AUTONATION, INC.
Form 10-K
February 22, 2019
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Filerfalsefalse941133245NoYesAN6000000.010.01150000000015000000001025621491025621490.055P3Y14700000001400
and other? is comprised of our other businesses, including collision centers, auction operations, AutoNation USA stand-alone used vehicle sales and service centers, and aftermarket collision parts businesses.Earnings per share amounts are calculated discretely and therefore may not add up to the total due to rounding.Represents revenue recognized during the period for automotive repair and maintenance services.Segment income is defined as operating income less floorplan interest expense. 0000350698 2018-01-01 2018-12-31 0000350698 2018-06-29 0000350698 2019-02-20 0000350698 2018-12-31 0000350698 2017-12-31 0000350698 an:NonTradeMember 2017-12-31 0000350698 an:TradeMember 2017-12-31 0000350698 an:TradeMember 2018-12-31 0000350698 an:NonTradeMember 2018-12-31 0000350698 2017-01-01 2017-12-31 0000350698 an:PartsAndServiceMember 2016-01-01 2016-12-31 0000350698 an:UsedVehicleMember 2018-01-01 2018-12-31 0000350698 us-gaap:ProductAndServiceOtherMember 2017-01-01 2017-12-31 0000350698 us-gaap:ProductAndServiceOtherMember 2016-01-01 2016-12-31 0000350698 2016-01-01 2016-12-31 0000350698 us-gaap:ProductAndServiceOtherMember 2018-01-01 2018-12-31 0000350698 an:NewVehicleMember 2017-01-01 2017-12-31 0000350698 an:PartsAndServiceMember 2017-01-01 2017-12-31 0000350698 an:UsedVehicleMember 2017-01-01 2017-12-31 0000350698 2016-12-31 0000350698 an:UsedVehicleMember 2016-01-01 2016-12-31 0000350698 an:NewVehicleMember 2018-01-01 2018-12-31 0000350698 an:FinanceAndInsuranceNetMember 2016-01-01 2016-12-31 0000350698 an:FinanceAndInsuranceNetMember 2018-01-01 2018-12-31 0000350698 an:PartsAndServiceMember 2018-01-01 2018-12-31 0000350698 an:NewVehicleMember 2016-01-01 2016-12-31 0000350698 an:FinanceAndInsuranceNetMember 2017-01-01 2017-12-31 0000350698 us-gaap:CommonStockMember 2016-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-12-31 0000350698 us-gaap:TreasuryStockMember 2018-01-01 2018-12-31 0000350698 us-gaap:CommonStockMember 2015-12-31 0000350698 us-gaap:CommonStockMember 2018-12-31 0000350698 2015-12-31 0000350698 us-gaap:TreasuryStockMember 2017-01-01 2017-12-31 0000350698 us-gaap:RetainedEarningsMember 2017-01-01 2017-12-31 0000350698 us-gaap:TreasuryStockMember 2016-01-01 2016-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2015-12-31 0000350698 us-gaap:RetainedEarningsMember 2018-01-01 2018-12-31 0000350698 us-gaap:CommonStockMember 2017-01-01 2017-12-31 0000350698 us-gaap:TreasuryStockMember 2016-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-12-31 0000350698 us-gaap:CommonStockMember 2017-12-31 0000350698 us-gaap:RetainedEarningsMember 2016-12-31 0000350698 us-gaap:TreasuryStockMember 2015-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0000350698 us-gaap:RetainedEarningsMember 2016-01-01 2016-12-31 0000350698 us-gaap:RetainedEarningsMember 2018-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000350698 us-gaap:RetainedEarningsMember 2015-12-31 0000350698 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000350698 us-gaap:TreasuryStockMember 2017-12-31 0000350698 us-gaap:TreasuryStockMember 2018-12-31 0000350698 us-gaap:RetainedEarningsMember 2017-12-31 0000350698 an:SeniorNotesatThreePointFivePercentDue2024Member 2016-01-01 2016-12-31 0000350698 an:SeniorNotesatThreePointEightPercentDue2027Member 2017-01-01 2017-12-31 0000350698 an:SeniorNotesatThreePointFivePercentDue2024Member 2018-01-01 2018-12-31 0000350698 an:SeniorNotesatThreePointFivePercentDue2024Member 2017-01-01 2017-12-31 0000350698 an:SeniorNotesatThreePointEightPercentDue2027Member 2016-01-01 2016-12-31 0000350698 an:SeniorNotesatThreePointEightPercentDue2027Member 2018-01-01 2018-12-31 0000350698 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-12-31 0000350698 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-12-31 0000350698 us-gaap:FairValueMeasurementsNonrecurringMember us-gaap:FranchiseRightsMember 2018-01-01 2018-12-31 0000350698 us-gaap:DeferredCompensationArrangementWithIndividualByTypeOfCompensationPensionAndOtherPostretirementBenefitsM

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from ________ to ________

Commission File Number: **1-13107**

AUTONATION, INC.

(Exact name of registrant as specified in its charter)

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

(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 þ 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 þ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the new registrant was required to submit such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. þ

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of June 29, 2018, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately $2.6 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 29, 2018).

As of February 20, 2019, the registrant had 90,058,836 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018 are incorporated herein by reference in Part III.

AUTONATION, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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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, 2018, we owned and operated 326 new vehicle franchises from 239 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well-known in our key markets, sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 92% of the new vehicles that we sold in 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). We also own and operate 85 AutoNation-branded collision centers, and together with our vehicle dealerships, our AutoNation USA stores, and our automotive auctions, we owned and operated over 325 locations coast to coast.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service" (also referred to as "Customer Care"), which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products (also referred to as "Customer Financial Services"), 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, used vehicle, parts and service, and finance and insurance sales in 2018.

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.

Reportable Segments

As of December 31, 2018, 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	Mitsubishi	Alfa Romeo	Lexus
Cadillac	GMC	Fiat	Nissan	Audi	Maserati
Chevrolet	Jeep	Honda	Subaru	Bentley	Mercedes-Benz
Chrysler	Lincoln	Hyundai	Toyota	BMW	MINI
Dodge	Ram	Infiniti	Volkswagen	Jaguar	Porsche
		Mazda	Volvo	Land Rover	

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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, 2018, Domestic revenue represented 33% of total revenue, Premium Luxury revenue represented 33% of total revenue, and Import revenue represented 32% of total revenue. For additional financial information regarding our three reportable segments, 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 continue to make significant investments to build a seamless, end-to-end customer experience in our stores and through our digital channels, and to improve our ability to generate business through those channels. As part of our strategic initiatives, we implemented “AutoNation Express,” which enables our customers to complete certain automotive retail- and service-related transactions through our digital channels and offers a more fully integrated in-store and digital customer experience while also increasing traffic to our digital channels. We have developed features such as selecting and reserving a vehicle with a guaranteed price, scheduling a test drive, calculating payments, receiving a firm purchase offer for a vehicle that a customer wants to sell, applying for financing options, arranging service appointments, receiving updates on maintenance and repair services, and paying for maintenance and repair services online.

- *Continue to invest in the AutoNation retail brand to enhance our strong customer satisfaction and expand our market share.*

We continue to implement our comprehensive, customer-focused brand extension strategy, which includes AutoNation-branded parts and accessories, AutoNation-branded Customer Financial Services products (including extended service and maintenance contracts and other vehicle protection products), the expansion of AutoNation-branded collision centers, AutoNation-branded automotive auctions, and AutoNation USA stand-alone used vehicle sales and service centers. During 2018, we opened nine and acquired two collision centers, and we opened one automotive auction and two AutoNation USA stores. Our brand extension strategy also includes AutoNation Pre-Owned 360, which encompasses our technology, processes, and procedures for our One Price used vehicle centralized pricing and appraisal strategy, as well as our “We’ll Buy Your Car” program (under which customers receive a guaranteed trade-in offer honored for 7 days or 500 miles at any of our locations), and related training and systems.

We also continue to implement our Customer Care initiatives, including our AutoNation-branded parts and accessories. Our branded parts are sold under the name “AutoNation PrecisionParts,” which are sourced through various partnerships with third-party suppliers. These parts include maintenance and repair items such as batteries, wiper blades, filters, and service-drive chemicals. In addition, we have launched an accessory line called “AutoNation AutoGear” with nearly 30 high quality accessory brands for lifestyle, appearance, protection, and vehicle security. Our Customer Care initiatives also include the direct sourcing and distribution of other retail and wholesale parts for sale to our customers and other dealerships and collision centers. We currently have six operational AutoNation aftermarket collision parts distribution centers. We have also partnered with other collision service providers and large online marketplaces to fulfill sales demand of aftermarket collision parts. We expect to continue to expand our distribution network to support our national wholesale footprint and create more opportunities to offer both original manufacturer and AutoNation aftermarket collision parts to our customers.

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We expect that these initiatives will expand and strengthen the AutoNation retail brand, improve the customer experience, provide new growth opportunities, and enable us to expand our footprint in our core and other markets.

• *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 strive to manage our new and used vehicle inventories so that our stores' supply and mix of vehicles are in line with seasonal sales trends and also minimize our carrying costs. Additionally, we are able to improve financial controls and lower servicing costs by maintaining many 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 invest in strategic partnerships to evolve with the changing automotive retail industry and to widen our access to new and expanding sales channels for vehicles, parts, and service.*

We have invested in various strategic partnerships with a focus on emerging digital technologies. While we do not expect these partnerships to have a material impact on near-term future earnings, we believe these partnerships will further enhance our ability to adapt to changing customer behavior and expectations. Our investment in Vroom Inc., one of the largest online car retailers, provides a foundation for strategic partnership opportunities with an experienced and proven e-commerce executive team. Our partnership with Fair, a used vehicle subscription company, positions us to adapt to shifting mobility preferences and provides us access to a wider group of customers. We also have invested in strategic partnerships to expand our access to parts and service customers, such as our partnership with Waymo, the self-driving technology company of Alphabet Inc., to support Waymo's autonomous vehicle program, and our partnership with AAA as its first national Approved Auto Repair program partner.

As most customers still purchase vehicles through brick-and-mortar stores, we continue to ensure we have density in our core markets where we operate. We have retail operations in 16 states with a focus on major metropolitan areas, and we seek to offer an optimal mix of our products and services within our key markets. We will continue to pursue acquisitions and new store and collision center opportunities that meet our return on investment threshold.

Our business benefits from a well-diversified portfolio of automotive retail franchises. In 2018, approximately 38% of our segment income for reportable segments was generated by Premium Luxury franchises, approximately 34% by Import franchises, and approximately 28% 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. 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, including our brand extension strategy discussed above under "Business Strategy." We also deploy capital opportunistically to repurchase our common stock and/or debt or to complete dealership, collision center, or other automotive business-related acquisitions or investments, and/or build facilities for newly awarded franchises. 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 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, 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 brand 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

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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 recondition used vehicles acquired by our used vehicle departments and perform minor preparatory work on new vehicles acquired by our new vehicle departments. In addition to our retail business, we also have wholesale parts operations, which sell automotive parts to both collision repair shops and independent vehicle repair providers. We also offer AutoNation PrecisionParts and AutoNation AutoGear, product and accessory lines that are integrated into our parts and service operations.

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, and several of these vehicle protection products are AutoNation-branded. These products are underwritten and administered by independent third parties, including the vehicle manufacturers' and distributors' captive finance subsidiaries. We sell the products on a commission basis, and in certain cases, we also participate in future underwriting profit for certain products pursuant to retrospective commission arrangements with the issuers of those products.

As of December 31, 2018, we operated stores in the following states:

State	**Number of Stores**	**Number of Franchises**	**% of Total Revenue** [(1)]
Florida	50	60	24
Texas	42	64	20
California	39	51	18
Colorado	15	25	7
Arizona	14	18	6
Washington	15	20	5
Georgia	16	25	4
Nevada	11	13	4
Tennessee	8	12	3
Illinois	7	8	3
Maryland	7	9	1
Ohio	4	4	1
New York	4	6	1
Alabama	4	8	1
Virginia	2	2	1
Minnesota	1	1	1
Total	239	326	100

(1) Revenue by state includes revenue from non-dealership operations, such as collision centers, auction operations, AutoNation USA stand-alone used vehicle sales and service centers, and aftermarket collision parts businesses.

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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, 2018:

	New Vehicle Revenues (in millions)	Retail New Vehicle Unit Sales	% of Total Retail New Vehicle Units Sold	Franchises Owned
Domestic:				
Ford, Lincoln	$ 1,524.8	37,918	12.2	38
Chevrolet, Buick, Cadillac, GMC	1,255.3	34,467	11.1	42
Chrysler, Dodge, Jeep, Ram	1,120.7	29,630	9.5	68
Domestic Total	3,900.8	102,015	32.8	148
Import:				
Toyota	1,746.4	60,401	19.4	19
Honda	1,145.4	42,480	13.7	24
Nissan	437.2	16,361	5.3	10
Other Import	717.4	23,314	7.5	32
Import Total	4,046.4	142,556	45.9	85
Premium Luxury:				
Mercedes-Benz	1,435.1	24,979	8.0	38
BMW	884.1	16,126	5.2	16
Lexus	330.2	7,202	2.3	3
Audi	363.4	7,080	2.3	8
Jaguar Land Rover	450.8	6,288	2.0	14
Other Premium Luxury	340.8	4,593	1.5	14
Premium Luxury Total	3,804.4	66,268	21.3	93
	$ 11,751.6	310,839	100.0	326

Agreements with Vehicle Manufacturers

Framework Agreements

We have entered into framework and related 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.

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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 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. 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. In addition, automotive dealers are subject to regulation by the Federal Trade Commission (the "FTC"), which has implemented an enforcement initiative relating to the advertising practices of automotive dealers. The imported automobiles, parts, and accessories 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

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individuals, or governmental entities and may expose us to significant damages or other penalties, including fines and revocation or suspension of our licenses to conduct store operations. Our financing activities may also be impacted indirectly by laws and regulations that govern automotive finance companies and other financial institutions, including regulations adopted by the Consumer Financial Protection Bureau (the "CFPB").

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 for additional information.

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 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 industry sources, as of December 31, 2018, there were approximately 16,700 franchised automotive dealerships, which sell both new and used vehicles, in the United States. In addition, we estimate that there were approximately twice as many independent used vehicle dealers in the United States. We face competition from (i) several public companies that operate numerous automotive retail stores or collision centers 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 or collision centers 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 dealers and certain manufacturers 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, service center chains, collision service operations, and wholesale parts outlets. We believe that the principal competitive factors in the parts and service business are price, location, 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. 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 evaluations 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, 2018, we employed approximately 26,000 full-time and part-time employees, approximately 250 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.

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Trademarks

We own a number of registered service marks and trademarks, including, among other marks, AutoNation® and AutoNation USA®. 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.

Executive Officers of AutoNation

The following sets forth certain information regarding our executive officers as of February 20, 2019. As previously disclosed in a Current Report on Form 8-K filed with the SEC on February 22, 2019, our Board of Directors has appointed Carl C. Liebert III as our Chief Executive Officer and President, and as a member of our Board, effective as of March 11, 2019. In accordance with the terms of his employment agreement with the Company, Mr. Jackson will become our Executive Chairman (including Chairman of the Board) until December 31, 2021, and he will no longer serve as our Chief Executive Officer and President, effective as of March 11, 2019.

Name	Age	Position	Years with AutoNation	Years in Automotive Industry
Mike Jackson	70	Chairman of the Board, Chief Executive Officer and President	19	48
H. Scott Arnold	60	Executive Vice President, Customer Care and Brand Extensions	14	41
James R. Bender	63	Executive Vice President, Sales	19	42
Marc Cannon	57	Executive Vice President and Chief Marketing Officer	21	32
C. Coleman Edmunds	54	Executive Vice President, General Counsel and Corporate Secretary	23	23
Cheryl Miller	46	Executive Vice President and Chief Financial Officer	11	20

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 June 2017. He also served as our President from February 2015 until January 2017. 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 11 automotive dealership franchises, including Mercedes-Benz and other brands of automobiles. From January 2018 until December 2018, Mr. Jackson served as Chair, and from January 2015 until December 2017 as Deputy Chair, of the Board of Directors of the Federal Reserve Bank of Atlanta. He was appointed to the Board of Directors of the Federal Reserve Bank of Atlanta in January 2014, after having previously served on the Board of Directors of the Federal Reserve Bank of Atlanta's Miami Branch.

H. Scott Arnold has served as our Executive Vice President, Customer Care and Brand Extensions since May 2017. From January 2017 through April 2017, Mr. Arnold served as Senior Vice President, Customer Care. Prior to becoming a Senior Vice President, Mr. Arnold held various leadership roles within the Company, including as a Market President in the Company's Western Region from February 2011 until September 2012, as Region Vice President, Customer Care in the Company's Western Region from October 2012 through July 2015, and as Vice President, Customer Care from August 2015 through December 2016.

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James R. Bender has served as our Executive Vice President, Sales since January 2019. Mr. Bender is responsible for new and used vehicle sales, as well as Customer Financial Services and manufacturer relations. Prior to becoming an Executive Vice President, Mr. Bender served as Region President of our Eastern Region, with responsibility for the states of Florida, Georgia, Alabama, Virginia, Tennessee, Ohio, and Maryland from February 2015 until December 2018, and as President of our former Florida Region from April 2004 until January 2015. Mr. Bender joined AutoNation in April 2000.

Marc Cannon has served as our Executive Vice President and Chief Marketing Officer since January 2017. Mr. Cannon is responsible for marketing, communications, customer service, AutoNation.com, and public policy. From February 2016 until January 2017, he served as our Chief Marketing Officer, Senior Vice President of Communications and Public Policy, and from February 2007 until February 2016, he served as our Senior Vice President, Corporate Communications.

C. Coleman Edmunds has served as our Executive Vice President, General Counsel and Corporate Secretary since April 2017. In addition to his role as General Counsel, Mr. Edmunds assumed responsibility for Human Resources and Corporate Development in January 2019. From October 2007 through March 2017, Mr. Edmunds served as our Senior Vice President, Deputy General Counsel and Assistant Secretary. He joined AutoNation in November 1996. Prior to joining AutoNation, Mr. Edmunds was in private practice with the international law firm of Baker & McKenzie.

Cheryl Miller has served as our Executive Vice President and Chief Financial Officer since March 2014. Ms. Miller has responsibility for all financial functions and corporate strategy, as well as corporate real estate services and benefits. She was appointed Interim Chief Financial Officer in January 2014, and she served as Treasurer, Vice President Investor Relations from April 2010 until March 2014. Ms. Miller serves as a director, and as Chair of the Audit Committee, of Tyson Foods, Inc.

Corporate Social Responsibility

We strive to conduct our business in an ethical and socially responsible way, and are sensitive to the needs of the environment, our customers, our shareholders, our employees, and our communities.

We have transformed our brand through our “Drive Pink” initiative. More than a charitable focus on cancer research and treatment, Drive Pink is a core element of our corporate culture and has impacted customers, associates, and communities in meaningful ways.

We fund national cancer research and treatment facilities from coast to coast through our philanthropic activities. Through the combined efforts of our 26,000 associates, vendors/partners, customers, and executive leadership, we have raised and donated approximately $18 million to support the world-class AutoNation Institute for Breast and Solid Tumor Cancer Research, the Moffitt Cancer Center, the Breast Cancer Research Foundation, St. Jude Children’s Research Hospital, and other leading cancer facilities.

Our presence is felt at local community-based cancer events, as teams of our associates represent AutoNation at runs, walks, and other fundraisers. Yearly, AutoNation celebrates Drive Pink Across America Day by providing our associates with opportunities to deliver thousands of gift bags to local hospitals in our markets for patients undergoing cancer treatment.

Vehicles sold at our AutoNation locations are fitted with a pink license plate frame as a symbol of our commitment to “driving out” cancer. More than one million pink plates have been distributed to date.

We also offer an innovative company-paid cancer insurance plan that provides financial assistance to associates or their families recently diagnosed with cancer. This company-paid benefit is offered by fewer than 5% of companies nationally and it further underscores our commitment to driving out cancer.

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

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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 our expectations for the future performance of our business 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," "could," and variations of such words and similar expressions are intende 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, including fuel prices, interest rates, and tariffs. Our business and results of operations are substantially dependent on vehicle sales levels in the United States and in our particular geographic markets, as well as the gross profit margins that we can achieve on our sales of vehicles, all of which are very difficult to predict.

We believe that many factors affect sales of new and used 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, tariffs, 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, the length of consumer loans on existing vehicles, and the rise of ride-sharing applications. Changes in interest rates can significantly impact new and used 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 vehicles, particularly trucks and sport utility vehicles that historically have provided us with higher gross profit per vehicle retailed, 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. The imposition of new tariffs, quotas, duties, or other restrictions or limitations could increase prices for vehicles and/or parts imported into the United States and adversely impact demand for such vehicles and/or parts. Our vehicle sales, service, and collision businesses could also be adversely affected by changes in the automotive industry driven by new technologies, distribution channels, or products, including ride-sharing applications, subscription services, autonomous and electric vehicles, and accident avoidance technology.

Approximately 17.3 million, 17.2 million, and 17.5 million new vehicles were sold in the United States in 2018, 2017, and 2016, respectively. We currently expect that the annual rate of U.S. new vehicle unit sales will decrease to the high 16 million unit level in 2019. However, actual sales may materially differ. If new vehicle production exceeds the new vehicle industry selling rate, our new vehicle gross profit per vehicle retailed could be adversely impacted by excess supply and any resulting changes in incentive, marketing, and other programs of vehicle manufacturers. See the risk factor "*Our new vehicle sales are impacted by the 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 parts and automotive repair and maintenance services and automotive finance and insurance products.

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

Most vehicle manufacturers from time to time establish various marketing and sales incentive programs designed to spur consumer demand for their vehicles, particularly during periods of excess supply and/or in a flat or declining new vehicle market. 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. Furthermore, manufacturers may modify and discontinue these marketing and incentive programs from time to time, which could have a material adverse effect on our results of operations and cash flows.

In 2018, our new vehicle unit volume and new vehicle gross profit on a per vehicle retailed basis were adversely impacted by certain manufacturers' disruptive marketing and sales incentive programs based upon store-level growth targets established by those manufacturers (commonly referred to as "stair-step" incentive programs), which result in multi-tier pricing and adversely impact our ability to compete with other dealers. If those manufacturers continue to use such incentive programs or if other manufacturers adopt similar incentive programs, our operating results could continue to be adversely impacted.

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 92% of the new vehicles that we sold in 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). We are 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, the rise of ride-sharing applications, 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. In addition, vehicle recall campaigns could materially adversely affect our business, results of operations, and financial condition.

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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.

We are investing significantly in our brand extension strategy, and if our strategic initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.

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 and attracting consumers to our own digital channels. We are also investing significantly in our brand extension strategy, which includes branded parts and accessories, branded Customer Financial Services products, the expansion of branded collision centers, branded automotive auctions, and stand-alone used vehicle sales and service centers. In connection with our brand extension strategy, we have adopted a one price used vehicle centralized pricing and appraisal strategy at all of our stores. See "Business Strategy" in Part I, Item 1 of this Form 10-K. The roll-out of these strategic initiatives may be impacted by a number of variables, including customer adoption, market conditions, and our ability to identify, acquire, and build out suitable locations in a timely manner. There can be no assurance that those initiatives will be successful or that the amount we invest in those initiatives will result in improved financial results. If our initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.

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. All of our Domestic and Import stores are unified under the 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, maintain our reputation, or 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.

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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.

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.

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.

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, our digital channels, 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 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 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, vehicle protection products, advertising, licensing, consumer protection, consumer privacy, escheatment, anti-money laundering, the environment, vehicle emissions and fuel economy, health and safety, and employment practices. With respect to motor vehicle sales, retail installment sales, leasing, finance and insurance, vehicle protection products, 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.

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The Dodd-Frank Act established the CFPB, an 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 issued a rule, pursuant to its authority under the Dodd-Frank Act, expanding its supervisory authority with respect to certain non-bank lenders, including automotive finance companies, participating in automotive financing. The Dodd-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. Regulation from the CFPB or 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.

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 and the indentures relating to our senior unsecured notes contain covenants that limit the discretion of our management with respect to various business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to make investments, 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.

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As of December 31, 2018, we had $2.6 billion of total non-vehicle debt (including amounts outstanding under our commercial paper program and capital leases) and $4.0 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, investments, and other general corporate activities;
- A downgrade in our credit ratings could negatively impact the interest rate payable on our senior notes and could negatively impact our ability to issue, or the interest rates for, commercial paper notes;
- Covenants relating to our indebtedness may limit our ability to obtain financing for working capital, capital expenditures, acquisitions, investments, 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
- An increase in our leverage ratio could negatively impact the applicable margins on interest rates charged for borrowings under our revolving credit facility.
- Future share repurchases may be limited by the maximum leverage ratio and/or maximum capitalization 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 commercial paper program that could have a material adverse effect on our profitability.

Our vehicle floorplan payables and revolving credit facility are subject to variable interest rates, and the interest rate for our commercial paper notes varies based on duration and market conditions. Accordingly, our interest expense will fluctuate with changing market conditions and will increase if interest rates rise. In addition, our net new vehicle 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.

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.

During 2018, we recorded non-cash impairment charges of $8.1 million ($6.1 million after-tax) associated with certain franchise rights at our stores. See Note 17 of the Notes to Consolidated Financial Statements for more information.

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. 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 20, 2019, William H. Gates III beneficially owns approximately 23% 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, including the election of directors and any transactions involving a change of control.

Based on filings made with the SEC through February 20, 2019, ESL Investments, Inc. together with certain of its investment affiliates (collectively, “ESL”) beneficially owns approximately 17% of the outstanding shares of our common stock. As a result, ESL may also 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.

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. 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 20, 2019, William H. Gates III and ESL beneficially own approximately 40% 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.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

We lease our current corporate headquarters facility in Fort Lauderdale, Florida, pursuant to a lease expiring on December 31, 2029. We also own or lease numerous facilities relating to our operations under each of our operating segments. These facilities are located in the following 16 states: Alabama, Arizona, California, Colorado, Florida, Georgia, Illinois, Maryland, Minnesota, Nevada, New York, 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, 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 do not believe that the ultimate resolution of any of the foregoing 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.

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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." As of February 20, 2019, there were 1,441 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 2018.

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, 2018 – October 31, 2018	361	$ 40.38	—	$ 263.7
November 1, 2018 – November 30, 2018	128	$ 38.61	—	$ 263.7
December 1, 2018 – December 31, 2018	118	$ 33.52	—	$ 263.7
Total for three months ended December 31, 2018	607		—	
Total for twelve months ended December 31, 2018	2,117,301		2,100,838	

(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, 2018, $263.7 million remained available under our stock repurchase limit most recently authorized by our Board of Directors. Our stock repurchase program does not have an expiration date. In 2018, all of our shares were repurchased under our stock repurchase program, except for 16,463 shares that were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock (6,126 shares in the first quarter of 2018, 9,730 shares in the second quarter of 2018, and 607 shares in the fourth quarter of 2018).

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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, 2013 through December 31, 2018 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, 2013 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

	12/13	**12/14**	**12/15**	**12/16**	**12/17**	**12/18**
AutoNation Inc.	100.00	121.57	120.06	97.91	103.30	71.85
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Public Auto Retail Peer Group	100.00	130.36	113.14	127.91	127.52	115.16

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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)	**2018**	**2017**	**2016**	**2015**	**2014**
Consolidated Statements of Income Data:					
Revenue	$21,412.8	$21,534.6	$21,609.0	$20,862.0	$19,108.8
Income from continuing operations before income taxes	$529.4	$636.5	$702.3	$722.7	$682.3
Net income	$396.0	$434.6	$430.5	$442.6	$418.7
Basic earnings (loss) per share:					
Continuing operations	$4.36	$4.45	$4.19	$3.94	$3.58
Discontinued operations	$—	$—	$(0.01)	$(0.01)	$(0.01)
Net income	$4.36	$4.44	$4.18	$3.93	$3.57
Weighted average common shares outstanding	90.9	97.8	103.1	112.7	117.3
Diluted earnings (loss) per share:					
Continuing operations	$4.34	$4.43	$4.16	$3.90	$3.53
Discontinued operations	$—	$—	$(0.01)	$(0.01)	$(0.01)
Net income	$4.34	$4.43	$4.15	$3.89	$3.52
Weighted average common shares outstanding	91.3	98.2	103.8	113.9	118.9
Common shares outstanding, net of treasury stock	90.0	91.6	100.7	110.8	113.3
Consolidated Balance Sheets Data:					
Total assets	$10,665.1	$10,271.5	$10,060.0	$9,548.2	$8,395.0
Long-term debt, net of current maturities	$1,926.2	$1,959.2	$1,611.1	$1,745.3	$2,098.7
Shareholders’ equity	$2,716.0	$2,369.3	$2,310.3	$2,349.3	$2,072.1
Retail vehicle unit sales (continuing operations):					
New vehicle	310,839	329,116	337,622	339,080	318,008
Used vehicle	237,722	234,148	225,713	227,290	214,910
Total	548,561	563,264	563,335	566,370	532,918

See the Notes to Consolidated Financial Statements for additional information.

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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, 2018, we owned and operated 326 new vehicle franchises from 239 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 92% of the new vehicles that we sold in 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). As of December 31, 2018, we also owned and operated 85 AutoNation-branded collision centers, and together with our vehicle dealerships, our AutoNation USA stores, and our automotive auctions, we owned and operated over 325 locations coast to coast.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service" (also referred to as "Customer Care"), which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products (also referred to as "Customer Financial Services"), 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, 2018, 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 FCA US. 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, Audi, Lexus, and Jaguar Land Rover. 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, 2018, new vehicle sales accounted for approximately 55% of our total revenue, and approximately 15% of our total gross profit. Used vehicle sales accounted for approximately 24% of our total revenue, and approximately 10% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 21% of total revenue, contributed approximately 75% of our gross profit.

Market Conditions

Full-year U.S. industry new vehicle unit sales were 17.3 million in 2018, as compared to 17.2 million in 2017 and 17.5 million in 2016. We currently expect that full-year U.S. industry new vehicle unit sales in 2019 will decrease to the high 16 million unit level. However, actual sales may materially differ. Based on industry data, vehicle leasing and manufacturer incentives remain at historically-high levels. To the extent that vehicle manufacturers reduce their support for these programs, U.S. industry and our new vehicle unit retail sales could be adversely impacted. In addition, an increase in off-lease supply of late-model used vehicles could benefit retail used vehicle unit volume but adversely impact retail new vehicle unit volume and pricing.

A rise in interest rates has adversely impacted interest expense on variable rate debt such as vehicle floorplan payables and commercial paper notes. Consumer borrowing rates, which are generally based on the same underlying benchmark interest rates, have increased over the past two years. If interest rates continue to rise, there may be an adverse impact on vehicle sales and vehicle affordability due to the direct relationship between interest rates and monthly loan payments, a critical factor for many vehicle buyers.

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Results of Operations

We had net income from continuing operations of $395.9 million and diluted earnings per share of $4.34 in 2018, as compared to net income from continuing operations of $435.0 million and diluted earnings per share of $4.43 in 2017, and net income from continuing operations of $431.7 million and diluted earnings per share of $4.16 in 2016.

Our used vehicle gross profit increased 8%, our finance and insurance gross profit increased 4%, and our parts and service gross profit increased 4%, each as compared to 2017, due in part to our brand extension strategy. These increases were partially offset by a decrease in new vehicle gross profit of 12%. Our new vehicle unit volume and new vehicle gross profit on a per vehicle retailed (“PVR”) basis were adversely impacted by competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles, in a plateauing sales environment. SG&A expenses increased, as compared to 2017, due to investments related to our brand extension strategy, as well as increases in costs associated with our self-insurance programs, including less favorable claims experience and higher premiums, deductibles, and hail-related losses. Floorplan interest expense also increased as compared to the prior year period, primarily due to higher average interest rates.

Net income from continuing operations benefited from net after-tax gains related to store/property divestitures of $43.7 million in 2018, $42.2 million in 2017, and $30.1 million in 2016, and after-tax gains of $8.7 million in 2018 related to certain legal settlements, $6.7 million in 2017 in connection with payments we received from manufacturers related to a legal settlement and for the waiver of certain franchise protest rights, and $8.9 million in 2016 related to legal settlements.

In January 2019, we announced a restructuring of certain of our corporate and regional organization as part of a plan to reduce our annual spending by approximately $50 million in preparation of a challenging automotive retail market in 2019. In connection with this restructuring, we recognized $9.4 million of restructuring expenses during the fourth quarter of 2018, which is reflected as a component of our SG&A expenses. We expect to recognize additional expenses in the first quarter of 2019 related to this restructuring.

Chief Executive Officer Transition

On February 15, 2019, our Board of Directors appointed Carl C. Liebert III as Chief Executive Officer and President of AutoNation, and as a member of the Board, effective as of March 11, 2019. Prior to his appointment, Mr. Liebert, age 53, served as Chief Operating Officer and Executive Vice President of United Services Automobile Association (“USAA”), where he was responsible for USAA’s business operations functions, including USAA’s Bank, Investment, Life, Property and Casualty, Real Estate Investment Companies, and member contact functions. His responsibilities included delivering an integrated digital experience through USAA’s website, tablet, mobile devices, voice, and emerging channels. Mr. Liebert also previously served as President and Chief Executive Officer of 24-Hour Fitness and as Executive Vice President, Stores for The Home Depot. Mike Jackson, our current Chairman, Chief Executive Officer and President, will become our Executive Chairman until December 31, 2021, and he will no longer serve as our Chief Executive Officer and President, effective as of March 11, 2019.

Strategic Initiatives

We continue to implement our comprehensive, customer-focused brand extension strategy, which includes AutoNation-branded parts and accessories, AutoNation-branded Customer Financial Services products (including extended service and maintenance contracts and other vehicle protection products), the expansion of AutoNation-branded collision centers, AutoNation-branded automotive auctions, and AutoNation USA stand-alone used vehicle sales and service centers. During 2018, we opened nine and acquired two collision centers, and we opened one automotive auction and two AutoNation USA stores.

In October 2018, we invested $50 million in Vroom Inc., one of the largest online car retailers. Our investment currently represents an equivalent ownership stake of approximately 7%. In November 2018, we announced a partnership with Fair, the nation’s fastest growing car subscription company. Our partnership with Fair provides consumers with access to certain used and certified pre-owned vehicles at AutoNation dealerships, all through a mobile application. We also continue to partner with Waymo, the self-driving technology company of Alphabet Inc., in a multi-year agreement to support Waymo’s autonomous vehicle program. We do not expect our agreements with Waymo or Fair or our investment in Vroom to have a material effect on our financial results in the foreseeable future.

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Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or net realizable value in our Consolidated Balance Sheets. We monitor our vehicle inventory levels based on current economic conditions and seasonal sales trends.

We have typically not experienced significant 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 monitor our new vehicle inventory values as compared to net realizable values, and as a result, our new vehicle inventory balance was net of cumulative write-downs of $0.5 million at December 31, 2018, and $2.2 million at December 31, 2017.

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. We monitor our used vehicle inventory values as compared to net realizable values. Typically, used vehicles that are not sold on a retail basis are sold at wholesale auctions. Our used vehicle inventory balance was net of cumulative write-downs of $3.2 million at December 31, 2018, and $4.1 million at December 31, 2017.

Parts, accessories, and other inventory are carried at the lower of acquisition cost or net realizable value. We estimate the amount of potentially damaged and/or obsolete inventory based upon historical experience, manufacturer return policies, and industry trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of $6.4 million at December 31, 2018, and $5.2 million at December 31, 2017.

Critical Accounting Estimates

We prepare our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, 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 accounting 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. See Note 1 of the Notes to Consolidated Financial Statements for a discussion of other significant accounting policies.

Goodwill

Goodwill for our reporting units is tested for impairment annually on April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit exceeds its fair value. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment as of April 30, 2018, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts.

The quantitative goodwill impairment test is dependent on many variables used to determine the fair value of our reporting units. See Note 17 of the Notes to Consolidated Financial Statements for additional information on how the fair values and carrying values of our reporting units are derived for the quantitative goodwill impairment test.

As of December 31, 2018, we have $232.5 million of goodwill related to the Domestic reporting unit, $520.9 million related to the Import reporting unit, $717.7 million related to the Premium Luxury reporting unit, and $42.1 million in "Other."

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.

Our franchise rights, which related to 66 stores and totaled $572.2 million at April 30, 2018, are evaluated for impairment on a franchise-by-franchise basis annually. We performed quantitative franchise rights impairment tests as of April 30, 2018. As a result of the quantitative tests, we identified 3 stores with franchise rights carrying values that exceeded their fair values, and we recorded non-cash impairment charges of $8.1 million. We identified 11 additional stores

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that, while they each had franchise rights fair value in excess of carrying value, had lower relative performance compared to our total store population. We will continue to monitor these 11 stores, as well as all stores, for events or changes in circumstances that may indicate potential impairment. The remainder of our stores had franchise rights with calculated fair values that substantially exceeded their carrying values. If, hypothetically, the fair value of each of the franchise rights quantitatively tested had been determined to be 10% lower as of the valuation date, the additional aggregate pre-tax non-cash impairment charge would have been approximately $3 million. The quantitative franchise rights impairment test is dependent on many variables used to determine the fair value of each store’s franchise rights. See Note 17 of the Notes to Consolidated Financial Statements for a description of the valuation method and related estimates and assumptions used in our quantitative impairment testing. The effect of a hypothetical 10% decrease in fair value estimates is not intended to provide a sensitivity analysis of every potential outcome.

Chargeback Liability

Revenue on finance and insurance products represents commissions earned by us for the placement of: (i) loans and leases with financial institutions in connection with customer vehicle purchases financed, (ii) vehicle service contracts with third-party providers, and (iii) other vehicle protection products with third-party providers. We sell these products for an upfront commission, which is recognized when our performance obligation is satisfied, generally at the time of the vehicle sale. In certain cases, we also participate in the future underwriting profit on certain products pursuant to retrospective commission arrangements with the issuers of those products. See Note 2 of the Notes to Consolidated Financial Statements for more information on our revenue recognition.

We may be charged back for commissions related to financing, vehicle service contracts, or other vehicle 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 commissions related to financing, vehicle service contracts, or other vehicle protection products on an individual basis using our historical chargeback experience based on internal cancellation data, as well as cancellation data received from third parties that sell and administer these products. Our estimated liability for chargebacks totaled $128.1 million at December 31, 2018, and $120.8 million at December 31, 2017.

Chargebacks are influenced by the volume of vehicle sales in recent years, commission levels, product penetration, product mix, and increases or decreases in early termination rates resulting from cancellation of vehicle service contracts and other vehicle 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 an adjustment to our estimated liability for chargebacks. The increase in our liability for chargebacks is largely attributable to increases in commission levels received upon the sale of vehicle service contracts and product penetration in recent years, as well as product mix. 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, 2018, by approximately $12.8 million. See Note 9 of the Notes to Consolidated Financial Statements for more information regarding chargeback liabilities.

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Reported Operating Data

($ in millions, except per vehicle data)	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	% Variance	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	% Variance
Revenue:							
New vehicle	$11,751.6	$12,180.8	$(429.2)	(3.5)	$12,255.8	$(75.0)	(0.6)
Retail used vehicle	4,807.6	4,577.1	230.5	5.0	4,481.7	95.4	2.1
Wholesale	315.7	301.3	14.4	4.8	513.6	(212.3)	(41.3)
Used vehicle	5,123.3	4,878.4	244.9	5.0	4,995.3	(116.9)	(2.3)
Finance and insurance, net	981.4	939.2	42.2	4.5	894.6	44.6	5.0
Total variable operations[(1)]	17,856.3	17,998.4	(142.1)	(0.8)	18,145.7	(147.3)	(0.8)
Parts and service	3,447.6	3,398.3	49.3	1.5	3,321.4	76.9	2.3
Other	108.9	137.9	(29.0)		141.9	(4.0)	
Total revenue	$21,412.8	$21,534.6	$(121.8)	(0.6)	$21,609.0	$(74.4)	(0.3)
Gross profit:							
New vehicle	$516.1	$588.4	$(72.3)	(12.3)	$635.8	$(47.4)	(7.5)
Retail used vehicle	327.6	308.0	19.6	6.4	334.9	(26.9)	(8.0)
Wholesale	14.1	7.2	6.9		(17.3)	24.5	
Used vehicle	341.7	315.2	26.5	8.4	317.6	(2.4)	(0.8)
Finance and insurance	981.4	939.2	42.2	4.5	894.6	44.6	5.0
Total variable operations[(1)]	1,839.2	1,842.8	(3.6)	(0.2)	1,848.0	(5.2)	(0.3)
Parts and service	1,555.3	1,490.7	64.6	4.3	1,434.7	56.0	3.9
Other	2.8	25.5	(22.7)		30.5	(5.0)	
Total gross profit	3,397.3	3,359.0	38.3	1.1	3,313.2	45.8	1.4
Selling, general, and administrative expenses	2,509.8	2,436.2	(73.6)	(3.0)	2,349.4	(86.8)	(3.7)
Depreciation and amortization	166.2	158.6	(7.6)		143.4	(15.2)	
Franchise rights impairment	8.1	—	(8.1)		—	—	
Other income, net	(64.7)	(79.2)	(14.5)		(69.1)	10.1	
Operating income	777.9	843.4	(65.5)	(7.8)	889.5	(46.1)	(5.2)
Non-operating income (expense) items:							
Floorplan interest expense	(130.4)	(97.0)	(33.4)		(76.5)	(20.5)	
Other interest expense	(119.4)	(120.2)	0.8		(115.5)	(4.7)	
Interest income	1.1	1.0	0.1		1.1	(0.1)	
Other income, net	0.2	9.3	(9.1)		3.7	5.6	
Income from continuing operations before income taxes	$529.4	$636.5	$(107.1)	(16.8)	$702.3	$(65.8)	(9.4)
Retail vehicle unit sales:							
New vehicle	310,839	329,116	(18,277)	(5.6)	337,622	(8,506)	(2.5)
Used vehicle	237,722	234,148	3,574	1.5	225,713	8,435	3.7
	548,561	563,264	(14,703)	(2.6)	563,335	(71)	—
Revenue per vehicle retailed:							
New vehicle	$37,806	$37,011	$795	2.1	$36,300	$711	2.0
Used vehicle	$20,224	$19,548	$676	3.5	$19,856	$(308)	(1.6)
Gross profit per vehicle retailed:							
New vehicle	$1,660	$1,788	$(128)	(7.2)	$1,883	$(95)	(5.0)
Used vehicle	$1,378	$1,315	$63	4.8	$1,484	$(169)	(11.4)
Finance and insurance	$1,789	$1,667	$122	7.3	$1,588	$79	5.0
Total variable operations[(2)]	$3,327	$3,259	$68	2.1	$3,311	$(52)	(1.6)

(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,		
	2018 (%)	**2017 (%)**	**2016 (%)**
Revenue mix percentages:			
New vehicle	54.9	56.6	56.7
Used vehicle	23.9	22.7	23.1
Parts and service	16.1	15.8	15.4
Finance and insurance, net	4.6	4.4	4.1
Other	0.5	0.5	0.7
Total	100.0	100.0	100.0
Gross profit mix percentages:			
New vehicle	15.2	17.5	19.2
Used vehicle	10.1	9.4	9.6
Parts and service	45.8	44.4	43.3
Finance and insurance	28.9	28.0	27.0
Other	—	0.7	0.9
Total	100.0	100.0	100.0
Operating items as a percentage of revenue:			
Gross profit:			
New vehicle	4.4	4.8	5.2
Used vehicle-retail	6.8	6.7	7.5
Parts and service	45.1	43.9	43.2
Total	15.9	15.6	15.3
Selling, general, and administrative expenses	11.7	11.3	10.9
Operating income	3.6	3.9	4.1
Other operating items as a percentage of total gross profit:			
Selling, general, and administrative expenses	73.9	72.5	70.9
Operating income	22.9	25.1	26.8

	December 31,	
	2018	**2017**
Days supply:		
New vehicle (industry standard of selling days)	60 days	53 days
Used vehicle (trailing calendar month days)	42 days	43 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 our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us. For example, the results for a store acquired in February 2017 would be included only in our same store comparison of 2018 to 2017, not in our same store comparison of 2017 to 2016. Therefore, the amounts presented in the year 2017 column that is being compared to the year 2018 column may differ from the amounts presented in the year 2017 column that is being compared to the year 2016 column. Results from divested stores are excluded from both current and prior periods.

	Years Ended December 31,				Years Ended December 31,			
($ in millions, except per vehicle data)	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2017	2016	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$11,519.8	$11,761.3	$ (241.5)	(2.1)	$11,818.8	$11,886.8	$ (68.0)	(0.6)
Retail used vehicle	4,649.6	4,397.8	251.8	5.7	4,420.1	4,333.7	86.4	2.0
Wholesale	302.0	288.9	13.1	4.5	286.1	495.1	(209.0)	(42.2)
Used vehicle	4,951.6	4,686.7	264.9	5.7	4,706.2	4,828.8	(122.6)	(2.5)
Finance and insurance, net	964.4	911.7	52.7	5.8	918.5	871.3	47.2	5.4
Total variable operations[1]	17,435.8	17,359.7	76.1	0.4	17,443.5	17,586.9	(143.4)	(0.8)
Parts and service	3,354.9	3,288.7	66.2	2.0	3,307.3	3,220.3	87.0	2.7
Other	108.7	136.9	(28.2)		137.0	140.8	(3.8)	
Total revenue	$20,899.4	$20,785.3	$ 114.1	0.5	$20,887.8	$20,948.0	$ (60.2)	(0.3)
Gross profit:								
New vehicle	$506.5	$573.4	$ (66.9)	(11.7)	$569.3	$622.8	$ (53.5)	(8.6)
Retail used vehicle	319.5	296.7	22.8	7.7	299.9	323.8	(23.9)	(7.4)
Wholesale	8.1	7.6	0.5		0.6	(15.9)	16.5	
Used vehicle	327.6	304.3	23.3	7.7	300.5	307.9	(7.4)	(2.4)
Finance and insurance	964.4	911.7	52.7	5.8	918.5	871.3	47.2	5.4
Total variable operations[1]	1,798.5	1,789.4	9.1	0.5	1,788.3	1,802.0	(13.7)	(0.8)
Parts and service	1,513.3	1,441.9	71.4	5.0	1,451.5	1,389.9	61.6	4.4
Other	2.8	25.3	(22.5)		24.9	29.9	(5.0)	
Total gross profit	$3,314.6	$3,256.6	$ 58.0	1.8	$3,264.7	$3,221.8	$ 42.9	1.3
Retail vehicle unit sales:								
New vehicle	305,615	316,914	(11,299)	(3.6)	320,641	325,927	(5,286)	(1.6)
Used vehicle	229,379	223,559	5,820	2.6	225,985	216,447	9,538	4.4
Total	534,994	540,473	(5,479)	(1.0)	546,626	542,374	4,252	0.8
Revenue per vehicle retailed:								
New vehicle	$37,694	$37,112	$ 582	1.6	$36,860	$36,471	$ 389	1.1
Used vehicle	$20,270	$19,672	$ 598	3.0	$19,559	$20,022	$ (463)	(2.3)
Gross profit per vehicle retailed:								
New vehicle	$1,657	$1,809	$ (152)	(8.4)	$1,776	$1,911	$ (135)	(7.1)
Used vehicle	$1,393	$1,327	$ 66	5.0	$1,327	$1,496	$ (169)	(11.3)
Finance and insurance	$1,803	$1,687	$ 116	6.9	$1,680	$1,606	$ 74	4.6
Total variable operations[2]	$3,347	$3,297	$ 50	1.5	$3,270	$3,352	$ (82)	(2.4)

[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,	
	2018 (%)	**2017 (%)**	**2017 (%)**	**2016 (%)**
Revenue mix percentages:				
New vehicle	55.1	56.6	56.6	56.7
Used vehicle	23.7	22.5	22.5	23.1
Parts and service	16.1	15.8	15.8	15.4
Finance and insurance, net	4.6	4.4	4.4	4.2
Other	0.5	0.7	0.7	0.6
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	15.3	17.6	17.4	19.3
Used vehicle	9.9	9.3	9.2	9.6
Parts and service	45.7	44.3	44.5	43.1
Finance and insurance	29.1	28.0	28.1	27.0
Other	—	0.8	0.8	1.0
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	4.4	4.9	4.8	5.2
Used vehicle-retail	6.9	6.7	6.8	7.5
Parts and service	45.1	43.8	43.9	43.2
Total	15.9	15.7	15.6	15.4

New Vehicle

($ in millions, except per vehicle data)	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	2018 vs. 2017 % Variance	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	2017 vs. 2016 % Variance
Reported:							
Revenue	$11,751.6	$12,180.8	$(429.2)	(3.5)	$12,255.8	$(75.0)	(0.6)
Gross profit	$516.1	$588.4	$(72.3)	(12.3)	$635.8	$(47.4)	(7.5)
Retail vehicle unit sales	310,839	329,116	(18,277)	(5.6)	337,622	(8,506)	(2.5)
Revenue per vehicle retailed	$37,806	$37,011	$795	2.1	$36,300	$711	2.0
Gross profit per vehicle retailed	$1,660	$1,788	$(128)	(7.2)	$1,883	$(95)	(5.0)
Gross profit as a percentage of revenue	4.4%	4.8%			5.2%		
Days supply (industry standard of selling days)	60 days	53 days					

	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	2018 vs. 2017 % Variance	2017	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	2017 vs. 2016 % Variance
Same Store:								
Revenue	$11,519.8	$11,761.3	$(241.5)	(2.1)	$11,818.8	$11,886.8	$(68.0)	(0.6)
Gross profit	$506.5	$573.4	$(66.9)	(11.7)	$569.3	$622.8	$(53.5)	(8.6)
Retail vehicle unit sales	305,615	316,914	(11,299)	(3.6)	320,641	325,927	(5,286)	(1.6)
Revenue per vehicle retailed	$37,694	$37,112	$582	1.6	$36,860	$36,471	$389	1.1
Gross profit per vehicle retailed	$1,657	$1,809	$(152)	(8.4)	$1,776	$1,911	$(135)	(7.1)
Gross profit as a percentage of revenue	4.4%	4.9%			4.8%	5.2%		

The following discussion of new vehicle results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of $231.8 million, $419.5 million, and $369.0 million in new vehicle revenue and $9.6 million, $15.0 million, and $13.0 million in new vehicle gross profit for 2018, 2017, and 2016, respectively, is related to acquisition and divestiture activity, as well as new add-point openings.

2018 compared to 2017

Same store new vehicle revenue decreased during 2018, as compared to 2017, due to a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Same store revenue PVR benefited from an increase in the average selling prices for vehicles in all three segments due in part to a shift in mix toward trucks and sport utility vehicles that have relatively higher average selling prices. This shift in mix is due to a combination of consumer preference, improved vehicle fuel efficiency, and relatively low average fuel prices. Average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Same store gross profit PVR decreased during 2018, as compared to 2017, for all three segments resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles.

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2017 compared to 2016

Same store new vehicle revenue decreased during 2017, as compared to 2016, as a result of a decrease in same store unit volume, partially offset by an increase in revenue PVR. The decrease in same store unit volume was primarily due to declines in our Florida and Texas markets and overall competitive market conditions in a plateauing new vehicle sales environment, as well as certain manufacturers' disruptive marketing and sales incentive programs.

Same store revenue PVR during 2017 benefited from an increase in the average selling prices for vehicles in all three segments. These increases were due in part to sustained low average fuel prices, which caused a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices. These increases were partially offset by a shift in mix toward Import vehicles, which have relatively lower average selling prices.

Same store gross profit PVR decreased during 2017, as compared to 2016, primarily due to a decrease in gross profit PVR for Domestic vehicles resulting from a competitive sales environment and certain manufacturers' disruptive marketing and sales incentive programs.

Net New Vehicle Inventory Carrying Benefit (Cost)

The following table details net new vehicle inventory carrying benefit (cost), 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 accordance with U.S. generally accepted accounting principles.

	Years Ended December 31,				
($ in millions)	**2018**	**2017**	**Variance 2018 vs. 2017**	**2016**	**Variance 2017 vs. 2016**
Floorplan assistance	$ 117.9	$ 122.1	$ (4.2)	$ 124.0	$ (1.9)
New vehicle floorplan interest expense	(121.7)	(90.4)	(31.3)	(71.5)	(18.9)
Net new vehicle inventory carrying benefit (cost)	$ (3.8)	$ 31.7	$ (35.5)	$ 52.5	$ (20.8)

2018 compared to 2017

During 2018, we had a net new vehicle inventory carrying cost of $3.8 million compared to a net new vehicle inventory carrying benefit of $31.7 million in the prior year. Up until the second quarter of 2018, we had a net new vehicle inventory carrying benefit for nine consecutive years. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates. With the increase in interest rates, our floorplan interest expense has increased, resulting in a net new vehicle inventory carrying cost for 2018. If interest rates continue to increase without a corresponding increase in floorplan assistance or a decrease in average new vehicle inventory levels, we would expect that we will continue to incur a net new vehicle inventory carrying cost.

2017 compared to 2016

The net new vehicle inventory carrying benefit decreased in 2017, as compared to 2016, primarily due to an increase in floorplan interest expense. Floorplan interest expense increased due to higher average interest rates, partially offset by lower average vehicle floorplan payable balances during 2017.

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Used Vehicle

($ in millions, except per vehicle data)	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	% Variance	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	% Variance
Reported:							
Retail revenue	$4,807.6	$4,577.1	$230.5	5.0	$4,481.7	$95.4	2.1
Wholesale revenue	315.7	301.3	14.4	4.8	513.6	(212.3)	(41.3)
Total revenue	$5,123.3	$4,878.4	$244.9	5.0	$4,995.3	$(116.9)	(2.3)
Retail gross profit	$327.6	$308.0	$19.6	6.4	$334.9	$(26.9)	(8.0)
Wholesale gross profit (loss)	14.1	7.2	6.9		(17.3)	24.5	
Total gross profit	$341.7	$315.2	$26.5	8.4	$317.6	$(2.4)	(0.8)
Retail vehicle unit sales	237,722	234,148	3,574	1.5	225,713	8,435	3.7
Revenue per vehicle retailed	$20,224	$19,548	$676	3.5	$19,856	$(308)	(1.6)
Gross profit per vehicle retailed	$1,378	$1,315	$63	4.8	$1,484	$(169)	(11.4)
Gross profit as a percentage of retail revenue	6.8 %	6.7 %			7.5 %		
Days supply (trailing calendar month days)	42 days	43 days					

	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	% Variance	2017	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Retail revenue	$4,649.6	$4,397.8	$251.8	5.7	$4,420.1	$4,333.7	$86.4	2.0
Wholesale revenue	302.0	288.9	13.1	4.5	286.1	495.1	(209.0)	(42.2)
Total revenue	$4,951.6	$4,686.7	$264.9	5.7	$4,706.2	$4,828.8	$(122.6)	(2.5)
Retail gross profit	$319.5	$296.7	$22.8	7.7	$299.9	$323.8	$(23.9)	(7.4)
Wholesale gross profit (loss)	8.1	7.6	0.5		0.6	(15.9)	16.5	
Total gross profit	$327.6	$304.3	$23.3	7.7	$300.5	$307.9	$(7.4)	(2.4)
Retail vehicle unit sales	229,379	223,559	5,820	2.6	225,985	216,447	9,538	4.4
Revenue per vehicle retailed	$20,270	$19,672	$598	3.0	$19,559	$20,022	$(463)	(2.3)
Gross profit per vehicle retailed	$1,393	$1,327	$66	5.0	$1,327	$1,496	$(169)	(11.3)
Gross profit as a percentage of retail revenue	6.9 %	6.7 %			6.8 %	7.5 %		

The following discussion of used vehicle results is on a same store basis. The difference between reported amounts and same store amounts in the above tables of $158.0 million, $179.3 million, and $148.0 million in retail used vehicle revenue and $8.1 million, $11.3 million, and $11.1 million in retail used vehicle gross profit for 2018, 2017, and 2016, respectively, is related to acquisition and divestiture activity, as well as the opening of new add-points, AutoNation USA stores, and automotive auctions.

2018 compared to 2017

Same store retail used vehicle revenue increased during 2018, as compared to 2017, as a result of increases in same store revenue PVR and same store retail unit volume. Same store unit volume increased in the Premium Luxury and Import segments due in part to the continued acceptance of our One Price centralized pricing and appraisal strategy and an

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increase in off-lease supply of late-model used vehicles. Same store unit volume in the prior year was adversely impacted by declines in our Florida markets, due in part to temporary store closures as a result of Hurricane Irma. Same store revenue PVR increased during 2018, as compared to 2017, due in part to an increase in off-lease supply of late-model used vehicles and a shift in mix toward Premium Luxury vehicles and trucks and sport utility vehicles, all of which have relatively higher average selling prices. The shift in mix toward trucks and sport utility vehicles is due to a combination of consumer preference, improved vehicle fuel efficiency, and relatively low average fuel prices.
Same store gross profit PVR increased during 2018, as compared to 2017, due in part to the continued acceptance of our One Price centralized pricing and appraisal strategy. In the prior year, gross profit PVR was adversely impacted by implementation challenges with our One Price centralized pricing and appraisal strategy. Same store gross profit PVR also benefited from a shift in mix toward Premium Luxury vehicles, which have relatively higher average gross profit PVRs.

2017 compared to 2016

Same store retail used vehicle revenue increased during 2017, as compared to 2016, as a result of an increase in same store unit volume, partially offset by a decrease in revenue PVR. Unit volume increased due to the growing supply of off-lease vehicles and lower used vehicle pricing. Additionally, retail used vehicle unit volume in 2016 was adversely impacted by manufacturer safety recalls, which benefited wholesale unit volume in 2016. The increase in unit volume was partially offset by declines in our Florida markets, due in part to temporary store closures as a result of Hurricane Irma.

Same store revenue PVR was adversely impacted by a decrease in the average selling prices of used vehicles for all three segments, primarily due to an increase in supply in the industry, which had driven down the wholesale values of used vehicles. Same store revenue PVR was also adversely impacted by a shift in mix away from certified pre-owned vehicles, which have relatively higher average selling prices.

Same store gross profit decreased during 2017, as compared to 2016, due to decreases in the gross profit PVR of used vehicles for all three segments, particularly in our Domestic segment. In addition, gross profit PVR decreased due to implementation challenges we experienced in the first half of 2017 with One Price, our centralized pricing and appraisal strategy. Decreases in gross profit were partially offset by a decrease in wholesale losses due to a decrease in wholesale unit volume and wholesale loss per unit as compared to 2016. Manufacturer safety recalls benefited wholesale unit volume and adversely impacted retail used vehicle unit volume in 2016.

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Parts & Service

($ in millions)	2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	2018 vs. 2017 % Variance	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	2017 vs. 2016 % Variance
Reported:							
Revenue	$3,447.6	$3,398.3	$49.3	1.5	$3,321.4	$76.9	2.3
Gross profit	$1,555.3	$1,490.7	$64.6	4.3	$1,434.7	$56.0	3.9
Gross profit as a percentage of revenue	45.1 %	43.9 %			43.2 %		

	2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	2018 vs. 2017 % Variance	2017	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	2017 vs. 2016 % Variance
Same Store:								
Revenue	$3,354.9	$3,288.7	$66.2	2.0	$3,307.3	$3,220.3	$87.0	2.7
Gross profit	$1,513.3	$1,441.9	$71.4	5.0	$1,451.5	$1,389.9	$61.6	4.4
Gross profit as a percentage of revenue	45.1 %	43.8 %			43.9 %	43.2 %		

Parts and service revenue is primarily derived from vehicle repairs paid directly by customers or via reimbursement from manufacturers and others under warranty programs, as well as from wholesale parts sales and collision services. The following discussion of parts and service is on a same store basis. The difference between reported amounts and same store amounts in the above tables of $92.7 million, $109.6 million, and $101.1 million in parts and service revenue and $42.0 million, $48.8 million, and $44.8 million in parts and service gross profit for 2018, 2017, and 2016, respectively, is related to acquisition and divestiture activity, as well as the opening of new add-points, AutoNation USA stores, and collision centers.

2018 compared to 2017

Same store parts and service gross profit increased during 2018, as compared to 2017, primarily due to an increase in gross profit associated with customer-pay service of $37.5 million and warranty of $5.7 million. Parts and service gross profit also benefited from smaller increases in gross profit associated with service work outsourced to third parties and the preparation of vehicles for sale.

Customer-pay service gross profit benefited from improved margin performance primarily from a shift in mix toward higher margin service work, our parts initiatives, including service and maintenance parts and accessories, and price increases. Warranty gross profit benefited from improved margin performance largely due to a shift in mix toward higher margin service work and improved parts and labor rates negotiated with certain manufacturers.

2017 compared to 2016

Same store parts and service gross profit increased during 2017, as compared to 2016, primarily due to increases in gross profit associated with customer-pay service of $32.0 million and warranty of $21.3 million.

Customer-pay service gross profit benefited from improved margin performance primarily from price increases, our parts initiatives, and a shift in mix toward higher margin service work. Warranty gross profit benefited from improved margin performance largely due to an increase in higher value recall work and improved parts and labor rates negotiated with certain manufacturers.

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Finance and Insurance

($ in millions, except per vehicle data)	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	2018 vs. 2017 % Variance	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	2017 vs. 2016 % Variance
Reported:							
Revenue and gross profit	$981.4	$939.2	$42.2	4.5	$894.6	$44.6	5.0
Gross profit per vehicle retailed	$1,789	$1,667	$122	7.3	$1,588	$79	5.0

	Years Ended December 31, 2018	2017	2018 vs. 2017 Variance Favorable / (Unfavorable)	2018 vs. 2017 % Variance	2017	2016	2017 vs. 2016 Variance Favorable / (Unfavorable)	2017 vs. 2016 % Variance
Same Store:								
Revenue and gross profit	$964.4	$911.7	$52.7	5.8	$918.5	$871.3	$47.2	5.4
Gross profit per vehicle retailed	$1,803	$1,687	$116	6.9	$1,680	$1,606	$74	4.6

Revenue on finance and insurance products represents commissions earned by us for the placement of: (i) loans and leases with financial institutions in connection with customer vehicle purchases financed, (ii) vehicle service contracts with third-party providers, and (iii) other vehicle protection products with third-party providers. We sell these products on a commission basis, and, in certain cases, we also participate in the future underwriting profit on certain products pursuant to retrospective commission arrangements with the issuers of those products.

The following discussion of finance and insurance results is on a same store basis. The difference between reported amounts and same store amounts in finance and insurance revenue and gross profit in the above tables of $17.0 million, $27.5 million, and $23.3 million for 2018, 2017, and 2016, respectively, is related to acquisition and divestiture activity, as well as the opening of new add-points and AutoNation USA stores.

2018 compared to 2017

Same store finance and insurance revenue and gross profit increased during 2018, as compared to 2017, due to an increase in finance and insurance gross profit PVR, partially offset by a decrease in new vehicle unit volume. The increase in gross profit PVR was primarily due to higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration. Increases in finance and insurance gross profit PVR were partially offset by a shift in unit volume mix from new vehicles to used vehicles, which have lower average selling prices than new vehicles and therefore typically generate lower gross profit per transaction associated with arranging customer financing. Sales of used vehicles also have lower finance and product penetration as compared to sales of new vehicles.

2017 compared to 2016

Same store finance and insurance revenue and gross profit increased during 2017, as compared to 2016, due to an increase in finance and insurance gross profit PVR and an increase in used vehicle unit volume. The increase in gross profit PVR was primarily due to an increase in profit on vehicle service contracts and an increase in retrospective commissions resulting from the sale in our Domestic and Import stores of the AutoNation Vehicle Protection Plan product. Increases in finance and insurance gross profit PVR were partially offset by a shift in unit volume mix from new vehicles to used vehicles, which have lower average selling prices than new vehicles and therefore typically generate lower revenue and gross profit per transaction associated with arranging customer financing. Sales of used vehicles also have lower finance and product penetration as compared to sales of new vehicles.

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Segment Results

In the following table of financial data, revenue and segment income of our reportable segments are reconciled to consolidated revenue and consolidated operating income, respectively.

($ in millions)	Years Ended December 31, 2018	2017	Variance Favorable / (Unfavorable)	% Variance	2016	Variance Favorable / (Unfavorable)	% Variance
Revenue:							
Domestic	$7,134.5	$7,452.8	$ (318.3)	(4.3)	$7,810.0	$ (357.2)	(4.6)
Import	6,786.4	6,873.4	(87.0)	(1.3)	6,886.1	(12.7)	(0.2)
Premium Luxury	7,010.9	6,832.7	178.2	2.6	6,665.3	167.4	2.5
Total	20,931.8	21,158.9	(227.1)	(1.1)	21,361.4	(202.5)	(0.9)
Corporate and other	481.0	375.7	105.3	28.0	247.6	128.1	51.7
Total consolidated revenue	$21,412.8	$21,534.6	$ (121.8)	(0.6)	$21,609.0	$ (74.4)	(0.3)
Segment income[1]:							
Domestic	$249.3	$257.1	$ (7.8)	(3.0)	$311.1	$ (54.0)	(17.4)
Import	304.7	303.1	1.6	0.5	296.8	6.3	2.1
Premium Luxury	340.9	348.8	(7.9)	(2.3)	350.2	(1.4)	(0.4)
Total	894.9	909.0	(14.1)	(1.6)	958.1	(49.1)	(5.1)
Corporate and other	(247.4)	(162.6)	(84.8)		(145.1)	(17.5)	
Floorplan interest expense	130.4	97.0	(33.4)		76.5	(20.5)	
Operating income	$777.9	$843.4	$ (65.5)	(7.8)	$889.5	$ (46.1)	(5.2)

[1] Segment income is defined as operating income less floorplan interest expense.

Retail new vehicle unit sales:							
Domestic	102,015	111,028	(9,013)	(8.1)	118,867	(7,839)	(6.6)
Import	142,556	150,422	(7,866)	(5.2)	150,005	417	0.3
Premium Luxury	66,268	67,666	(1,398)	(2.1)	68,750	(1,084)	(1.6)
	310,839	329,116	(18,277)	(5.6)	337,622	(8,506)	(2.5)

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Domestic

The Domestic segment operating results included the following:

($ in millions)	Years Ended December 31, 2018	2017	Variance Favorable / (Unfavorable)	% Variance	2016	Variance Favorable / (Unfavorable)	% Variance
Revenue	$7,134.5	$7,452.8	$ (318.3)	(4.3)	$7,810.0	$ (357.2)	(4.6)
Segment income	$249.3	$257.1	$ (7.8)	(3.0)	$311.1	$ (54.0)	(17.4)
Retail new vehicle unit sales	102,015	111,028	(9,013)	(8.1)	118,867	(7,839)	(6.6)

2018 compared to 2017

Domestic revenue decreased during 2018, as compared to 2017, primarily due to the divestitures we completed in 2017 and 2018 and a decrease in new vehicle unit volume, partially offset by an increase in new and used vehicle revenue PVRs. The decrease in new vehicle unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. The increase in new and used vehicle revenue PVRs was due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of consumer preference, improved vehicle fuel efficiency, and relatively low average fuel prices. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices.

Domestic segment income decreased during 2018, as compared to 2017, primarily due to decreases in new vehicle gross profit PVR and new vehicle unit volume due to competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Segment income was also adversely impacted by an increase in floorplan interest expense. These decreases in Domestic segment income were partially offset by a decrease in SG&A expenses due to the divestitures we completed in 2017 and 2018, as well as an increase in parts and service gross profit associated with customer-pay service, due in part to our parts initiatives, and warranty.

2017 compared to 2016

Domestic revenue decreased during 2017, as compared to 2016, primarily due to decreases in new vehicle unit volume and wholesale unit volume and a realignment of stand-alone collision centers. New vehicle unit volume was impacted by declines in our Florida and Texas markets, the competitive sales environment, and certain manufacturers' disruptive marketing and sales incentive programs. Manufacturer safety recalls adversely impacted retail used vehicle unit volume and benefited wholesale unit volume in 2016. Decreases in Domestic revenue were partially offset by an increase in new vehicle revenue PVR due to sustained low average fuel prices, which caused a shift in mix toward trucks and sport utility vehicles that have relatively higher average selling prices.

Domestic segment income decreased during 2017, as compared to 2016, primarily due to decreases in new and used vehicle gross profit PVR and new vehicle unit volume. New vehicle gross profit PVR decreased primarily due to a competitive sales environment and certain manufacturers' disruptive marketing and sales incentive programs. Used vehicle gross profit PVR decreased due to implementation challenges we experienced in the first half of 2017 with One Price, our centralized pricing and appraisal strategy. These decreases in Domestic segment income were partially offset by a decrease in SG&A expenses.

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Import

The Import segment operating results included the following:

($ in millions)	Years Ended December 31, 2018	2017	Variance Favorable / (Unfavorable)	% Variance	2016	Variance Favorable / (Unfavorable)	% Variance
Revenue	$6,786.4	$6,873.4	$ (87.0)	(1.3)	$6,886.1	$ (12.7)	(0.2)
Segment income	$304.7	$303.1	$ 1.6	0.5	$296.8	$ 6.3	2.1
Retail new vehicle unit sales	142,556	150,422	(7,866)	(5.2)	150,005	417	0.3

2018 compared to 2017

Import revenue decreased during 2018, as compared to 2017, primarily due to the divestitures we completed in 2017 and 2018 and a decrease in new vehicle unit volume, partially offset by an increase in new and used vehicle revenue PVRs and used vehicle unit volume. The decrease in new vehicle unit volume was primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. The increase in new and used vehicle revenue PVRs was due in part to a shift in mix toward trucks and sport utility vehicles, which have relatively higher average selling prices, as a result of a combination of consumer preference, improved vehicle fuel efficiency, and relatively low average fuel prices. New vehicle average selling prices also increased as a result of increases in the manufacturers' suggested retail prices. Import revenue also benefited from the continued acceptance of our One Price centralized pricing and appraisal strategy, as well as an increase in finance and insurance revenue and gross profit. Finance and insurance revenue and gross profit PVR benefited from higher realized margins on vehicle service contracts, including our AutoNation Vehicle Protection Plan product, and an increase in product penetration.

Import segment income increased during 2018, as compared to 2017, primarily due to a decrease in SG&A expenses due to the divestitures we completed in 2017 and 2018, as well as an increase in finance and insurance revenue and gross profit discussed above. Increases in Import segment income were partially offset by a decrease in new vehicle gross profit PVR and new vehicle unit volume resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles, and an increase in floorplan interest expense.

2017 compared to 2016

Import revenue decreased during 2017, as compared to 2016, primarily due to decreases in retail used vehicle revenue and parts and service revenue, largely due to the divestitures we completed in 2017, as well as a decrease in wholesale unit volume and a realignment of stand-alone collision centers. Manufacturer safety recalls adversely impacted retail used vehicle unit volume and benefited wholesale unit volume in 2016. These decreases were partially offset by increases in new and used vehicle unit volume and new vehicle revenue PVR.

Import segment income increased during 2017, as compared to 2016, primarily due to an increase in finance and insurance gross profit, which benefited from higher vehicle unit volume and an increase in finance and insurance gross profit PVR, and an increase in wholesale used vehicle gross profit, which was adversely impacted by higher losses incurred per unit wholesaled in 2016 as a result of manufacturer safety recalls. Import segment income also benefited from a decrease in SG&A expenses due to the divestitures we completed in 2017. Increases in Import segment income were partially offset by a decrease in gross profit resulting from the divestitures we completed in 2017, as well as an increase in floorplan interest expense. Import segment income was also adversely impacted by a decrease in new vehicle gross profit PVR due to a competitive sales environment and a decrease in used vehicle gross profit PVR due to implementation challenges we experienced in the first half of 2017 with One Price, our centralized pricing and appraisal strategy.

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Premium Luxury

The Premium Luxury segment operating results included the following:

	Years Ended December 31,						
($ in millions)	2018	2017	Variance Favorable / (Unfavorable)	% Variance	2016	Variance Favorable / (Unfavorable)	% Variance
Revenue	$7,010.9	$6,832.7	$ 178.2	2.6	$6,665.3	$ 167.4	2.5
Segment income	$340.9	$348.8	$ (7.9)	(2.3)	$350.2	$ (1.4)	(0.4)
Retail new vehicle unit sales	66,268	67,666	(1,398)	(2.1)	68,750	(1,084)	(1.6)

2018 compared to 2017

Premium Luxury revenue increased during 2018, as compared to 2017, primarily due to acquisitions and new add-point openings completed during 2017 and 2018, as well as an increase in used vehicle unit volume due in part to continued acceptance of our One Price centralized pricing and appraisal strategy. These increases in Premium Luxury revenue were partially offset by a decrease in new vehicle unit volume primarily due to overall competitive market conditions in a plateauing new vehicle sales environment, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles.

Premium Luxury segment income decreased during 2018, as compared to 2017, primarily due to increases in SG&A and floorplan interest expenses, due in part to the acquisitions and new add-point openings discussed above, and a decrease in new vehicle gross profit resulting from competitive market conditions, including disruptive manufacturer marketing and sales incentive programs and an increase in off-lease supply of late-model used vehicles. Decreases in Premium Luxury segment income were partially offset by an increase in parts and service gross profit associated with customer-pay service and warranty and an increase in finance and insurance revenue and gross profit. Finance and insurance revenue and gross profit PVR benefited from higher realized margins on vehicle service contracts, as well as increases in product penetration. Premium Luxury segment income also benefited from increases in used vehicle unit volume, noted above, and used vehicle gross profit PVR. In the prior year, used vehicle gross profit PVR was adversely impacted by implementation challenges with our One Price centralized pricing and appraisal strategy.

2017 compared to 2016

Premium Luxury revenue increased during 2017, as compared to 2016, primarily due to increases in retail used vehicle revenue, parts and service revenue, and new vehicle revenue largely due to the acquisitions we completed in 2016. The increases in Premium Luxury revenue were partially offset by a decrease in wholesale revenue and new vehicle unit volume. Manufacturer safety recalls adversely impacted retail used vehicle unit volume and benefited wholesale unit volume in 2016.

Premium Luxury segment income decreased slightly during 2017, as compared to 2016, primarily due to an increase in SG&A, floorplan interest, and depreciation expenses, partially offset by an increase in total gross profit, all of which were due in part to the acquisitions we completed in 2016. The decrease in Premium Luxury segment income was also due to a decrease in new vehicle gross profit resulting from the decline in new vehicle unit volume. Decreases in Premium Luxury segment income were partially offset by an increase in parts and service gross profit due to increases in gross profit associated with customer-pay service and warranty.

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Selling, General, and Administrative Expenses

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

	Years Ended December 31,						
($ in millions)	**2018**	**2017**	**Variance Favorable / (Unfavorable)**	**% Variance**	**2016**	**Variance Favorable / (Unfavorable)**	**% Variance**
Reported:							
Compensation	$1,567.8	$1,540.6	$ (27.2)	(1.8)	$1,467.5	$ (73.1)	(5.0)
Advertising	197.8	192.8	(5.0)	(2.6)	196.7	3.9	2.0
Store and corporate overhead	744.2	702.8	(41.4)	(5.9)	685.2	(17.6)	(2.6)
Total	$2,509.8	$2,436.2	$ (73.6)	(3.0)	$2,349.4	$ (86.8)	(3.7)
SG&A as a % of total gross profit:							
Compensation	46.2	45.9	(30)	bps	44.3	(160)	bps
Advertising	5.8	5.7	(10)	bps	5.9	20	bps
Store and corporate overhead	21.9	20.9	(100)	bps	20.7	(20)	bps
Total	73.9	72.5	(140)	bps	70.9	(160)	bps

2018 compared to 2017

SG&A expenses increased in 2018, as compared to 2017, primarily due to increases in expenses related to our brand extension strategy, as well as restructuring expenses recognized during the fourth quarter of 2018 in connection with our restructuring and cost savings plan announced in January 2019. Additionally, store and corporate overhead expenses increased due to increases in costs associated with our self-insurance programs, including less favorable claims experience and higher premiums, deductibles, and hail-related losses. Increases in SG&A expenses were partially offset by decreases due to divestitures. As a percentage of total gross profit, SG&A expenses increased to 73.9% in 2018 from 72.5% in 2017, primarily due to lower gross profit in our new vehicle business and investments related to our brand extension strategy.

2017 compared to 2016

SG&A expenses increased in 2017, as compared to 2016, primarily due to increases in compensation expense and store and corporate overhead expenses. Compensation expense increased due in part to acquisitions, as well as other increases in headcount, merit adjustments, and changes in certain vehicle sales associate compensation plans. Store and corporate overhead expenses increased primarily due to our brand extension strategy and acquisitions. As a percentage of total gross profit, SG&A expenses increased to 72.5% in 2017 from 70.9% in 2016, primarily due to lower gross profit in our new and used vehicle businesses and investments related to our brand extension strategy.

Other Income, Net (included in Operating Income)

During 2018, we recognized net gains of $57.6 million primarily related to store/property divestitures and gains of $11.5 million related to certain legal settlements. These gains were partially offset by non-cash asset impairments of $3.2 million.

During 2017, we recognized net gains of $68.1 million primarily related to store/property divestitures and a gain of $10.9 million in connection with payments we received from manufacturers related to a legal settlement and for the waiver of certain franchise protest rights.

During 2016, we recognized net gains of $61.8 million related to store divestitures, a gain of $14.4 million in connection with a legal settlement related to the Volkswagen diesel emissions litigation, and a gain of $5.5 million related

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to payments we received to waive certain franchise protest rights. These net gains were partially offset by non-cash property impairments of $14.0 million.

We expect business divestitures to decrease in 2019 as compared to recent years.

Franchise Rights Impairment

During 2018, we recorded non-cash impairment charges of $8.1 million to reduce the carrying values of certain franchise rights to their estimated fair values. See Note 17 of the Notes to Consolidated Financial Statements for more information.

Non-Operating Income (Expenses)

Floorplan Interest Expense

Floorplan interest expense was $130.4 million in 2018, $97.0 million in 2017, and $76.5 million in 2016. The increase in floorplan interest expense of $33.4 million in 2018, as compared to 2017, is primarily due to higher average interest rates. Floorplan interest rates are variable and therefore increase and decrease with changes in the underlying benchmark interest rates. The increase in floorplan interest expense of $20.5 million in 2017, as compared to 2016, is the result of higher average interest rates, partially offset by lower average vehicle floorplan balances during 2017.

Other Interest Expense

Other interest expense was $119.4 million in 2018, $120.2 million in 2017, and $115.5 million in 2016. The decrease in interest expense of $0.8 million in 2018, as compared to 2017, was primarily due to lower average debt balances and lower average interest rates as we refinanced higher cost debt with lower-rate senior notes and commercial paper. Interest expense decreased by $27.2 million resulting from the repayments of the 6.75% Senior Notes due 2018 in the second quarter of 2018 and the mortgage facility in the fourth quarter of 2017. Decreases in interest expense were largely offset by an increase of $24.1 million resulting from the November 2017 issuance of our 3.5% Senior Notes due 2024 and 3.8% Senior Notes due 2027, and $4.9 million resulting from higher year-over-year average interest rates on our commercial paper borrowings. The weighted average annual interest rate on our commercial paper borrowings during 2018 was 2.61% compared to 1.60% during 2017. The increase in interest expense of $4.7 million in 2017, as compared to 2016, was primarily due to an increase in interest expense of $3.4 million resulting from the November 2017 issuance of our 3.5% Senior Notes due 2024 and 3.85% Senior Notes due 2027, as well as higher average interest rates, an increase in capital leases due to acquisitions, and a loss on debt extinguishment of $0.4 million resulting from our credit facility debt refinancing in October 2017. These increases were partially offset by a decrease in interest expense of $2.5 million resulting from the repayment of our mortgage facility in the fourth quarter of 2017.

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 discrete 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 2016. On December 22, 2017, H.R.1, formally known as the “Tax Cuts and Jobs Act,” was enacted into law. This new tax legislation, among other things, reduced the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Our effective income tax rate of 31.7% in 2017 included a favorable adjustment to our deferred tax liability as a result of the U.S. tax reform bill. During 2018, we completed our accounting for the tax effects of enactment of the Act by refining our calculations in preparation of our federal and state tax returns. Accordingly, we recorded an incremental $5.0 million benefit related to the legislation resulting in an impact of 0.9 percentage points on the effective income tax rate for full year 2018. Our effective income tax rate was 25.2% in 2018.

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.

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Liquidity and Capital Resources

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

Available Liquidity Resources

We had the following sources of liquidity available for the years ended December 31, 2018 and 2017:

(In millions)	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 48.6	$ 69.2
Revolving credit facility[(1)]	$ 588.0 [(2)]	$ 1,378.6
Secured used floorplan facilities[(3)]	$ 0.5	$ 0.4

(1) As limited by the maximum consolidated leverage ratio in our credit agreement.

(2) At December 31, 2018, we had $41.8 million of letters of credit outstanding. In addition, we use the revolving credit facility under our credit agreement as a liquidity backstop for borrowings under the commercial paper program. We had $630.0 million of commercial paper notes outstanding at December 31, 2018. See Note 8 of the Notes to Consolidated Financial Statements for additional information.

(3) Based on the eligible used vehicle inventory that could have been pledged as collateral. See Note 5 of the Notes to Consolidated Financial Statements for additional information.

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance relating to insurance matters. At December 31, 2018, surety bonds, letters of credit, and cash deposits totaled $102.5 million, including the $41.8 million of letters of credit issued under our revolving credit facility. We do not currently provide cash collateral for outstanding letters of credit.

Capital Allocation

Our capital allocation strategy is focused on maximizing stockholder returns. We invest capital in our business to maintain and upgrade our existing facilities and to build new facilities, as well as for other strategic and technology initiatives, including our brand extension strategy discussed above under “Strategic Initiatives.” We also deploy capital opportunistically to repurchase our common stock and/or debt, to complete dealership, collision center, or other automotive business-related acquisitions or investments, and/or build facilities for newly awarded franchises or newly opened collision centers. 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 acquisitions that meet our market and vehicle brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

Share Repurchases

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

(In millions, except per share data)	2018	2017	2016
Shares repurchased	2.1	10.1	10.5
Aggregate purchase price	$100.0	$434.9	$497.0
Average purchase price per share	$47.58	$42.99	$47.30

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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 maximum leverage ratio and other financial covenants in our debt agreements as well as our available liquidity), and the expected return on competing uses of capital such as dealership, collision center, and other automotive business-related acquisitions or investments, capital investments in our current businesses, or repurchases of our debt.

As of December 31, 2018, $263.7 million remained available under our stock repurchase limit most recently authorized by our Board of Directors.

Capital Expenditures

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

(In millions)	**2018**	**2017**	**2016**
Purchases of property and equipment, including operating lease buy-outs [1]	$393.6	$332.9	$253.2

[1] Includes accrued construction in progress and excludes property associated with capital leases entered into during the year.

Acquisitions and Divestitures

The following table sets forth information regarding cash used in business acquisitions, net of cash acquired, cash received from business divestitures, net of cash relinquished, and proceeds received from the sale of property and equipment and the disposal of assets held for sale over the past three years:

(In millions)	**2018**	**2017**	**2016**
Cash used in business acquisitions, net[1]	$(67.2)	$(76.8)	$(410.4)
Cash received from business divestitures, net	$173.2	$104.6	$150.4
Proceeds from the sale of property and equipment	$28.0	$21.0	$8.7
Proceeds from the disposal of assets held for sale	$21.1	$38.0	$4.8

[1] Excludes capital leases and deferred purchase price commitments.

We purchased one Premium Luxury store in the Southern California market, a collision center in the Baltimore, Maryland market, and a collision center in the Dallas, Texas market during 2018. We purchased seven collision centers and one store in 2017 and 20 stores and one collision center in 2016.

During 2018, we divested eight Domestic stores, seven Import stores, two Premium Luxury stores, and one collision center. In 2017, we divested two Domestic stores and four Import stores. In 2016, we divested five Domestic stores and nine Import stores.

We regularly review our store portfolio and may divest stores opportunistically. We have utilized proceeds related to asset sales, including business and real estate divestitures, to fund our capital investments and strategic initiatives or for other general corporate purposes. We expect proceeds from business divestitures to decrease in 2019 as compared to recent years.

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Long-Term Debt

The following table sets forth our non-vehicle long-term debt as of December 31, 2018 and 2017:

			(in millions)	
Debt Description	**Maturity Date**	**Interest Payable**	**2018**	**2017**
6.75% Senior Notes	April 15, 2018	April 15 and October 15	$—	$400.0
5.5% Senior Notes	February 1, 2020	February 1 and August 1	350.0	350.0
3.35% Senior Notes	January 15, 2021	January 15 and July 15	300.0	300.0
3.5% Senior Notes	November 15, 2024	May 15 and November 15	450.0	450.0
4.5% Senior Notes	October 1, 2025	April 1 and October 1	450.0	450.0
3.8% Senior Notes	November 15, 2027	May 15 and November 15	300.0	300.0
Revolving credit facility	October 19, 2022	Monthly	—	—
Capital leases and other debt	Various dates through 2038	Monthly	133.1	139.4
			1,983.1	2,389.4
Less: unamortized debt discounts and debt issuance costs			(12.6)	(15.7)
Less: current maturities			(44.3)	(414.5)
Long-term debt, net of current maturities			$1,926.2	$1,959.2

In April 2018, we repaid the outstanding $400.0 million of 6.75% Senior Notes through the utilization of our commercial paper program.

At December 31, 2018, we had $630.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 3.22% and a weighted-average remaining term of 21 days. At December 31, 2017, we had $330.0 million of commercial paper notes outstanding with a weighted-average annual interest rate of 1.97% and a weighted-average remaining term of 24 days.

A downgrade in our credit ratings could negatively impact the interest rate payable on our senior notes and could negatively impact our ability to issue, or the interest rates for, commercial paper notes. Additionally, an increase in our leverage ratio could negatively impact the interest rates charged for borrowings under our revolving credit facility. See Note 8 of the Notes to Consolidated Financial Statements for more information on our long-term debt and commercial paper.

Restrictions and Covenants

Our credit agreement, the indentures for our senior unsecured notes, and our vehicle floorplan facilities 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.

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. 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 October 24, 2017.

The indentures for our senior unsecured notes contain certain limited covenants, including limitations on liens and sale and leaseback transactions.

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

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As of December 31, 2018, 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, 2018, our leverage ratio and capitalization ratio were as follows:

	December 31, 2018	
	Requirement	**Actual**
Leverage ratio	≤ 3.75x	3.06x
Capitalization ratio	≤ 70.0%	60.6%

Vehicle Floorplan Payable

The components of vehicle floorplan payable are as follows:

(In millions)	**2018**	**2017**
Vehicle floorplan payable - trade	$2,388.0	$2,179.1
Vehicle floorplan payable - non-trade	1,609.7	1,627.8
Vehicle floorplan payable	$3,997.7	$3,806.9

See Note 5 of the Notes to Consolidated Financial Statements for more information on our vehicle floorplan payable.

Cash Flows

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

	Years Ended December 31,		
(In millions)	**2018**	**2017**	**2016**
Net cash provided by operating activities	$511.0	$540.1	$516.0
Net cash used in investing activities	$(295.3)	$(227.0)	$(493.0)
Net cash used in financing activities	$(237.4)	$(307.4)	$(35.6)

Cash Flows from Operating Activities

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

2018 compared to 2017

Net cash provided by operating activities decreased during 2018, as compared to 2017, primarily due to an increase in working capital requirements, partially offset by an increase in earnings.

2017 compared to 2016

Net cash provided by operating activities increased during 2017, as compared to 2016, primarily due to a decrease in working capital requirements, partially offset by a decrease in earnings.

Cash Flows from Investing Activities

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

2018 compared to 2017

Net cash used in investing activities increased during 2018, as compared to 2017, primarily due to an increase in purchases of property and equipment, an investment in an equity security during 2018, and a decrease in proceeds from the disposal of assets held for sale, partially offset by an increase in cash received from business divestitures, net of cash relinquished.

2017 compared to 2016

Net cash used in investing activities decreased during 2017, as compared to 2016, primarily due to a decrease in cash used in business acquisitions, net of cash acquired, and increases in proceeds from the disposal of assets held for sale and the sale of property and equipment, partially offset by an increase in purchases of property and equipment and a decrease in cash received from business divestitures, net of cash relinquished.

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.

2018 compared to 2017

Net cash flows from financing activities during 2018, as compared to 2017, were impacted by the repayment of the outstanding $400.0 million of 6.75% Senior Notes in 2018 and the debt activity that occurred in 2017. During 2017, we amended and restated our existing unsecured credit agreement, and we also issued $450.0 million aggregate principal amount of 3.5% Senior Notes due 2024 and $300.0 million aggregate principal amount of 3.8% Senior Notes due 2027. Cash flows from financing activities in 2017 reflect cash payments of $13.5 million for debt issuance costs for these transactions that are being amortized to interest expense over the terms of the related debt arrangements.

During 2017, we also repaid our mortgage facility. Our mortgage facility required monthly principal and interest payments of $1.6 million based on a fixed amortization schedule with a balloon payment of $143.9 million, which was paid in the fourth quarter of 2017.

Cash flows from financing activities include changes in commercial paper notes outstanding totaling net proceeds of $300.0 million during 2018 and net repayments of $612.0 million during 2017, as well as changes in vehicle floorplan payable-non-trade totaling net repayments of $34.2 million during 2018 compared to net proceeds of $130.2 million in 2017.

During 2018, we repurchased 2.1 million shares of common stock for an aggregate purchase price of $100.0 million (average purchase price per share of $47.58). During 2017, we repurchased 10.1 million shares of our common stock for an aggregate purchase price of $434.9 million (average purchase price per share of $42.99).

During 2018, we had no borrowings or repayments under our revolving credit facility. During 2017, we borrowed $1.3 billion and repaid $1.3 billion under our revolving credit facility.

2017 compared to 2016

Net cash flows from financing activities during 2017, as compared to 2016, were impacted primarily by the debt activity that occurred in 2017, described above, a decrease in commercial paper borrowings, a decrease in repurchases of common stock, and an increase in proceeds from the exercise of stock options.

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Contractual Payment Obligations

The following table summarizes our payment obligations under certain contracts at December 31, 2018. The amounts presented are based upon, among other things, the terms of any relevant agreements. Future events that may occur related to the following payment obligations could cause actual payments to differ significantly from these amounts.

	Payments Due by Period				
(In millions)	**Total**	**Less Than 1 Year (2019)**	**1 - 3 Years (2020 and 2021)**	**3 - 5 Years (2022 and 2023)**	**More Than 5 Years (2024 and thereafter)**
Vehicle floorplan payable (Note 5)[1]	$3,997.7	$ 3,997.7	$ —	$ —	$ —
Long-term debt, including capital leases (Note 8)[1][2]	1,983.1	44.3	659.5	9.4	1,269.9
Commercial paper (Note 8)[1]	630.0	630.0	—	—	—
Interest payments[3]	462.5	84.6	132.2	106.3	139.4
Operating lease and other commitments (Note 18)[1][4]	495.4	61.2	97.1	78.7	258.4
Unrecognized tax benefits, net (Note 11)[1]	8.5	—	1.9	6.6	—
Deferred compensation obligations[5]	78.8	4.2	—	—	74.6
Estimated chargeback liability (Note 9)[1][6]	128.1	72.0	50.1	5.8	0.2
Estimated self-insurance obligations (Note 10)[1][7]	77.3	29.9	26.5	10.7	10.2
Purchase obligations[8]	218.1	156.3	46.5	15.3	—
Total	$8,079.5	$ 5,080.2	$ 1,013.8	$ 232.8	$ 1,752.7

(1) See Notes to Consolidated Financial Statements.

(2) Amounts for long-term debt obligations reflect principal payments and are not reduced for unamortized debt discounts of $1.8 million or debt issuance costs of $10.8 million.

(3) Primarily represents scheduled fixed interest payments on our outstanding senior unsecured notes and capital leases. Estimates of future interest payments for vehicle floorplan payables and commercial paper are excluded due to the short-term nature of these facilities.

(4) Amounts for operating lease commitments do not include certain operating expenses such as maintenance, insurance, and real estate taxes. In 2018, these charges totaled approximately $21 million. Additionally, operating leases that are on a month-to-month basis are not included.

(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 and real estate construction projects.

We expect that the amounts above will be funded through cash flows from operations or borrowings under our commercial paper program or 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, 2018, surety bonds, letters of credit, and cash deposits totaled $102.5 million, of which $41.8 million were letters of credit. We do not currently provide cash 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, 2018, 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 brand extension strategy, strategic initiatives, partnerships, or investments, the impact of tax reform in the United States on our financial results, pending or planned acquisitions, expected future investments in our business, and our expectations for the future performance of our business (including with respect to sales of used vehicles and parts and accessories) 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,” “could,” and variations of such words an 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, including fuel prices, interest rates, and tariffs. Our business and results of operations are substantially dependent on vehicle sales levels in the United States and in our particular geographic markets, as well as the gross profit margins that we can achieve on our sales of vehicles, all of which are very difficult to predict.
- Our new vehicle sales are impacted by the incentive, marketing, and other programs of vehicle manufacturers.
- We are dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.
- We are investing significantly in our brand extension strategy, and if our strategic initiatives are not successful, we will have incurred significant expenses without the benefit of improved financial results.
- If we are not able to maintain and enhance our retail brands and reputation or to attract consumers to our own digital channels, or if events occur that damage our retail brands, reputation, or sales channels, our business and financial results may be harmed.
- New laws, regulations, or governmental policies regarding fuel economy and greenhouse gas emission standards, or changes to existing standards, may affect vehicle manufacturers’ ability to produce cost-effective vehicles or vehicles that consumers demand, which could adversely impact our business, results of operations, financial condition, cash flow, and prospects.
- Natural disasters and adverse weather events can disrupt our business.

- We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.
- We are subject to numerous legal and administrative proceedings, which, if the outcomes are adverse to us, could materially adversely affect our business, results of operations, financial condition, cash flows, and prospects.
- Our operations are subject to extensive governmental laws and regulations. If we are found to be in purported violation of or subject to liabilities under any of these laws or regulations, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.
- A failure of our information systems or any security breach or unauthorized disclosure of confidential information could have a material adverse effect on our business.
- Our debt agreements contain certain financial ratios and other restrictions on our ability to conduct our business, and our substantial indebtedness could adversely affect our financial condition and operations and prevent us from fulfilling our debt service obligations.
- We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and commercial paper program that could have a material adverse effect on our profitability.
- Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our goodwill and other intangible assets for impairment at least annually, which could result in a material, non-cash write-down of goodwill or franchise rights and could have a material adverse impact on our results of operations and shareholders' equity.
- Our largest stockholders, as a result of their ownership stakes in us, may have the ability to exert substantial influence over actions to be taken or approved by our stockholders. 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.

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.

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We had $4.0 billion of variable rate vehicle floorplan payable at December 31, 2018, and $3.8 billion at December 31, 2017. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change of $40.0 million in 2018 and $38.1 million in 2017 to our annual floorplan interest expense. Our exposure to changes in interest rates with respect to total vehicle floorplan payable is partially mitigated by manufacturers' floorplan assistance, which in some cases is based on variable interest rates.

We had $630.0 million of commercial paper notes outstanding at December 31, 2018, and $330.0 million at December 31, 2017. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to our annual interest expense of $6.3 million in 2018 and $3.3 million in 2017.

Our fixed rate long-term debt, consisting of amounts outstanding under senior unsecured notes and capital lease and other debt obligations, totaled $2.0 billion and had a fair value of $1.9 billion as of December 31, 2018, and totaled $2.4 billion and had a fair value of $2.4 billion as of December 31, 2017.

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ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
AutoNation, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AutoNation, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, 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) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenues and related costs for the year ended December 31, 2018 due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), effective January 1, 2018

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2003.

Fort Lauderdale, Florida
February 22, 2019

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
AutoNation, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited AutoNation, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 22, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company'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 the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG LLP

Fort Lauderdale, Florida

February 22, 2019

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

	2018	**2017**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$48.6	$69.2
Receivables, net	976.2	1,111.0
Inventory	3,650.5	3,365.6
Other current assets	208.7	251.7
Total Current Assets	4,884.0	4,797.5
PROPERTY AND EQUIPMENT, NET	3,155.3	2,962.7
GOODWILL	1,513.2	1,515.0
OTHER INTANGIBLE ASSETS, NET	595.4	586.8
OTHER ASSETS	517.2	409.5
Total Assets	$10,665.1	$10,271.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable - trade	$2,388.0	$2,179.1
Vehicle floorplan payable - non-trade	1,609.7	1,627.8
Accounts payable	306.2	309.8
Commercial paper	630.0	330.0
Current maturities of long-term debt	44.3	414.5
Other current liabilities	679.9	774.5
Total Current Liabilities	5,658.1	5,635.7
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,926.2	1,959.2
DEFERRED INCOME TAXES	89.8	71.9
OTHER LIABILITIES	275.0	235.4
COMMITMENTS AND CONTINGENCIES (Note 18)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $0.01 per share; 1,500,000,000 shares authorized; 102,562,149 shares issued at December 31, 2018, and December 31, 2017, including shares held in treasury	1.0	1.0
Additional paid-in capital	20.8	4.0
Retained earnings	3,238.3	2,832.2
Treasury stock, at cost; 12,540,065 and 11,002,298 shares held, respectively	(544.1)	(467.9)
Total Shareholders' Equity	2,716.0	2,369.3
Total Liabilities and Shareholders' Equity	$10,665.1	$10,271.5

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)

	2018	**2017**	**2016**
Revenue:			
New vehicle	$11,751.6	$12,180.8	$12,255.8
Used vehicle	5,123.3	4,878.4	4,995.3
Parts and service	3,447.6	3,398.3	3,321.4
Finance and insurance, net	981.4	939.2	894.6
Other	108.9	137.9	141.9
TOTAL REVENUE	21,412.8	21,534.6	21,609.0
Cost of Sales:			
New vehicle	11,235.5	11,592.4	11,620.0
Used vehicle	4,781.6	4,563.2	4,677.7
Parts and service	1,892.3	1,907.6	1,886.7
Other	106.1	112.4	111.4
TOTAL COST OF SALES (excluding depreciation shown below)	18,015.5	18,175.6	18,295.8
Gross Profit:			
New vehicle	516.1	588.4	635.8
Used vehicle	341.7	315.2	317.6
Parts and service	1,555.3	1,490.7	1,434.7
Finance and insurance	981.4	939.2	894.6
Other	2.8	25.5	30.5
TOTAL GROSS PROFIT	3,397.3	3,359.0	3,313.2
Selling, general, and administrative expenses	2,509.8	2,436.2	2,349.4
Depreciation and amortization	166.2	158.6	143.4
Franchise rights impairment	8.1	—	—
Other income, net	(64.7)	(79.2)	(69.1)
OPERATING INCOME	777.9	843.4	889.5
Non-operating income (expense) items:			
Floorplan interest expense	(130.4)	(97.0)	(76.5)
Other interest expense	(119.4)	(120.2)	(115.5)
Interest income	1.1	1.0	1.1
Other income, net	0.2	9.3	3.7
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	529.4	636.5	702.3
Income tax provision	133.5	201.5	270.6
NET INCOME FROM CONTINUING OPERATIONS	395.9	435.0	431.7
Income (loss) from discontinued operations, net of income taxes	0.1	(0.4)	(1.2)
NET INCOME	$396.0	$434.6	$430.5
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	$4.36	$4.45	$4.19
Discontinued operations	$—	$—	$(0.01)
Net income	$4.36	$4.44	$4.18
Weighted average common shares outstanding	90.9	97.8	103.1
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	$4.34	$4.43	$4.16
Discontinued operations	$—	$—	$(0.01)
Net income	$4.34	$4.43	$4.15

Weighted average common shares outstanding	91.3	98.2	103.8
COMMON SHARES OUTSTANDING, net of treasury stock, at period end	90.0	91.6	100.7

See accompanying Notes to Consolidated Financial Statements.

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AUTONATION, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2018, 2017, and 2016
(In millions, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2015	120,562,149	$ 1.2	$ 5.2	$ 2,702.8	$ (359.9)	$ 2,349.3
Net income	—	—	—	430.5	—	430.5
Repurchases of common stock	—	—	—	—	(497.0)	(497.0)
Stock-based compensation expense	—	—	25.1	—	—	25.1
Shares awarded under stock-based compensation plans, net of shares withheld for taxes, including excess income tax benefit of $0.6	—	—	(7.5)	—	14.5	7.0
Other	—	—	(4.6)	—	—	(4.6)
BALANCE AT DECEMBER 31, 2016	120,562,149	$ 1.2	$ 18.2	$ 3,133.3	$ (842.4)	$ 2,310.3
Net income	—	—	—	434.6	—	434.6
Repurchases of common stock	—	—	—	—	(434.9)	(434.9)
Treasury stock cancellation	(18,000,000)	(0.2)	(30.2)	(735.6)	766.0	—
Stock-based compensation expense	—	—	20.6	—	—	20.6
Shares awarded under stock-based compensation plans, net of shares withheld for taxes	—	—	(4.8)	—	43.4	38.6
Other	—	—	0.2	(0.1)	—	0.1
BALANCE AT DECEMBER 31, 2017	102,562,149	$ 1.0	$ 4.0	$ 2,832.2	$ (467.9)	$ 2,369.3
Net income	—	—	—	396.0	—	396.0
Repurchases of common stock	—	—	—	—	(100.0)	(100.0)
Stock-based compensation expense	—	—	25.5	—	—	25.5
Shares awarded under stock-based compensation plans, net of shares withheld for taxes	—	—	(8.7)	—	23.8	15.1
Cumulative effect of change in accounting principle - revenue recognition	—	—	—	10.1	—	10.1
BALANCE AT DECEMBER 31, 2018	102,562,149	$ 1.0	$ 20.8	$ 3,238.3	$ (544.1)	$ 2,716.0

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)

	2018	**2017**	**2016**
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income	$396.0	$434.6	$430.5
Adjustments to reconcile net income to net cash provided by operating activities:			
(Income) loss from discontinued operations	(0.1)	0.4	1.2
Depreciation and amortization	166.2	158.6	143.4
Amortization of debt issuance costs and accretion of debt discounts	5.4	5.6	5.4
Stock-based compensation expense	25.5	20.6	25.1
Deferred income tax provision (benefit)	14.5	(19.0)	3.7
Net gain on asset sales and dispositions	(57.6)	(95.4)	(62.6)
Franchise rights impairment	8.1	—	—
Non-cash impairment charges	3.2	26.4	14.0
Excess tax benefit from stock-based awards	—	—	(0.6)
Other	0.8	(7.3)	(10.6)
(Increase) decrease, net of effects from business combinations and divestitures:			
Receivables	133.7	(61.6)	(99.3)
Inventory	(319.5)	39.3	259.1
Other assets	(107.9)	(37.0)	(33.6)
Increase (decrease), net of effects from business combinations and divestitures:			
Vehicle floorplan payable-trade, net	242.4	(64.4)	(196.4)
Accounts payable	1.7	0.5	(5.8)
Other liabilities	(2.0)	139.1	43.8
Net cash provided by continuing operations	510.4	540.4	517.3
Net cash provided by (used in) discontinued operations	0.6	(0.3)	(1.3)
Net cash provided by operating activities	511.0	540.1	516.0
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:			
Purchases of property and equipment	(387.0)	(310.1)	(244.5)
Property operating lease buy-outs	(13.8)	(3.3)	(5.0)
Proceeds from the sale of property and equipment	28.0	21.0	8.7
Proceeds from the disposal of assets held for sale	21.1	38.0	4.8
Insurance recoveries on property and equipment	1.1	1.7	3.1
Cash used in business acquisitions, net of cash acquired	(67.2)	(76.8)	(410.4)
Cash received from business divestitures, net of cash relinquished	173.2	104.6	150.4
Investment in equity security	(50.0)	—	—
Other	(0.7)	(2.1)	(0.1)
Net cash used in continuing operations	(295.3)	(227.0)	(493.0)
Net cash used in discontinued operations	—	—	—
Net cash used in investing activities	(295.3)	(227.0)	(493.0)

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)

	2018	**2017**	**2016**
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Repurchases of common stock	(100.0)	(434.9)	(497.0)
Payment of 6.75% Senior Notes due 2018	(400.0)	—	—
Proceeds from 3.5% Senior Notes due 2024	—	449.4	—
Proceeds from 3.8% Senior Notes due 2027	—	299.8	—
Proceeds from revolving credit facilities	—	1,307.0	1,330.0
Payments of revolving credit facilities	—	(1,307.0)	(1,330.0)
Net proceeds from (payments of) commercial paper	300.0	(612.0)	342.5
Payment of debt issuance costs	—	(13.5)	—
Net proceeds from (payments of) vehicle floorplan payable - non-trade	(34.2)	130.2	153.8
Purchase of subsidiary shares	—	—	(15.2)
Payments of mortgage facilities	—	(153.2)	(22.5)
Payments of capital lease and other debt obligations	(15.8)	(11.8)	(4.2)
Proceeds from the exercise of stock options	17.8	39.7	8.4
Payments of tax withholdings for stock-based awards	(2.7)	(1.1)	(2.0)
Excess tax benefit from stock-based awards	—	—	0.6
Other	(2.5)	—	—
Net cash used in continuing operations	(237.4)	(307.4)	(35.6)
Net cash used in discontinued operations	—	—	—
Net cash used in financing activities	(237.4)	(307.4)	(35.6)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(21.7)	5.7	(12.6)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at beginning of year	71.1	65.4	78.0
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH at end of year	$49.4	$ 71.1	$ 65.4

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, 2018, we owned and operated 326 new vehicle franchises from 239 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores sell 33 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 92% of the new vehicles that we sold in 2018, are manufactured by Toyota (including Lexus), Honda, Ford, General Motors, FCA US, Mercedes-Benz, Nissan, BMW, and Volkswagen (including Audi and Porsche). As of December 31, 2018, we also owned and operated 85 AutoNation-branded collision centers, and together with our vehicle dealerships, our AutoNation USA stores, and our automotive auctions, we owned and operated over 325 locations coast to coast.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, “parts and service” (also referred to as “Customer Care”), which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive “finance and insurance” products (also referred to as “Customer Financial Services”), 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. Intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates

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

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.

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Inventory

Inventory consists primarily of new and used vehicles held for sale, valued at the lower of cost or net realizable value using the specific identification method. Cost includes acquisition, reconditioning, dealer installed accessories, and transportation expenses. Our new vehicle inventory costs are generally reduced by manufacturer holdbacks (percentage of either the manufacturer's suggested retail price or invoice price of a new vehicle that the manufacturer repays to the dealer), incentives, floorplan assistance, and non-reimbursement-based manufacturer advertising assistance. Parts, accessories, and other inventory are valued at the lower of acquisition cost or net realizable value. See Note 5 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 Income, Net (within Operating Income) in the Consolidated Statements of Income. See Note 6 of the Notes to Consolidated Financial Statements for detailed information about our property and equipment.

Depreciation is recorded 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 10 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. 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. We use an estimate of the related undiscounted cash flows over the remaining life of the asset (asset group) in assessing whether an asset (asset group) has been impaired. We measure impairment losses based upon the amount by which the carrying amount of the asset (asset group) exceeds the fair value.

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. 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 recognize an impairment loss if the amount of the asset's or disposal group's carrying amount exceeds the asset's or disposal group's estimated fair value less cost to sell. If we recognize an impairment loss, the adjusted carrying amount of the asset or disposal 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.

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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 $67.8 million at December 31, 2018, and $169.1 million at December 31, 2017, included in continuing operations. We had assets held for sale of $14.1 million at December 31, 2018, and $14.4 million at December 31, 2017, included in discontinued operations.

See Note 17 of the Notes to Consolidated Financial Statements for information about our fair value measurement valuation process and impairment charges that were recorded during 2018 and 2017.

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 thirty 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. Under generally accepted accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment as of April 30, 2018, and determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts. We elected to perform a quantitative goodwill impairment test as of April 30, 2017, and no goodwill impairment charges resulted from the impairment test.

We chose to perform quantitative franchise rights impairment tests as of April 30, 2018, and $8.1 million of impairment charges resulted from the impairment tests. We also elected to perform quantitative franchise rights impairment tests as of April 30, 2017, and no impairment charges resulted from the impairment tests.

See Note 7 of the Notes to Consolidated Financial Statements for more information about our goodwill and other intangible assets and Note 17 of the Notes to Consolidated Financial Statements for information about our annual impairment tests of goodwill and franchise rights.

Other Current Assets

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

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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, an investment in an equity security, and contract assets.
Other Current Liabilities
Other current liabilities consist of various items payable within one year including, among other items, accruals for payroll and benefits and sales taxes, the current portions of finance and insurance chargeback liabilities, contract liabilities, deferred revenue, and self-insurance liabilities, customer deposits, accrued interest payable, liabilities held for sale (which are comprised primarily of floorplan payables of disposal groups held for sale), income taxes payable, 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, contract liabilities, finance and insurance chargeback liabilities, self-insurance liabilities, and deferred revenue.
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 $14.1 million in 2018, $7.1 million in 2017, and $6.8 million in 2016. Employer matching contributions are subject to a three-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 $1.5 million for 2018, $0.7 million for 2017, and $0.7 million for 2016. 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 $78.8 million as of December 31, 2018, and $78.1 million as of December 31, 2017, and are included in Other Current Liabilities and Other Liabilities in the accompanying Consolidated Balance Sheets.
Stock-Based Compensation
In 2018 and 2017, we granted stock-based awards in the form of time-based and performance-based restricted stock units (“RSUs”). In 2016, we granted stock-based awards in the form of stock options, restricted stock, and RSUs. Restricted stock awards, which are considered nonvested share awards as defined under U.S. 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. Stock options granted under all plans are non-qualified. Upon exercise of stock options, 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. Certain of our equity-based compensation plans contain provisions that provide for vesting of awards upon retirement. Accordingly, compensation cost for time-based RSUs, restricted stock awards, and stock options is recognized on a

straight-line basis over the shorter of the stated vesting period or the period until employees become retirement-eligible. Compensation cost for performance-based RSUs is recognized over the requisite service period based on the expected achievement level of the performance goals, which is evaluated over the performance period. The amount of compensat

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ion cost recognized on performance-based RSUs depends on the relative satisfaction of the performance condition based on performance to date. We account for forfeitures of stock-based awards as they occur. See Note 13 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 for the placement of finance and insurance products, and sales of other products. See Note 2 of the Notes to Consolidated Financial Statements for a discussion of our significant accounting policies related to revenue recognition.

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 10 of the Notes to Consolidated Financial Statements for more information on our self-insurance liabilities.

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 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 $197.8 million in 2018, $192.8 million in 2017, and $196.7 million in 2016, 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 $66.1 million in 2018, $65.0 million in 2017, and $58.5 million in 2016. 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 recondition the majority of used vehicles acquired by our used vehicle departments and perform minor preparatory work on new vehicles acquired by our new vehicle departments. The parts and se

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rvice 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 defer 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.

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 RSU 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 and unvested RSU awards. See Note 3 of the Notes to Consolidated Financial Statements for more information on the computation of earnings (loss) per share.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new accounting standard (ASC Topic 606) that amends the accounting guidance on revenue recognition. The new accounting standard is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The principles in the standard should be applied using a five-step model that includes 1) identifying the contract(s) with a customer, 2) identifying the performance obligations in the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations in the contract, and 5) recognizing revenue when (or as) the performance obligations are satisfied. The standard also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In addition, the standard amends the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, sales of real estate) to be consistent with the standard's guidance on recognition and measurement (including the constraint on revenue). The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent guidance, identifying performance obligations, and immaterial goods and services in a contract.

The new accounting standard update must be applied using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures).

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

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adjustment to retained earnings of $10.1 million as of the date of adoption. The details and quantitative impacts of the significant changes are described below.

Finance and Insurance

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

Parts and Service

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

Impacts on Consolidated Financial Statements

The following tables summarize the impacts to each financial statement line item affected by the adoption of ASC Topic 606 as of and for the twelve months ended December 31, 2018.

Consolidated Balance Sheet Line Items

	December 31, 2018		
Impact of changes in accounting policies	**As reported**	**Balances without adoption of ASC Topic 606**	**Impact of adoption Higher/(Lower)**
Receivables, net	$976.2	$997.0	$ (20.8)
Inventory	$3,650.5	$3,655.4	$ (4.9)
Other current assets	$208.7	$150.2	$ 58.5
Other assets	$517.2	$454.6	$ 62.6

Other current liabilities	$679.9	$649.3	$ 30.6
Deferred income taxes	$89.8	$85.1	$ 4.7
Other liabilities	$275.0	$229.8	$ 45.2
Retained earnings	$3,238.3	$3,223.4	$ 14.9

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Consolidated Statement of Income Line Items

Impact of changes in accounting policies	Twelve Months Ended December 31, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Revenue:			
Parts and service	$3,447.6	$3,447.6	$ —
Finance and insurance	$981.4	$975.2	$ 6.2
Cost of sales:			
Parts and service	$1,892.3	$1,892.4	$ (0.1)
Gross profit:			
Parts and service	$1,555.3	$1,555.2	$ 0.1
Finance and insurance	$981.4	$975.2	$ 6.2
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$529.4	$523.1	$ 6.3
Income tax provision	$133.5	$132.0	$ 1.5
NET INCOME FROM CONTINUING OPERATIONS	$395.9	$391.1	$ 4.8
NET INCOME	$396.0	$391.2	$ 4.8

Consolidated Statement of Cash Flows Line Items

Impact of changes in accounting policies	Twelve Months Ended December 31, 2018		
	As reported	Balances without adoption of ASC Topic 606	Impact of adoption Higher/(Lower)
Net income	$396.0	$391.2	$ 4.8
Deferred income tax provision	$14.5	$13.0	$ 1.5
(Increase) decrease, net of effects from business combinations and divestitures:			
Receivables	$133.7	$112.9	$ 20.8
Inventory	$(319.5)	$(319.7)	$ 0.2
Other assets	$(107.9)	$(4.8)	$ (103.1)
Increase (decrease), net of effects from business combinations and divestitures:			
Other liabilities	$(2.0)	$(77.8)	$ 75.8

Classification of Certain Cash Receipts and Cash Payments

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

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provisions of the new standard. Therefore, the provisions of the accounting standard update did not impact our consolidated statements of cash flows.

Restricted Cash

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

Accounting for Leases

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

The accounting standard update originally required the use of a modified retrospective approach reflecting the application of the standard to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with the option to elect certain practical expedients. A subsequent amendment to the standard provides an additional and optional transition method that allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with ASC Topic 840 if the optional transition method is elected. We plan to adopt the standard using the optional transition method with no restatement of comparative periods and a cumulative effect adjustment, if any, recognized as of the date of adoption. We expect that this standard will have a material effect on our financial statements due to the recognition of new ROU assets and lease liabilities on our consolidated balance sheet for real estate and equipment operating leases. As part of our implementation process, we have assessed our lease arrangements, evaluated practical expedient and accounting policy elections, and implemented software to meet the reporting requirements of this standard. We also have evaluated the changes in controls and processes that are necessary to implement the new standard, and no material changes were required. The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients,' which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification, and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. Consequently, on adoption, we expect to recognize additional operating liabilities ranging from $325 million to $400 million, with corresponding ROU assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. As a result, for those leases that qualify, we will not recognize ROU assets or lease liabilities, including for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for the majority of our leases. We also expect significant new disclosures about our leasing activities in accordance with the new standard.

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We have a significant number of real estate leases, including for land and buildings. The majority of our leases for land are classified as operating leases under current lease accounting guidance. For new leases entered into after adoption, the new lease standard may affect the pattern of expense recognition related to the land component of a new real estate lease, since those land leases may be classified as finance leases under the new standard.

2. REVENUE RECOGNITION

Disaggregation of Revenue

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

	Twelve Months Ended December 31, 2018				
	Domestic	**Import**	**Premium Luxury**	**Corporate and other[1]**	**Total**
Major Goods/Service Lines					
New vehicle	$3,900.8	$4,046.4	$3,804.4	$ —	$11,751.6
Used vehicle	1,725.2	1,418.7	1,875.1	104.3	5,123.3
Parts and service	1,082.8	934.8	1,082.2	347.8	3,447.6
Finance and insurance, net	344.4	362.6	246.0	28.4	981.4
Other	81.3	23.9	3.2	0.5	108.9
	$7,134.5	$6,786.4	$7,010.9	$ 481.0	$21,412.8
Timing of Revenue Recognition					
Goods and services transferred at a point in time	$6,441.2	$6,079.1	$6,098.3	$ 140.9	$18,759.5
Goods and services transferred over time[2]	693.3	707.3	912.6	340.1	2,653.3
	$7,134.5	$6,786.4	$7,010.9	$ 481.0	$21,412.8

[1] “Corporate and other” is comprised of our other businesses, including collision centers, auction operations, AutoNation USA stand-alone used vehicle sales and service centers, and aftermarket collision parts businesses.
[2] Represents revenue recognized during the period for automotive repair and maintenance services.

Contract Assets and Liabilities

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

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

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

	December 31, 2018	**January 1, 2018**
Receivables from contracts with customers, net	$ 706.7	$ 854.3
Contract Asset (Current)	$ 28.2	$ 18.4
Contract Asset (Long-Term)	$ 17.4	$ 1.4
Contract Liability (Current)	$ 31.6	$ 26.7
Contract Liability (Long-Term)	$ 61.9	$ 63.8

	Twelve Months Ended December 31, 2018
Revenue recognized in the period from:	
Amounts included in contract liability at the beginning of the period	$ 29.8
Performance obligations satisfied in previous periods	$ 23.6

The differences between the opening and closing balances of our contract assets and contract liabilities primarily result from the timing differences between our performance and the customer’s payment, as well as changes in the estimated transaction price related to variable consideration that was constrained for performance obligations satisfied in previous periods. Other significant changes include contract assets of $9.8 million reclassified to receivables.

Performance Obligations and Significant Judgments and Estimates Related to Revenue Recognition

New and Used Vehicle

We sell new vehicles at our franchised dealerships and used vehicles at our franchised dealerships and AutoNation USA stores. The transaction price for a vehicle sale is determined with the customer at the time of sale. Customers often trade in their own vehicle to apply toward the purchase of a retail new or used vehicle. The “trade-in” vehicle is a type of noncash consideration measured at fair value, based on external and internal market data for the specific vehicle, and applied as payment to the contract price for the purchased vehicle.

When we sell a new or used vehicle, we typically transfer control at a point in time upon delivery of the vehicle to the customer, which is generally at time of sale, as the customer is able to direct the use of, and obtain substantially all of the benefits from, the vehicle at such time. We do not directly finance our customers’ vehicle purchases or leases. In many cases, we arrange third-party financing for the retail sale or lease of vehicles to our customers in exchange for a fee paid to us by the third-party financial institution. We receive payment directly from the customer at the time of sale or from the third-party financial institution (referred to as contracts-in-transit or vehicle receivables, which are part of our receivables from contracts with customers) within a short period of time following the sale. We establish provisions, which are not significant, for estimated returns and warranties on the basis of both historical information and current trends.

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

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performance obligations related to auction services at the point in time that control transfers to the customer, which is when the service is completed.

Parts and Service

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

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

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

Finance and Insurance

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

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

The retrospective commission we earn on each product sold is a form of variable consideration that is subject to constraint due to it being highly susceptible to factors outside our influence and control. Our agreements with the third-

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

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

	Revenue Expected to Be Recognized by Period			
	Total	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**
Revenue expected to be recognized on VCP contracts sold as of period end	$ 92.9	$ 31.0	$ 46.4	$ 15.5

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

Other Revenue

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

Contract Costs

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

We have determined that the sales commissions and third-party administrator fees incurred related to sales of VCP products qualify for capitalization since these payments are directly related to sales achieved during a time period and would not have been incurred if the contract had not been obtained. Since the capitalized costs are related to services that are transferred during a five-year contract term, we amortize the assets over