as a reduction of new vehicle cost of sales in the period the related vehicle is sold.

Parts and Service Internal Profit

Our parts and service departments provide reconditioning repair work for the majority of used vehicles acquired by our used vehicle departments and minor preparatory work for new vehicles acquired by our new vehicle departments. The parts and service departments charge the new and used vehicle departments as if they were third parties in order to account for total activity performed by that department. Revenues and costs of sales associated with the internal work performed by our parts and service departments are reflected in our parts and service results in our Consolidated Statements of Income. New and used vehicle revenues and costs of sales are reduced by the amount of the intracompany charge. As a result, the revenues and costs of sales associated with the internal work performed by our parts and service departments are eliminated in consolidation. We also maintain a reserve for internal profit on vehicles that have not been sold.

Income Taxes

We file a consolidated federal income tax return. Deferred income taxes have been provided for temporary differences between the recognition of revenue and expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities and their reported amounts in the financial statements. See Note 11 of the Notes to Consolidated Financial Statements for more detailed information related to income taxes.

Taxes Assessed by Governmental Authorities

Taxes assessed by governmental authorities that are directly imposed on revenue transactions are excluded from revenue in our Consolidated Financial Statements.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period, including outstanding unvested restricted stock awards which contain rights to non-forfeitable dividends and vested restricted stock unit awards. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding, noted above, adjusted for the dilutive effect of stock options. See Note 12 of the Notes to Consolidated Financial Statements for more information on the computation of earnings (loss) per share.

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Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“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 are effective for interim and annual reporting periods beginning after December 15, 2016, and should 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 retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures). Early adoption is not permitted. We are currently evaluating the method of adoption and the impact of the provisions of the accounting standard update.

Reporting Discontinued Operations

In April 2014, the FASB issued an accounting standard update that changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The amendments in this accounting standard update should be applied prospectively and are effective for annual periods, and interim periods within those years, beginning on or after December 15, 2014. Early adoption is permitted for disposals that have not been reported in financial statements previously issued. We adopted this accounting standard update effective January 1, 2014. During 2014, we divested our customer lead distribution business and two Import stores. See Note 13 of the Notes to Consolidated Financial Statements for more information.

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

In July 2013, the FASB issued an accounting standard update to reduce the diversity in practice regarding the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this accounting standard update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this accounting standard update did not have a material impact on our consolidated financial position, results of operations, or cash flows.

2. RECEIVABLES, NET

The components of receivables, net of allowance for doubtful accounts, at December 31 are as follows:

	2014	2013
Trade receivables	\$125.0	\$110.9
Manufacturer receivables	198.3	172.9
Other	37.9	36.9
	361.2	320.7
Less: Allowances	(3.7)	) (4.0
	357.5	316.7
Contracts-in-transit and vehicle receivables	460.3	424.2
Receivables, net	\$817.8	\$740.9

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

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Manufacturer receivables represent receivables from manufacturers including amounts due for holdbacks, rebates, incentives, floorplan assistance, and warranty claims. Contracts-in-transit and vehicle receivables primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers.

We evaluate our receivables for collectability based on the age of receivables and past collection experience.

3. INVENTORY AND VEHICLE FLOORPLAN PAYABLE

The components of inventory at December 31 are as follows:

	2014	2013
New vehicles	\$2,294.3	\$2,330.8
Used vehicles	437.6	346.5
Parts, accessories, and other	167.1	149.9
Inventory	\$2,899.0	\$2,827.2

The components of vehicle floorplan payables at December 31 are as follows:

	2014	2013
Vehicle floorplan payable - trade	\$2,090.7	\$2,130.1
Vehicle floorplan payable - non-trade	1,006.5	898.9
Vehicle floorplan payable	\$3,097.2	\$3,029.0

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

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

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

Our used vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 1.7% during 2014 and 1.8% during 2013. At December 31, 2014, the aggregate capacity under our floorplan credit agreements with various lenders to finance a portion of our used vehicle inventory was \$315.0 million, of which \$236.0 million had been borrowed. The remaining borrowing capacity of \$79.0 million was limited to \$50.2 million based on the eligible used vehicle inventory that could have been pledged as collateral.

Our new vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 1.8% during 2014 and 1.9% during 2013. At December 31, 2014, the aggregate capacity under our floorplan credit agreements with various

lenders to finance our new vehicle inventory was approximately \$3.6 billion, of which \$2.9 billion had been borrowed.

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4. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment, net, at December 31 is as follows:

	2014	2013
Land	\$1,090.4	\$997.1
Buildings and improvements	1,683.4	1,552.6
Furniture, fixtures, and equipment	578.7	569.3
	3,352.5	3,119.0
Less: accumulated depreciation and amortization	(930.5)	) (883.7)
Property and equipment, net	\$2,422.0	\$2,235.3

We capitalized interest in connection with various construction projects to upgrade or remodel our facilities of \$1.2 million in 2014, \$0.7 million in 2013, and \$0.6 million in 2012.

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets, net, at December 31 consist of the following:

	2014	2013
Goodwill	\$1,314.7	\$1,259.6
Franchise rights - indefinite-lived	\$348.1	\$329.3
Other intangible assets	12.6	11.1
	360.7	340.4
Less: accumulated amortization	(6.0)	) (5.3)
Intangible assets, net	\$354.7	\$335.1

Goodwill

We test goodwill of our Domestic, Import, and Premium Luxury reporting units for impairment annually on April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value.

Under accounting standards, an entity is permitted to first make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to calculate the fair value of a reporting unit under the quantitative two-step goodwill impairment test. We completed qualitative annual assessments of any potential goodwill impairment as of April 30, 2014, 2013, and 2012. Based on our qualitative assessments, we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts and we were therefore not required to perform the two-step goodwill impairment test for any of our reporting units.

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Goodwill allocated to our reporting units and changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013 were as follows:

	Domestic	Import	Premium Luxury	Corporate and other	Consolidated
Goodwill at January 1, 2013 ⁽¹⁾	\$ 165.2	\$ 534.2	\$ 538.0	\$—	\$ 1,237.4
Acquisitions, dispositions, and other adjustments	—	21.6	0.6	—	22.2
Goodwill at December 31, 2013 ⁽¹⁾	165.2	555.8	538.6	—	1,259.6
Acquisitions, dispositions, and other adjustments	9.9	(4.2)	49.4	—	55.1
Goodwill at December 31, 2014 ⁽¹⁾	\$ 175.1	\$ 551.6	\$ 588.0	\$—	\$ 1,314.7

⁽¹⁾ Net of accumulated impairment losses of \$1.47 billion (\$1.25 billion after-tax) associated with our single reporting unit (prior to September 30, 2008, our reporting unit structure was comprised of a single reporting unit) and \$140.0 million (\$119.0 million after-tax) associated with our Domestic reporting unit, both of which were recorded during the year ended December 31, 2008.

Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested at least annually on April 30 for impairment. Under accounting standards, an entity is permitted to first make a qualitative evaluation about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test.

We completed our qualitative assessment of any potential franchise rights impairment as of April 30, 2014. Based on our qualitative assessment of potential franchise rights impairment, we determined that we should perform a quantitative test for franchise rights related to one store, and no impairment charges resulted from this quantitative test. For the remainder of our franchise rights, we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts based on our qualitative assessment and we were therefore not required to perform a quantitative test.

As of December 31, 2014, we had \$348.1 million of franchise rights recorded on our Consolidated Balance Sheet, of which \$25.9 million was related to Domestic stores, \$122.8 million was related to Import stores, and \$199.4 million was related to Premium Luxury stores.

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

We performed a quantitative annual impairment test as of April 30, 2012, and we recorded a \$4.2 million (\$2.6 million after-tax) non-cash impairment charge related to rights under a Premium Luxury store's franchise agreement. This non-cash impairment charge was recorded to reduce the carrying value of the store's franchise agreement to its estimated fair value. The decline in the fair value of rights under this store's franchise agreement reflects the underperformance relative to expectations of this store since our acquisition of it, as well as our expectations for the store's future prospects. These factors resulted in a reduction in forecasted cash flows and growth rates used to estimate fair value. This non-cash impairment charge is classified as Franchise Rights Impairment in the accompanying Consolidated Statements of Income. See Note 17 of the Notes to Consolidated Financial Statements for more information about our fair value measurements.

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6. INSURANCE

At December 31, 2014 and 2013, current and long-term insurance reserves were included in Other Current Liabilities and Other Liabilities, respectively, in the Consolidated Balance Sheets as follows:

	2014	2013
Insurance reserves - current portion	\$24.9	\$24.1
Insurance reserves - long-term portion	46.5	42.2
Total insurance reserves	\$71.4	\$66.3

7. LONG-TERM DEBT

Long-term debt at December 31 consisted of the following:

	2014	2013
6.75% Senior Notes due 2018	\$397.1	\$396.3
5.5% Senior Notes due 2020	350.0	350.0
Term loan facility due 2016	—	500.0
Revolving credit facility due 2016	—	300.0
Revolving credit facility due 2019	1,110.0	—
Mortgage facility ⁽¹⁾	185.5	194.7
Capital leases and other debt	85.8	98.9
	2,128.4	1,839.9
Less: current maturities	(25.0)	(30.1)
Long-term debt, net of current maturities	\$2,103.4	\$1,809.8

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

At December 31, 2014, aggregate maturities of non-vehicle long-term debt were as follows:

Year Ending December 31:

2015	\$25.0
2016	12.8
2017	174.9
2018	399.7
2019	1,151.4
Thereafter	364.6
	\$2,128.4

Debt Refinancing Transaction

On December 3, 2014, we amended and restated our existing unsecured credit agreement (as amended and restated, our “credit agreement”). The credit agreement amendment, among other things, (1) replaced our \$500.0 million term loan facility and \$1.2 billion revolving credit facility under our prior credit agreement with a \$1.8 billion revolving credit facility, (2) provided lower commitment fees and loan margins as set forth in the credit agreement, (3) increased the maximum capitalization ratio from 65.0% to 70.0% and (4) extended the stated termination date to December 3, 2019. See

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“Senior Unsecured Notes and Credit Agreement” below for additional information regarding our credit agreement and “Restrictions and Covenants” for additional information regarding our financial covenants.

The indebtedness outstanding under the prior credit agreement was paid off with proceeds from the amended and restated credit agreement. We expensed \$1.6 million pre-tax in the fourth quarter of 2014, related to this transaction, including \$0.4 million for the write-off of certain unamortized debt issuance costs associated with the prior credit agreement.

Senior Unsecured Notes and Credit Agreement

At December 31, 2014, we had outstanding \$397.1 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 December 31, 2014, we had outstanding \$350.0 million aggregate principal amount of 5.5% Senior Notes due 2020. Interest is payable on February 1 and August 1 of each year. These notes will mature on February 1, 2020.

As described above under “Debt Refinancing Transaction,” 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 December 31, 2014, we had borrowings outstanding of \$1.1 billion 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 \$45.6 million at December 31, 2014, leaving an additional borrowing capacity under the revolving credit facility of \$644.4 million at December 31, 2014.

Our revolving credit facility provides for a commitment fee on undrawn amounts of 0.20% and various interest rates on borrowings generally at LIBOR plus 1.50%. The credit spread 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 credit spread.

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

Other Debt

At December 31, 2014, we had \$185.5 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 December 31, 2014, we had capital lease and other debt obligations of \$85.8 million, which are due at various dates through 2034. See Note 8 of the Notes to Consolidated Financial Statements for more information related to capital lease obligations.

Restrictions and Covenants

Our credit agreement, the indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020, our vehicle floorplan facilities, and our mortgage facility contain numerous customary financial and operating covenants that place significant 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.

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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 our credit agreement, the maximum leverage ratio is 3.75x (no change from our prior credit agreement) and the maximum capitalization ratio is 70.0% (compared to 65.0% under the prior credit agreement). 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 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain certain limited covenants, including limitations on liens and sale and leaseback transactions. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

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

Under the terms of our credit agreement, at December 31, 2014, our leverage ratio and capitalization ratio were as follows:

	December 31, 2014	
	Requirement	Actual
Leverage ratio	≤ 3.75x	2.30x
Capitalization ratio	≤ 70.0%	59.2%

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.

In the event of a downgrade in our credit ratings, none of the covenants described above would be impacted. In addition, availability under our credit agreement described above would not be impacted should a downgrade in the senior unsecured debt credit ratings occur.

8. 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 are currently defending several purported class action lawsuits in California arising out of alleged violations of state wage and hour laws relating to compensation of automotive technicians. 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.

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For the years ended December 31, 2014 and 2013, we believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable, and there was no indication of a reasonable possibility that a material loss, or additional material loss, may have been incurred. We do not believe that the ultimate resolution of any 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.

Lease Commitments

We lease real property, equipment, and software under various operating leases, most of which have terms from one to twenty years.

Expenses under real property, equipment, and software leases were \$49.0 million in 2014, \$47.6 million in 2013, and \$47.6 million in 2012. The leases require payment of real estate taxes, insurance, and maintenance in addition to rent. Most of the leases contain renewal options, rent abatements, and rent escalation clauses. Lease expense is recognized on a straight-line basis over the term of the lease, including any option periods, as appropriate. The same lease term is used for lease classification, the amortization period of related leasehold improvements, and the estimation of future lease commitments.

Future minimum lease obligations under non-cancelable real property, equipment, and software leases with initial terms in excess of one year at December 31, 2014, are as follows:

Noncancelable Lease Commitments	Capital ⁽¹⁾	Operating ^{(1) (2)}
2015	\$18.6	\$43.2
2016	5.4	41.0
2017	12.2	37.9
2018	4.7	34.5
2019	28.8	30.9
Thereafter	20.8	225.4
Total minimum lease payments	\$90.5	\$412.9
Less: Amounts representing interest	(21.9)
	\$68.6	

(1) Amounts for capital and operating lease commitments do not include certain operating expenses such as maintenance, insurance, and real estate taxes. In 2014, these charges totaled approximately \$24 million.

(2) Future minimum operating lease payments do not reflect future minimum sublease income of \$3.0 million.

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 dealership 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.

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From time to time, primarily in connection with dispositions of automotive stores, our subsidiaries assign or sublet to the dealership 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 in connection with such leases. 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 presently have no reason to believe that we or our subsidiaries will be called on to perform under any such remaining assigned leases or subleases. We estimate that lessee rental payment obligations during the remaining terms of these leases with expirations ranging from 2015 to 2034 are approximately \$34 million at December 31, 2014. Our exposure under these leases is difficult to estimate and there can be no assurance that any performance of AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.

At December 31, 2014, surety bonds, letters of credit, and cash deposits totaled \$93.7 million, of which \$45.6 million represented letters of credit. In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. We do not currently provide cash collateral for outstanding letters of credit.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the "CFPB"), a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. The Dodd-Frank Act also provided the Federal Trade Commission (the "FTC") with new and expanded authority regarding automotive dealers, and the FTC has implemented an enforcement initiative relating to the advertising practices of automotive dealers.

Additionally, the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, is expected to increase our annual employee health care costs that we fund, with the most significant increases commencing in 2015, and significantly increase our cost of compliance and compliance risk related to offering health care benefits.

Further, we expect that new laws and regulations, particularly at the federal level, in other areas may be enacted, which could also materially adversely impact our business. We do not have any material known environmental commitments or contingencies.

9. SHAREHOLDERS' EQUITY

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

2014	2013	2012
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Shares repurchased	9.4	1.1	16.6
Aggregate purchase price	\$485.1	\$53.5	\$580.6
Average purchase price per share	\$51.59	\$47.37	\$34.89

As of December 31, 2014, \$280.6 million remained available for share repurchases under the program.

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We have 5.0 million authorized shares of preferred stock, par value \$0.01 per share, none of which are issued or outstanding. The Board of Directors has the authority to issue the preferred stock in one or more series and to establish the rights, preferences, and dividends.

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

	2014	2013	2012
Shares issued	1.7	1.1	1.7
Proceeds from the exercise of stock options	\$35.1	\$22.7	\$32.0
Average exercise price per share	\$20.50	\$20.31	\$19.33

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

	2014	2013	2012
Shares issued	154,540	137,144	160,740
Shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock or to pay for an option exercise	46,752	44,738	81,717

10. STOCK-BASED COMPENSATION

The AutoNation, Inc. 2008 Equity and Incentive Plan (the “2008 Plan”) provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based and cash-based awards to employees. A maximum of 12.0 million shares may be issued under the 2008 Plan, provided that no more than 2.0 million shares may be issued pursuant to the grant of awards, other than options or stock appreciation rights, that are settled in shares. The exercise price of all stock options granted in 2014 under the 2008 Plan, is equal to the closing price of our common stock on the date such awards were granted.

On March 17, 2014, our Board of Directors, upon the recommendation of its Compensation Committee, approved the AutoNation, Inc. 2014 Non-Employee Director Equity Plan (the “2014 Director Plan”), which was approved by our stockholders at our Annual Meeting of Stockholders held on May 6, 2014. The 2014 Director Plan provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, and other stock-based awards to our non-employee directors. A maximum of 1.0 million shares may be issued under the 2014 Director Plan.

Additionally, no director may be granted awards in any calendar year with an aggregate grant date fair market value (determined, with respect to options and stock appreciation rights, based on a Black-Scholes or other option valuation methodology approved by the Compensation Committee) in excess of \$750,000 per director. In the second quarter of 2014, our Board of Directors approved a shift to restricted stock units from stock options for our non-employee director equity program to further align our non-employee directors’ interests with our stockholders. No additional options may be issued under our other non-employee director equity plans (“Prior Plans”), pursuant to which non-employee stock options were previously granted prior to the adoption of the 2014 Director Plan.

Stock Options

In 2014, the Compensation Committee of our Board of Directors approved the grant of 1.1 million employee stock options. Generally, employee stock option awards are granted quarterly on the first trading day of each of March, June, September, and December. The options granted in 2014 have an exercise price equal to the closing price per

share on the grant date (\$52.65 on March 3, \$57.44 on June 2, \$54.04 on September 2, and \$58.29 on December 1, 2014).

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Stock options granted under all plans are non-qualified. Upon exercise, shares of common stock are issued from our treasury stock. Employee stock options have a term of 10 years from the first date of grant (i.e., all employee stock options granted in 2014 will expire on March 1, 2024) and vest in equal installments over four years commencing on June 1 of the year following the grant date (e.g., 25% of each option grant made in 2014 will vest on June 1, 2015). We use the Black-Scholes valuation model to determine compensation expense and amortize compensation expense on a straight-line basis, net of estimated forfeitures, over the requisite service period of the grants. Certain of our equity-based compensation plans contain provisions that provide for vesting of awards upon retirement. Accordingly, compensation cost is recognized over the shorter of the stated vesting period or the period until employees become retirement-eligible.

The following table summarizes the assumptions used relating to the valuation of our stock options during 2014, 2013, and 2012:

	Grant Year		
	2014	2013	2012
Risk-free interest rate	1.11% - 2.04%	0.58% - 2.24%	0.49% - 1.40%
Expected dividend yield	—	—	—
Expected term	4 - 7 years	4 - 7 years	4 - 7 years
Expected volatility	25% - 36%	29% - 44%	39% - 48%

The risk-free interest rate is based on the U.S. Treasury yield curve at the time of the grant with a remaining term equal to the expected term used for stock options granted. The expected term of stock options granted is derived from historical data and represents the period of time that stock options are expected to be outstanding. The expected volatility is based on historical volatility, implied volatility, and other factors.

The following table summarizes stock option activity during 2014:

	Stock Options			
	Shares (in millions)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1	6.0	\$28.48		
Granted ⁽¹⁾	1.1	\$55.67		
Exercised	(1.7)	) \$20.50		
Forfeited	(0.4)	) \$38.78		
Expired	—	\$—		
Options outstanding as of December 31	5.0	\$36.43	6.71	\$121.0
Options exercisable at December 31	2.7	\$26.18	5.32	\$92.1
Options exercisable at December 31 and expected to vest thereafter	5.0	\$36.28	6.68	\$120.7
Options available for future grants at December 31	5.3			

(1) The options granted during 2014, are primarily related to our employee quarterly stock option award grants in March, June, September, and December 2014.

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The weighted average grant-date fair value of stock options granted and total intrinsic value of stock options exercised are summarized in the following table:

	2014	2013	2012
Weighted average grant-date fair value of stock options granted	\$20.56	\$17.93	\$15.25
Total intrinsic value of stock options exercised (in millions)	\$56.2	\$31.3	\$36.2

Restricted Stock

In 2014, the Compensation Committee of our Board of Directors approved the grant of 0.2 million shares of restricted stock. Restricted stock awards are granted to restricted stock-eligible employees generally on the first trading day of March.

Restricted stock awards are considered nonvested share awards as defined under generally accepted accounting principles and are issued from our treasury stock. Restricted stock awards vest in equal installments over four years commencing on June 1 of the year following the grant date. Compensation cost for restricted stock awards is based on the closing price of our common stock on the date of grant and is recognized on a straight-line basis, net of estimated forfeitures, over the shorter of the stated vesting period or the period until employees become retirement-eligible.

The following table summarizes information about vested and unvested restricted stock for 2014:

	Restricted Stock Shares (in actual number of shares)	Weighted-Average Grant Date Fair Value
Nonvested at January 1	316,398	\$35.76
Granted ⁽¹⁾	154,540	\$52.87
Vested	(142,445	) \$31.35
Forfeited	(22,051	) \$37.98
Nonvested at December 31	306,442	\$42.52

⁽¹⁾ The restricted stock awards granted during 2014 are primarily related to our employee annual restricted stock award grant in March 2014.

The weighted average grant-date fair value of restricted stock awards granted and total fair value of restricted stock awards vested are summarized in the following table:

	2014	2013	2012
Weighted average grant-date fair value of restricted stock awards granted	\$52.87	\$43.45	\$34.31
Total fair value of restricted stock awards vested (in millions)	\$8.1	\$6.8	\$5.8

Restricted Stock Units

On May 6, 2014, each of our non-employee directors received a grant of 5,000 restricted stock units (“RSUs”) under the 2014 Director Plan. RSUs granted to our non-employee directors are fully vested on the grant date and are settled in shares of the Company’s common stock on the first trading day of February in the third year following the grant date, unless the non-employee director elects to defer delivery in accordance with the terms of the award and the 2014 Director Plan. Settlement of the RSUs will be accelerated in certain circumstances as provided in the terms of the award and the 2014 Director Plan, including in the event the non-employee director ceases to serve as a non-employee director of the Company. Compensation cost is recognized on the grant date and is based on the closing price of our common stock on the grant date.

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On January 2, 2015, each of our non-employee directors received a grant of 5,000 RSUs under the 2014 Director Plan, and we expect that, in future years, RSUs will be granted to each of our non-employee directors during the first fiscal quarter.

The weighted average grant-date fair value and total grant-date fair value of RSUs granted (and vested) are summarized in the following table:

	2014	2013	2012
Weighted average grant-date fair value of RSUs granted	\$53.57	\$—	\$—
Total fair value of RSUs granted (in millions)	\$2.1	\$—	\$—

Compensation Expense

The following table summarizes the total stock-based compensation expense recognized in Selling, General, and Administrative Expenses in the Consolidated Statements of Income and the total recognized tax benefit related thereto:

	2014	2013	2012
Stock options	\$18.4	\$16.6	\$14.8
Restricted stock	5.8	4.7	3.8
RSUs	2.1	—	—
Total stock-based compensation expense	\$26.3	\$21.3	\$18.6

Tax benefit related to stock-based compensation expense	\$10.0	\$8.1	\$7.1
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As of December 31, 2014, there was \$20.3 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements, of which \$12.2 million relates to stock options and \$8.1 million relates to restricted stock. These amounts are expected to be recognized over a weighted average period of 1.7 years.

We realized tax benefits related to stock options exercised and vesting of restricted stock of \$24.1 million in 2014, \$14.3 million in 2013, and \$15.9 million in 2012.

11. INCOME TAXES

The components of the income tax provision from continuing operations for the years ended December 31 are as follows:

	2014	2013	2012
Current:			
Federal	\$220.9	\$189.7	\$146.9
State	32.2	28.9	25.1
Federal and state deferred	9.5	13.4	27.1
Change in valuation allowance, net	—	(3.7	) 0.1
Adjustments and settlements	(0.1) 0.3	0.3
Income tax provision	\$262.5	\$228.6	\$199.5

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A reconciliation of the income tax provision calculated using the statutory federal income tax rate to our income tax provision from continuing operations for the years ended December 31 is as follows:

	2014	%	2013	%	2012	%
Income tax provision at statutory rate	\$238.8	35.0	\$211.6	35.0	\$180.9	35.0
Non-deductible expenses (income), net	1.3	0.2	(0.6)	(0.1)	(0.2)	—
State income taxes, net of federal benefit	23.2	3.4	21.7	3.6	18.8	3.6
	263.3	38.6	232.7	38.5	199.5	38.6
Change in valuation allowance, net	—	—	(3.7)	(0.6)	0.1	—
Adjustments and settlements	(0.1)	—	0.3	—	0.3	0.1
Other, net	(0.7)	(0.1)	(0.7)	(0.1)	(0.4)	(0.1)
Income tax provision	\$262.5	38.5	\$228.6	37.8	\$199.5	38.6

Deferred income tax asset and liability components at December 31 are as follows:

	2014	2013
Deferred income tax assets:		
Inventory	\$28.9	\$24.6
Receivable reserves	3.0	3.0
Warranty, chargeback, and self-insurance liabilities	57.8	49.2
Other accrued liabilities	25.1	21.6
Deferred compensation	24.0	19.7
Stock-based compensation	26.8	24.1
Loss carryforwards—federal and state	7.2	10.5
Other, net	13.2	12.7
Total deferred income tax assets	186.0	165.4
Valuation allowance	(2.5)	(2.7)
Deferred income tax assets, net of valuation allowance	183.5	162.7
Deferred income tax liabilities:		
Long-lived assets (intangible assets and property)	(233.6)	(200.2)
Other, net	(19.2)	(21.3)
Total deferred income tax liabilities	(252.8)	(221.5)
Net deferred income tax assets (liabilities)	\$(69.3)	\$(58.8)

We had \$68.6 million of current deferred income tax assets and \$137.9 million of non-current deferred income tax liabilities at December 31, 2014, and \$57.7 million of current deferred income tax assets, and \$116.5 million of non-current deferred income tax liabilities at December 31, 2013. Current deferred income tax assets are classified as Other Current Assets and non-current deferred income tax liabilities are classified as Deferred Income Taxes in the accompanying Consolidated Balance Sheets.

Income taxes payable included in Other Current Liabilities totaled \$17.5 million at December 31, 2014 and \$8.4 million at December 31, 2013.

At December 31, 2014, we had \$129.5 million of gross domestic state net operating loss carryforwards and capital loss carryforwards, and \$4.3 million of state tax credits, all of which result in a deferred tax asset of \$8.2 million and expire from 2015 through 2035. At December 31, 2014, we had \$2.5 million of valuation allowance related to these loss carryforwards. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not

that some portion or all of the deferred tax assets will not be realized. We provide valuation allowances to offset portions of deferred tax assets due to uncertainty surrounding the future realization of such deferred tax assets. We adjust the valuation allowance in the period management determines it is more likely than not that deferred tax assets will or will not be

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realized. Certain decreases to valuation allowances are offset against intangible assets associated with business acquisitions accounted for under the acquisition method of accounting.

During 2013, we completed a restructuring of certain of our subsidiaries, a consequence of which was the release of a valuation allowance of \$3.4 million, which was reflected as a benefit in our income tax provision in 2013.

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. These audits may result in proposed assessments where the ultimate resolution may result in our owing additional taxes. Currently, no tax years are under examination by the IRS and tax years from 2009 to 2013 are under examination by U.S. state jurisdictions. We believe that our tax positions comply with applicable tax law and that we have adequately provided for these matters.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2014	2013	2012
Balance at January 1	\$4.8	\$6.8	\$6.4
Additions based on tax positions related to the current year	—	—	—
Additions for tax positions of prior years	0.9	0.8	0.5
Reductions for tax positions of prior years	(0.1	) (0.2) —
Reductions for expirations of statute of limitations	(0.4	) (2.2) —
Settlements	(0.3	) (0.4	) (0.1
Balance at December 31	\$4.9	\$4.8	\$6.8

We had accumulated interest and penalties associated with these unrecognized tax benefits of \$5.3 million at December 31, 2014, \$5.1 million at December 31, 2013, and \$4.5 million at December 31, 2012. We additionally had a deferred tax asset of \$3.6 million at December 31, 2014, \$3.6 million at December 31, 2013, and \$5.5 million at December 31, 2012, related to these balances. The net of the unrecognized tax benefits, associated interest, penalties, and deferred tax asset was \$6.6 million at December 31, 2014, \$6.3 million at December 31, 2013, and \$5.8 million at December 31, 2012, which if resolved favorably (in whole or in part) would reduce our effective tax rate. The unrecognized tax benefits, associated interest, penalties, and deferred tax asset are included as components of Other Assets and Other Liabilities in the Consolidated Balance Sheets.

It is our continuing policy to account for interest and penalties associated with income tax obligations as a component of income tax expense. We recognized \$0.3 million during 2014, \$0.4 million during 2013, and \$0.3 million during 2012 (each net of tax effect), of interest and penalties as part of the provision for income taxes in the Consolidated Statements of Income.

We do not expect that our unrecognized tax benefits will significantly increase or decrease during the twelve months beginning January 1, 2015.

In September 2013, the IRS released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code regarding the deduction and capitalization of expenditures related to tangible property as well as dispositions of tangible property. These regulations are effective for our tax year beginning January 1, 2014. The adoption of these regulations did not have a material impact on our consolidated financial position, results of operations, or cash flows.

12. EARNINGS (LOSS) 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

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AUTONATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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.

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

	2014	2013	2012
Net income from continuing operations	\$419.8	\$375.8	\$317.3
Loss from discontinued operations, net of income taxes	(1.1	) (0.9	) (0.9
Net income	\$418.7	\$374.9	\$316.4
Weighted average common shares outstanding used in calculating basic EPS	117.3	121.3	123.8
Effect of dilutive stock options	1.6	2.0	2.0
Weighted average common shares outstanding used in calculating diluted EPS	118.9	123.3	125.8
Basic EPS amounts:			
Continuing operations	\$3.58	\$3.10	\$2.56
Discontinued operations	\$(0.01	) \$(0.01	) \$(0.01
Net income	\$3.57	\$3.09	\$2.56
Diluted EPS amounts:			
Continuing operations	\$3.53	\$3.05	\$2.52
Discontinued operations	\$(0.01	) \$(0.01	) \$(0.01
Net income	\$3.52	\$3.04	\$2.52

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

	2014	2013	2012
Anti-dilutive options excluded from the computation of diluted earnings per share	0.6	0.6	0.9

13. DIVESTITURES

As discussed in Note 1 above, in April 2014, the FASB issued an accounting standard update that changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We adopted this accounting standard update effective January 1, 2014.

During 2014, we divested two Import stores and recorded a gain of \$4.4 million (\$2.7 million after-tax). During 2014, we also divested our customer lead distribution business and recorded a gain of \$8.4 million (\$5.2 million after-tax). This business is reported in the "Corporate and other" category of our segment information.

The gains on these divestitures are included in Other Expenses (Income), Net (within Operating Income) in our Consolidated Statements of Income. The financial condition and results of operations of these businesses were not material to our consolidated financial statements.

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AUTONATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. ACQUISITIONS

We purchased five stores and related assets during 2014, five in 2013, and six in 2012. The amounts incurred related to acquisitions, including capital leases and deferred purchase price commitments, were \$213.1 million in 2014, \$95.7 million in 2013, and \$203.7 million in 2012. Acquisitions are included in the Consolidated Financial Statements from the date of acquisition. The purchase price allocations for certain business combinations in 2014 are tentative and subject to final adjustment.

The acquisitions that occurred during 2014 were not material to our financial condition or results of operations. Additionally, on a pro forma basis as if the results of these acquisitions that were completed in 2014 had been included in our consolidated results for the entire years ended December 31, 2014 and 2013, revenue and net income would not have been materially different from our reported revenue and net income for these periods.

In January 2015, we purchased one store and related assets in Reno, Nevada, and in February 2015, we purchased one store and related assets in the Atlanta, Georgia market.

15. RELATED PARTY TRANSACTIONS

It is our policy that transactions with affiliated parties must be entered into in good faith on fair and reasonable terms that are no less favorable to us than those that would be available in a comparable transaction in arm's-length dealings with an unrelated third-party. There were no material transactions with related parties in the years ended December 31, 2014, 2013, or 2012.

16. CASH FLOW INFORMATION

We consider all highly liquid investments with a maturity of three months or less as of the date of purchase to be cash equivalents unless the investments are legally or contractually restricted for more than three months. We had non-cash investing and financing activities primarily related to increases in property acquired under capital leases of \$11.6 million during 2014, \$18.0 million during 2013, and \$82.2 million during 2012. We also had accrued purchases of property and equipment of \$16.3 million at December 31, 2014, \$28.1 million at December 31, 2013, and \$23.6 million at December 31, 2012. The effect of non-cash transactions is excluded from the accompanying Consolidated Statements of Cash Flows.

We made interest payments of \$136.4 million in 2014, \$136.0 million in 2013, and \$119.6 million in 2012, including interest on vehicle inventory financing. We made income tax payments, net of income tax refunds, of \$225.0 million in 2014, \$200.3 million in 2013, and \$147.0 million in 2012.

17. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

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

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AUTONATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

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

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

Cash and cash equivalents, accounts receivable, other current assets, vehicle floorplan payable, accounts payable, other current liabilities, and variable rate debt: The amounts reported in the accompanying Consolidated Balance Sheets approximate fair value due to their short-term nature or the existence of variable interest rates that approximate prevailing market rates.

Fixed rate debt: Our fixed rate debt consists primarily of amounts outstanding under our senior unsecured notes and mortgages. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 1). We estimate the fair value of our mortgages using a present value technique based on our current market interest rates for similar types of financial instruments (Level 2). A summary of the aggregate carrying values and fair values of our fixed rate debt is as follows:

	December 31, 2014	December 31, 2013
Carrying value	\$1,018.4	\$1,039.9
Fair value	\$1,109.9	\$1,135.2

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 or disposal groups 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 or disposal group's fair value less cost to sell (increase or decrease) are reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset or disposal group at the time it was initially classified as held for sale.

Goodwill and Other Intangible Assets

Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill impairment test. We completed our qualitative annual assessments of potential goodwill impairment as of April 30, 2014 and 2013, and we determined that it was not more likely than not that the fair values of our reporting units were

less than their carrying amounts. Accordingly, no impairment charges were recorded for the carrying value of goodwill during 2014 or 2013.

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a quantitative impairment

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AUTONATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2014. Based on our qualitative assessment of potential franchise rights impairment, we determined that we should perform a quantitative test for franchise rights related to one store, and no impairment charges resulted from this quantitative test. For the remainder of our franchise rights, we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts based on our qualitative assessment and we were therefore not required to perform a quantitative test.

The quantitative impairment test for franchise rights requires the comparison of the franchise rights' estimated fair value to carrying value by store. Fair values of rights under franchise agreements are estimated using Level 3 inputs by discounting expected future cash flows of the store. The forecasted cash flows contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins, working capital requirements, capital expenditures, and cost of capital, for which we utilize certain market participant-based assumptions, using third-party industry projections, economic projections, and other marketplace data we believe to be reasonable. The development of the assumptions used in our annual impairment tests are coordinated by our financial planning and analysis group, and the assumptions are reviewed by management.

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

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.

Long-lived Assets Held and Used in Continuing Operations

During 2014, there were no significant impairment charges recorded for the carrying value of long-lived assets held and used in continuing operations.

During 2013, we fully impaired certain long-lived assets held and used in continuing operations and recorded a non-cash impairment charge of \$0.7 million. This charge is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the "Corporate and other" category of our segment information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Long-lived Assets Held for Sale in Continuing Operations

During 2014, we recorded an impairment charge of \$1.1 million related to our long-lived assets held for sale in continuing operations. This charge is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the “Corporate and other” category of our segment information.

During 2013, we recorded no impairment charges related to our long-lived assets held for sale in continuing operations.

Long-lived Assets Held for Sale in Discontinued Operations

During 2014 and 2013, there were no significant impairment charges related to our discontinued operations assets held for sale.

As of December 31, 2014, we had assets held for sale of \$64.7 million in continuing operations and \$23.2 million in discontinued operations. As of December 31, 2013, we had assets held for sale of \$59.8 million in continuing operations and \$34.5 million in discontinued operations.

18. BUSINESS AND CREDIT CONCENTRATIONS

We own and operate franchised automotive stores in the United States pursuant to franchise agreements with vehicle manufacturers. Franchise agreements generally provide the manufacturers or distributors with considerable influence over the operations of the store. The success of any franchised automotive dealership is dependent, to a large extent, on the financial condition, management, marketing, production, and distribution capabilities of the vehicle manufacturers or distributors of which we hold franchises. We had receivables from manufacturers or distributors of \$198.3 million at December 31, 2014, and \$172.9 million at December 31, 2013. Additionally, a large portion of our Contracts-in-Transit included in Receivables, net, in the accompanying Consolidated Balance Sheets, are due from automotive manufacturers’ captive finance subsidiaries which provide financing directly to our new and used vehicle customers.

We purchase substantially all of our new vehicles from various manufacturers or distributors at the prevailing prices available to all franchised dealers. Additionally, we finance our new vehicle inventory primarily with automotive manufacturers’ captive finance subsidiaries. Our sales volume could be adversely impacted by the manufacturers’ or distributors’ inability to supply the stores with an adequate supply of vehicles and related financing.

We are subject to a concentration of risk in the event of financial distress of or other adverse event related to a major vehicle manufacturer. The core brands of vehicles that we sell are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, Chrysler, BMW, and Volkswagen. Our business could be materially adversely impacted by another bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender. 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 December 31, 2014, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

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AUTONATION, INC.
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19. CHARGEBACK RESERVES

We may be charged back for commissions related to financing, vehicle service, or protection products in the event of early termination, default, or prepayment of the contracts by customers (“chargebacks”). However, our exposure to loss generally is limited to the commissions that we receive. These commissions are recorded at the time of the sale of the vehicles, net of an estimated liability for chargebacks. The following is a rollforward of our estimated chargeback liability for each of the three years presented in our Consolidated Financial Statements:

	2014	2013	2012
Balance - January 1	\$67.6	\$56.0	\$46.2
Add: Provisions	79.4	64.4	52.9
Deduct: Chargebacks	(62.1	) (52.8	) (43.1
Balance - December 31	\$84.9	\$67.6	\$56.0

20. SEGMENT INFORMATION

At December 31, 2014, 2013, and 2012, 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 General Motors, Ford, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, and Lexus. The franchises in each segment also sell used vehicles, parts and automotive services, and automotive finance and insurance products.

“Corporate and other” is comprised of our other businesses, including collision centers, a customer lead distribution business (which was divested in January 2014), and an auction operation, each of which generates revenues, as well as unallocated corporate overhead expenses and retrospective commissions for certain finance 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. Reportable segment revenue, segment income, floorplan interest expense, depreciation and amortization, total assets, and capital expenditures are as follows:

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
Domestic	\$6,359.5	\$5,835.3	\$5,131.6
Import	6,717.8	6,375.0	5,827.5
Premium Luxury	5,889.3	5,152.3	4,553.3
Total	18,966.6	17,362.6	15,512.4
Corporate and other	142.2	155.0	155.1
Total consolidated revenue	\$19,108.8	\$17,517.6	\$15,667.5

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	Years Ended December 31,			
	2014	2013	2012	
Segment income*:				
Domestic	\$285.0	\$246.6	\$209.4	
Import	291.3	280.1	257.9	
Premium Luxury	366.1	321.4	270.4	
Total segment income	942.4	848.1	737.7	
Corporate and other	(174.9) (161.2) (137.9)
Other interest expense	(86.7) (88.3) (86.9)
Loss on debt extinguishment	(1.6) —	—	
Interest income	0.2	0.2	0.3	
Other income, net	2.9	5.6	3.6	
Income from continuing operations before income taxes	\$682.3	\$604.4	\$516.8	

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

	Years Ended December 31,		
	2014	2013	2012
Floorplan interest expense:			
Domestic	\$24.4	\$23.7	\$20.2
Import	14.5	16.3	14.2
Premium Luxury	13.1	12.6	10.7
Corporate and other	1.3	0.8	0.4
Total floorplan interest expense	\$53.3	\$53.4	\$45.5

	Years Ended December 31,		
	2014	2013	2012
Depreciation and amortization:			
Domestic	\$27.3	\$25.1	\$23.0
Import	31.0	28.1	25.0
Premium Luxury	28.3	26.9	25.1
Corporate and other	20.3	15.2	14.2
Total depreciation and amortization	\$106.9	\$95.3	\$87.3

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AUTONATION, INC.
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 (Continued)

	Years Ended December 31,		
	2014	2013	2012
Assets:			
Domestic	\$2,187.3	\$2,143.1	\$1,895.0
Import	1,997.7	2,030.4	1,787.4
Premium Luxury	2,051.0	1,633.6	1,541.6
Corporate and other:			
Goodwill	1,314.7	1,259.6	1,237.4
Franchise rights	348.1	329.3	285.7
Other Corporate and other assets	500.9	518.1	455.9
Total assets	\$8,399.7	\$7,914.1	\$7,203.0

	Years Ended December 31,		
	2014	2013	2012
Capital expenditures:			
Domestic	\$61.7	\$61.9	\$69.5
Import	47.0	76.1	55.2
Premium Luxury	68.3	45.5	33.1
Corporate and other	20.8	23.7	25.8
Total capital expenditures	\$197.8	\$207.2	\$183.6

21. MULTIEMPLOYER PENSION PLANS

Five of our 232 stores participate in multiemployer pension plans. We contribute to these multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of our union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be assumed by the remaining participating employers.
- c. If we choose to stop participating in a multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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AUTONATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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One of the multiemployer pension plans in which we participate is designated as being in “red zone” status, as defined by the Pension Protection Act (PPA) of 2006. Our participation in this plan for the year ended December 31, 2014, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent PPA zone status available in 2014 and 2013 is for the plan’s year end at December 31, 2013, and December 31, 2012, respectively. The zone status is based on information that we received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65 percent funded. The last column lists the expiration date of the collective-bargaining agreements to which the plan is subject. A rehabilitation plan has been implemented for this plan. There have been no significant changes that affect the comparability of 2014, 2013, and 2012 contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		Contributions of AutoNation (\$ in millions) (1)			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2014	2013	2014	2013	2012		
Automotive Industries Pension Plan	94-1133245 - 001	Red	Red	\$0.8	\$0.7	\$0.6	No	(2)
Other funds				0.3	0.4	0.3		
Total contributions				\$1.1	\$1.1	\$0.9		

(1) Our stores were not listed in the Automotive Industries Pension Plan’s Form 5500 as providing more than 5% of the total contributions for the plan years ended December 31, 2013 or 2012.

We are party to two collective-bargaining agreements that require contributions to the Automotive Industries Pension Plan. One expired May 31, 2011, and one expired June 30, 2011, and both are currently extended during collective bargaining for new agreements.

In the event that we cease participating in this plan, we could be assessed a withdrawal liability. We currently do not have any plans that would trigger the withdrawal liability under this multiemployer pension plan.

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SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

In a stable environment, our operations generally experience higher volumes of vehicle unit sales in the second and third quarters of each year due in part to consumer buying trends and the introduction of new vehicle models. Also, demand for vehicles and light trucks is generally lower during the winter months than in other seasons, particularly in regions of the United States where stores may be subject to adverse winter conditions. However, we typically experience higher sales of Premium Luxury vehicles, which have higher average selling prices and gross profit per vehicle retailed, in the fourth quarter. Revenue and operating results may be impacted significantly from quarter to quarter by changing economic conditions, vehicle manufacturer incentive programs, and actual or threatened severe weather events.

The following is an analysis of certain items in the Consolidated Statements of Income by quarter for 2014 and 2013:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	2014	\$4,363.5	\$4,788.5	\$4,909.0	\$5,047.8
	2013	\$4,096.4	\$4,426.5	\$4,470.8	\$4,523.9
Gross profit	2014	\$707.4	\$744.9	\$752.9	\$783.5
	2013	\$664.0	\$696.1	\$696.6	\$703.2
Operating income	2014	\$189.1	\$197.8	\$207.4	\$226.5
	2013	\$169.4	\$180.9	\$187.2	\$202.8
Income from continuing operations	2014	\$95.5	\$100.7	\$106.7	\$116.9
	2013	\$83.2	\$90.1	\$92.8	\$109.7
Net income	2014	\$95.1	\$100.4	\$106.5	\$116.7
	2013	\$83.0	\$89.9	\$92.6	\$109.4
Basic earnings per share from continuing operations ⁽¹⁾	2014	\$0.80	\$0.85	\$0.91	\$1.03
	2013	\$0.69	\$0.74	\$0.76	\$0.90
Diluted earnings per share from continuing operations ⁽¹⁾	2014	\$0.79	\$0.83	\$0.90	\$1.02
	2013	\$0.68	\$0.73	\$0.75	\$0.89

The sum of quarterly basic and diluted earnings per share from continuing operations may not equal full year

⁽¹⁾ amounts as reported in the Consolidated Statements of Income due to the effect of the calculation of weighted average common stock equivalents on a quarterly basis.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014. Our independent auditor, KPMG LLP, also concluded that we maintained effective internal control over financial reporting as set forth in its Report of Independent Registered Public Accounting Firm which is included in Part II, Item 8 of this Form 10-K.

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 the fourth quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under the heading “Executive Officers of AutoNation” in Part I, Item 1 of this Form 10-K is incorporated by reference in this section.

We have adopted a Code of Business Ethics applicable to all employees. In addition, we have adopted a Code of Ethics for Senior Officers applicable to our principal executive officer, principal financial officer, principal accounting officer, and other senior officers and a Code of Ethics for Directors applicable to our directors. These codes are available on our Investor Relations website at investors.autonation.com. In the event that we amend or waive any of the provisions of the Code of Ethics for Senior Officers that relate to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, we intend to disclose the same on our Investor Relations website. The other information required by this item is incorporated by reference to AutoNation’s Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to AutoNation’s Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plans

The following table provides information as of December 31, 2014 regarding our equity compensation plans:

EQUITY COMPENSATION PLANS

Plan Category	(A) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(B) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column A)	(D)
Equity Compensation Plans Approved by Security Holders	5,048,579	\$36.43	5,309,441	(1)
Equity Compensation Plans Not Approved by Security Holders	—	—	—	
Total	5,048,579	\$36.43	5,309,441	

Includes 4,349,441 shares available under the AutoNation, Inc. 2008 Employee Equity and Incentive Plan (the “2008 Plan”) and 960,000 shares available under the AutoNation, Inc. 2014 Non-Employee Director Equity Plan (the “2014 Director Plan”). As of December 31, 2014, a maximum of 1,168,980 shares may be awarded as awards, other than options or stock appreciation rights, that are settled in shares under the 2008 Plan.

The other information required by this item is incorporated by reference to AutoNation’s Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to AutoNation’s Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended

December 31, 2014.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to AutoNation's Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: The Consolidated Financial Statements of AutoNation are set forth in Part II, Item 8 of this Form 10-K.

2. Financial Statement Schedules: Not applicable.

3. Exhibits: The exhibits listed in the accompanying Index to Exhibits are filed, furnished or incorporated by reference as part of this Form 10-K.

Certain of the agreements listed as exhibits to this Form 10-K (including the exhibits to such agreements), which have been filed to provide investors with information regarding their terms, contain various representations, warranties, and covenants of AutoNation, Inc. and the other parties thereto. They are not intended to provide factual information about any of the parties thereto or any subsidiaries of the parties thereto. The assertions embodied in those representations, warranties, and covenants were made for purposes of each of the agreements, solely for the benefit of the parties thereto. In addition, certain representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from what a security holder might view as material, or may have been made for purposes of allocating contractual risk among the parties rather than establishing matters as facts. Investors should not view the representations, warranties, and covenants in the agreements (or any description thereof) as disclosures with respect to the actual state of facts concerning the business, operations, or condition of any of the parties to the agreements (or their subsidiaries) and should not rely on them as such. In addition, information in any such representations, warranties, or covenants may change after the dates covered by such provisions, which subsequent information may or may not be fully reflected in the public disclosures of the parties. In any event, investors should read the agreements together with the other information concerning AutoNation, Inc. contained in reports and statements that we file with the SEC.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

By: /s/ MICHAEL J. JACKSON
Michael J. Jackson, Chairman of the
Board, Chief Executive Officer and President
February 11, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ MICHAEL J. JACKSON Michael J. Jackson	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	February 11, 2015
/S/ CHERYL SCULLY Cheryl Scully	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 11, 2015
/S/ MICHAEL J. STEPHAN Michael J. Stephan	Vice President – Corporate Controller (Principal Accounting Officer)	February 11, 2015
/S/ ROBERT J. BROWN Robert J. Brown	Director	February 11, 2015
/S/ RICK L. BURDICK Rick L. Burdick	Director	February 11, 2015
/s/ TOMAGO COLLINS Tomago Collins	Director	February 11, 2015
/S/ DAVID B. EDELSON David B. Edelson	Director	February 11, 2015
/S/ ROBERT R. GRUSKY Robert R. Grusky	Director	February 11, 2015
/S/ MICHAEL LARSON Michael Larson	Director	February 11, 2015
/S/ CARLOS A. MIGOYA Carlos A. Migoya	Director	February 11, 2015
/S/ G. MIKE MIKAN G. Mike Mikan	Director	February 11, 2015

/S/ ALISON H. ROSENTHAL Director
Alison H. Rosenthal

February 11, 2015

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date
		Form	File Number	Exhibit	
3.1	Third Amended and Restated Certificate of Incorporation of AutoNation, Inc.	10-Q	001-13107	3.1	8/13/99
3.2	Amended and Restated By-Laws of AutoNation, Inc.	8-K	001-13107	3.1	3/23/12
4.1	Indenture, dated April 14, 2010 (the "2010 Indenture"), among AutoNation, Inc. and Wells Fargo Bank, National Association.	8-K	001-13107	4.1	4/15/10
4.2	Supplemental Indenture to 2010 Indenture, dated April 14, 2010, relating to the Company's 6.75% Senior Notes due 2018.	8-K	001-13107	4.2	4/15/10
4.3	Form of 6.75% Senior Notes due 2018 (included in Exhibit 4.14).	8-K	001-13107	4.2	4/15/10
4.4	Supplemental Indenture to 2010 Indenture, dated February 1, 2012, relating to the Company's 5.5% Senior Notes due 2020.	8-K	001-13107	4.2	2/1/12
4.5	Form of 5.5% Senior Notes due 2020 (included in Exhibit 4.16).	8-K	001-13107	4.2	2/1/12
4.6	Supplemental Indenture to 2010 Indenture, dated March 7, 2012, relating to the Company's 6.75% Senior Notes due 2018.	10-Q	001-13107	4.5	4/25/12
4.7	Supplemental Indenture to 2010 Indenture, dated March 7, 2012, relating to the Company's 5.5% Senior Notes due 2020.	10-Q	001-13107	4.6	4/25/12
4.8	Supplemental Indenture to 2010 Indenture, dated February 6, 2014, relating to the Company's 6.75% Senior Notes due 2018.	10-Q	001-13107	4.1	4/18/14
4.9	Supplemental Indenture to 2010 Indenture, dated February 6, 2014, relating to the Company's 5.5% Senior Notes due 2020.	10-Q	001-13107	4.2	4/18/14
10.1	AutoNation, Inc. 1995 Amended and Restated Employee Stock Option Plan, as amended to date.	10-Q	001-13107	10.2	8/14/00
10.2	AutoNation, Inc. Amended and Restated 1995 Non-Employee Director Stock Option Plan.	10-K	001-13107	10.10	3/31/99
10.3	Amendment, dated October 24, 2006, to the AutoNation, Inc. Amended and Restated 1995 Non-Employee Director Stock Option Plan.	10-Q	001-13107	10.1	10/27/06
10.4	AutoNation, Inc. Amended and Restated 1997 Employee Stock Option Plan, as amended and restated on February 5, 2007.	10-K	001-13107	10.4	2/28/07
10.5	AutoNation, Inc. Amended and Restated 1998 Employee Stock Option Plan, as amended and restated on February 5, 2007.	10-K	001-13107	10.5	2/28/07
10.6	AutoNation, Inc. Deferred Compensation Plan, as amended and restated.	S-8	333-170737	10.1	11/19/10
10.7		8-K	001-13107	10.1	1/16/15

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Amended Employment Agreement, dated January 15, 2015, by and between AutoNation, Inc. and Michael J. Jackson.

10.8	Amended Employment Agreement, dated October 23, 2014, as amended and restated on January 23, 2015, by and between AutoNation, Inc. and Michael E. Maroone.	8-K	001-13107	10.1	1/23/15
10.9	Letter Agreement, dated February 13, 2013, regarding dealership name usage.	10-Q	001-13107	10.1	4/19/13

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date
		Form	File Number	Exhibit	
10.10	Separation Agreement, dated January 10, 2014, by and between AutoNation, Inc. and Michael J. Short.	8-K	001-13107	10.1	1/10/14
10.11	AutoNation, Inc. 2007 Non-Employee Director Stock Option Plan.	10-K	001-13107	10.17	2/28/07
10.12	Amendment to the AutoNation, Inc. 2007 Non-Employee Director Stock Option Plan, effective as of October 26, 2010.	10-Q	001-13107	10.4	10/28/10
10.13	Amendment to the AutoNation, Inc. 2007 Non-Employee Director Stock Option Plan, effective as of February 1, 2012.	8-K	001-13107	10.2	2/2/12
10.14	AutoNation, Inc. 2014 Non-Employee Director Equity Plan.	10-Q	001-13107	10.6	4/18/14
10.15	Terms of Non-Employee Director Restricted Stock Units granted under the AutoNation, Inc. 2014 Non-Employee Director Equity Plan.	10-Q	001-13107	10.2	7/17/14
10.16	AutoNation, Inc. Senior Executive Incentive Bonus Plan.	8-K	001-13107	10.1	2/2/12
10.17	AutoNation, Inc. 2008 Employee Equity and Incentive Plan.	10-Q	001-13107	10.1	4/25/08
10.18	Form of Stock Option Agreement for stock options granted under the AutoNation, Inc. employee stock options plans other than the 2008 Employee Equity and Incentive Plan.	10-K	001-13107	10.12	2/24/05
10.19	Form of Stock Option Agreement under the 2008 Employee Equity and Incentive Plan (for 2008 grants).	10-K	001-13107	10.16	2/17/09
10.20	Form of Restricted Stock Agreement under the 2008 Employee Equity Incentive and Incentive Plan (for 2008 grants).	10-K	001-13107	10.17	2/17/09
10.21	Form of Stock Option Agreement under the 2008 Employee Equity and Incentive Plan (for grants made in 2009-2013).	10-Q	001-13107	10.4	4/24/09
10.22	Form of Restricted Stock Agreement under the 2008 Employee Equity and Incentive Plan (for grants made in 2009-2013).	10-Q	001-13107	10.5	4/24/09
10.23	Form of Stock Option Agreement under the 2008 Employee Equity and Incentive Plan (for grants made in 2014 and thereafter).	8-K	001-13107	10.1	3/7/14
10.24	Form of Restricted Stock Agreement under the 2008 Employee Equity and Incentive Plan (for grants made in 2014 and thereafter).	8-K	001-13107	10.2	3/7/14
10.25	Written Description of Compensatory Arrangement.	10-K	001-13107	10.21	2/13/14
10.26	AutoNation, Inc. Policy Regarding Recoupment of Certain Incentive Compensation, effective as of	8-K	001-13107	10.1	2/6/15

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10.27	Honda Agreement, dated January 28, 2009, between AutoNation, Inc., American Honda Motor Co., Inc. and ESL Investments, Inc.	8-K	001-13107	10.1	1/29/09
10.28	Stockholder Agreement, dated August 16, 2010, among AutoNation, Inc., Cascade Investment, L.L.C. and the Bill & Melinda Gates Foundation Trust.	8-K	001-13107	10.1	8/16/10

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
10.29	Amended and Restated Credit Agreement, dated December 3, 2014, by and among the Company, JPMorgan Chase Bank, N.A. as Administrative Agent, and the other parties thereto.	8-K	001-13107	10.1	12/4/14
12.1*	Statement Regarding Computation of Ratio of Earnings to Fixed Charges.				
21.1*	Subsidiaries of AutoNation, Inc.				
23.1*	Consent of KPMG LLP.				
31.1*	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.				
31.2*	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.				
32.1**	Certification of Principal Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350.				
32.2**	Certification of Principal 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				

*Filed herewith

**Furnished herewith

Exhibits 10.1 through 10.26 are management contracts or compensatory plans, contracts, or arrangements.

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of certain instruments defining the rights of holders of long-term debt of the Company or its subsidiaries are not filed herewith. We hereby agree to furnish a copy of any such instrument to the Commission upon request.