AUTONATION, INC.
Form 10-Q
October 21, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2011
OR

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

For the transition period from to
Commission File Number: 1-13107
AutoNation, Inc.
(Exact Name of Registrant as Specified in its Charter)

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

(954) 769-6000
(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 October 19, 2011, the registrant had 139,898,186 shares of common stock outstanding.

AUTONATION, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)

	September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$67.3	$95.1
Receivables, net	402.1	462.0
Inventory	1,601.7	1,867.0
Other current assets	224.9	204.7
Total Current Assets	2,296.0	2,628.8
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $738.1 million and $689.6 million, respectively	1,919.2	1,838.0
GOODWILL (Note 4)	1,172.2	1,142.4
OTHER INTANGIBLE ASSETS, NET (Note 4)	218.0	202.0
OTHER ASSETS	161.4	163.0
Total Assets	$5,766.8	$5,974.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable - trade	$1,043.2	$1,379.9
Vehicle floorplan payable - non-trade	468.1	486.5
Accounts payable	169.0	164.0
Current maturities of long-term obligations	93.2	8.1
Other current liabilities	386.3	360.9
Total Current Liabilities	2,159.8	2,399.4
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,394.2	1,340.6
DEFERRED INCOME TAXES	43.6	25.9
OTHER LIABILITIES	144.3	129.4
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $0.01 per share; 1,500,000,000 shares authorized; 163,562,149 shares issued at September 30, 2011, and December 31, 2010, including shares held in treasury	1.6	1.6
Additional paid-in capital	18.0	2.0
Retained earnings	2,577.2	2,365.2
Treasury stock, at cost; 22,121,886 and 15,197,680 shares held, respectively	(571.9)	(289.9)
Total Shareholders' Equity	2,024.9	2,078.9
Total Liabilities and Shareholders' Equity	$5,766.8	$5,974.2

The accompanying notes are an integral part of these statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue:				
New vehicle	$1,881.6	$1,773.3	$5,413.3	$4,890.4
Used vehicle	911.9	812.4	2,630.6	2,327.7
Parts and service	578.0	564.1	1,720.0	1,648.9
Finance and insurance, net	121.9	111.9	349.6	311.9
Other	13.1	12.2	40.4	35.9
TOTAL REVENUE	3,506.5	3,273.9	10,153.9	9,214.8
Cost of Sales:				
New vehicle	1,743.4	1,661.4	5,013.1	4,566.7
Used vehicle	845.4	743.2	2,407.4	2,122.7
Parts and service	336.1	318.5	988.4	927.3
Other	6.4	5.4	20.2	15.1
TOTAL COST OF SALES	2,931.3	2,728.5	8,429.1	7,631.8
Gross Profit:				
New vehicle	138.2	111.9	400.2	323.7
Used vehicle	66.5	69.2	223.2	205.0
Parts and service	241.9	245.6	731.6	721.6
Finance and insurance	121.9	111.9	349.6	311.9
Other	6.7	6.8	20.2	20.8
TOTAL GROSS PROFIT	575.2	545.4	1,724.8	1,583.0
Selling, general, and administrative expenses	411.4	402.9	1,236.7	1,159.4
Depreciation and amortization	20.9	18.7	62.7	57.2
Other expenses (income), net	(1.2)	2.9	(3.1)	4.5
OPERATING INCOME	144.1	120.9	428.5	361.9
Floorplan interest expense	(9.7)	(10.8)	(31.8)	(30.2)
Other interest expense	(16.4)	(16.1)	(48.6)	(39.8)
Loss on debt extinguishment	—	—	—	(19.6)
Interest income	—	0.3	0.6	0.8
Other losses, net	(2.4)	(0.7)	(0.2)	(1.1)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	115.6	93.6	348.5	272.0
INCOME TAX PROVISION	44.9	35.1	134.2	104.8
NET INCOME FROM CONTINUING OPERATIONS	70.7	58.5	214.3	167.2
Loss from discontinued operations, net of income taxes	—	(1.6)	(2.3)	(7.9)
NET INCOME	$70.7	$56.9	$212.0	$159.3
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.49	$0.40	$1.46	$1.05
Discontinued operations	$—	$(0.01)	$(0.02)	$(0.05)
Net income	$0.49	$0.39	$1.44	$1.00
Weighted average common shares outstanding	144.4	147.5	146.9	160.0

DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.48	$0.39	$1.43	$1.04
Discontinued operations	$—	$(0.01)	$(0.02)	$(0.05)
Net income	$0.48	$0.38	$1.42	$0.99
Weighted average common shares outstanding	147.0	149.6	149.5	161.4
COMMON SHARES OUTSTANDING, net of treasury stock	141.4	148.0	141.4	148.0

The accompanying notes are an integral part of these statements.

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AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In millions, except share data)

	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
December 31, 2010	163,562,149	$1.6	$2.0	$2,365.2	$(289.9)	$2,078.9
Net income	—	—	—	212.0	—	212.0
Repurchases of common stock	—	—	—	—	(367.0)	(367.0)
Stock-based compensation expense	—	—	15.7	—	—	15.7
Shares awarded under stock-based compensation plans, including income tax benefit of $19.0	—	—	0.3	—	85.0	85.3
September 30, 2011	163,562,149	$1.6	$18.0	$2,577.2	$(571.9)	$2,024.9

The accompanying notes are an integral part of these statements.

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AUTONATION, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Nine Months Ended September 30,	
	2011	2010
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$212.0	$159.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	2.3	7.9
Depreciation and amortization	62.7	57.2
Amortization of debt issuance costs and discounts	3.2	2.4
Stock-based compensation expense	15.7	13.6
Deferred income tax provision	15.9	10.9
Non-cash impairment charges	—	3.7
Write-off of deferred debt issuance costs	—	3.5
Net loss (gain) on asset sales and dispositions	(3.0)	0.4
Other	(0.2)	1.2
(Increase) decrease, net of effects from business combinations and divestitures:		
Receivables	57.5	11.8
Inventory	277.6	(321.5)
Other assets	(10.5)	27.2
Increase (decrease), net of effects from business combinations and divestitures:		
Vehicle floorplan payable-trade, net	(336.7)	174.2
Accounts payable	5.0	32.1
Other liabilities	9.3	12.5
Net cash provided by continuing operations	310.8	196.4
Net cash provided by discontinued operations	0.3	1.3
Net cash provided by operating activities	311.1	197.7
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property and equipment	(113.8)	(77.7)
Property operating lease buy-outs	(13.8)	(2.6)
Proceeds from the sale of property and equipment	3.0	0.2
Proceeds from assets held for sale	9.0	5.8
Insurance recoveries on property and equipment	—	1.8
Cash used in business acquisitions, net of cash acquired	(64.2)	(73.1)
Proceeds from the sale of restricted investments	—	1.3
Cash received from business divestitures, net of cash relinquished	4.9	12.4
Other	0.2	(1.1)
Net cash used in continuing operations	(174.7)	(133.0)
Net cash used in discontinued operations	—	(0.3)
Net cash used in investing activities	(174.7)	(133.3)

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30,	
	2011	2010
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Repurchases of common stock	$(335.0)	$(507.3)
Proceeds from revolving credit facilities	300.0	325.0
Payment of revolving credit facilities	(180.0)	(115.0)
Proceeds from 6.75% Senior Notes due 2018	—	394.0
Payment of term loan facility	—	(66.6)
Payment of Floating Rate Senior Notes due 2013	—	(146.1)
Payment of 7% Senior Notes due 2014	—	(117.9)
Payment of debt issuance costs	—	(11.9)
Net proceeds from (payments of) vehicle floorplan payable - non-trade	(28.3)	61.8
Payments of mortgage facilities	(5.7)	(5.4)
Payments of long-term debt	(0.5)	(0.3)
Proceeds from the exercise of stock options	66.3	30.1
Tax benefit from stock-based awards	19.0	6.3
Net cash used in continuing operations	(164.2)	(153.3)
Net cash used in discontinued operations	—	(0.1)
Net cash used in financing activities	(164.2)	(153.4)
DECREASE IN CASH AND CASH EQUIVALENTS	(27.8)	(89.0)
CASH AND CASH EQUIVALENTS at beginning of period	95.1	173.5
CASH AND CASH EQUIVALENTS at end of period	$67.3	$84.5

The accompanying notes are an integral part of these statements

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AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share data)

1. INTERIM FINANCIAL STATEMENTS

Business and Basis of Presentation

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2011, we owned and operated 257 new vehicle franchises from 214 stores located in major metropolitan markets, predominantly in the Sunbelt region of the United States. We offer a diversified range of automotive products and services, including new vehicles, used vehicles, parts and automotive repair and maintenance services (also referred to as "parts and service"), and automotive finance and insurance products (also referred to as "finance and insurance"), including the arranging of financing for vehicle purchases through third-party finance sources. For convenience, the terms "AutoNation," "Company," and "we" are used to refer collectively to AutoNation, Inc. and its subsidiaries, unless otherwise required by the context. Our dealership operations are conducted by our subsidiaries.

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

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

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

New Accounting Pronouncements

Testing for Goodwill Impairment

In September 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that amends the accounting guidance on goodwill impairment testing. The amendments in this accounting standard update are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments also improve previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair

value of a reporting unit is less than its carrying amount. The amendments in this accounting standard update are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this accounting standard update will not have an impact on our consolidated financial position, results of operations, or cash flows, as it is intended to simplify the assessment for goodwill impairment.

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

Multiemployer Pension Plan Disclosures
In September 2011, the FASB issued an accounting standard update that requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures. The amended disclosures provide users with more detailed information about an employer's involvement in multiemployer pension plans and are effective for annual periods ending after December 15, 2011. Five of our 214 stores participate in multiemployer pension plans. We are currently evaluating the disclosure requirements of this accounting standard update.

Presentation of Comprehensive Income
In June 2011, the FASB issued an accounting standard update which requires the presentation of components of other comprehensive income with the components of net income in either (1) a continuous statement of comprehensive income that contains two sections, net income and other comprehensive income, or (2) two separate but consecutive statements. This accounting standard update eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity, and is effective for interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard update will not have an impact on our consolidated financial position, results of operations, or cash flows, as it only requires a change in the format of our current presentation of comprehensive income.

Amendments to Fair Value Measurements
In May 2011, the FASB issued an accounting standard update that amends the accounting standard on fair value measurements. The accounting standard update provides for a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. generally accepted accounting principles and International Financial Reporting Standards. The accounting standard update changes certain fair value measurement principles, clarifies the application of existing fair value measurement, and expands the fair value measurement disclosure requirements, particularly for Level 3 fair value measurements. The amendments in this accounting standard update are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this accounting standard update will have a material effect on our consolidated financial statements, but may require certain additional disclosures.

2. RECEIVABLES, NET
The components of receivables, net of allowance for doubtful accounts, are as follows:

	September 30, 2011	December 31, 2010
Trade receivables	$91.0	$89.8
Manufacturer receivables	107.3	127.8
Other	34.7	37.5
	233.0	255.1
Less: Allowances	(2.7)	(3.7)
	230.3	251.4
Contracts-in-transit and vehicle receivables	171.8	210.6
Receivables, net	$402.1	$462.0

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

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AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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3. INVENTORY AND VEHICLE FLOORPLAN PAYABLE

The components of inventory are as follows:

	September 30, 2011	December 31, 2010
New vehicles	$1,173.7	$1,479.6
Used vehicles	305.4	271.8
Parts, accessories, and other	122.6	115.6
	$1,601.7	$1,867.0

The components of vehicle floorplan payable are as follows:

	September 30, 2011	December 31, 2010
Vehicle floorplan payable - trade	$1,043.2	$1,379.9
Vehicle floorplan payable - non-trade	468.1	486.5
	$1,511.3	$1,866.4

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

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

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

Our vehicle floorplan facilities utilize LIBOR-based interest rates, which averaged 2.4% for the nine months ended September 30, 2011, and 2.6% for the nine months ended September 30, 2010. At September 30, 2011, the aggregate capacity under our floorplan credit agreements with various lenders to finance a portion of our used vehicle inventory was $245.0 million, of which $86.6 million had been borrowed. The remaining borrowing capacity of $158.4 million was limited to $99.5 million based on the eligible used vehicle inventory that could have been pledged as collateral. At September 30, 2011, the aggregate capacity under all of our floorplan facilities to finance vehicles was approximately $2.8 billion, of which $1.5 billion had been borrowed.

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

4. GOODWILL AND INTANGIBLE ASSETS

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

	September 30, 2011	December 31, 2010
Goodwill	$1,172.2	$1,142.4
Franchise rights - indefinite-lived	$212.6	$199.1
Other intangibles	8.4	5.6
	221.0	204.7
Less: accumulated amortization	(3.0)	(2.7)
Other intangible assets, net	$218.0	$202.0

Goodwill

Goodwill is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. We completed our annual impairment tests as of April 30, 2011, and no goodwill impairment charges resulted from the required goodwill impairment test.

Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested at least annually as of April 30 for impairment. We completed our annual impairment test as of April 30, 2011, and no franchise rights impairment charges resulted from the required impairment test.

5. LONG-TERM DEBT

Long-term debt consisted of the following:

	September 30, 2011	December 31, 2010
7% Senior Notes due 2014	$14.7	$14.7
6.75% Senior Notes due 2018	394.8	394.4
Term loan facility due 2012	54.0	54.0
Term loan facility due 2014	479.4	479.4
Revolving credit facility due 2012	26.8	16.1
Revolving credit facility due 2014	273.2	163.9
Mortgage facility (1)	213.5	219.2
Capital leases due from 2011 to 2031	31.0	7.0
	1,487.4	1,348.7
Less: current maturities	(93.2)	(8.1)
Long-term debt, net of current maturities	$1,394.2	$1,340.6

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

Debt Refinancing

Please refer to Note 7 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our most recent Annual Report on Form 10-K for a discussion of certain refinancing transactions that we completed during the second quarter

of 2010.

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

Senior Unsecured Notes and Amended Credit Agreement

At September 30, 2011, we had outstanding $394.8 million of 6.75% Senior Notes due 2018. Interest on the 6.75% Senior Notes due 2018 is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At September 30, 2011, we had outstanding $14.7 million of 7% Senior Notes due 2014. Interest on the 7% Senior Notes due 2014 is payable on April 15 and October 15 of each year. The 7% Senior Notes due 2014 will mature on April 15, 2014, and may be redeemed by us currently at 101.75% of principal and at 100% of principal on or after April 15, 2012.

Under our amended credit agreement, we have a $533.4 million term loan facility and a $638.6 million revolving credit facility. The term loan facility is bifurcated into a $54.0 million tranche due July 18, 2012 (the “non-extended term loan facility”) and a $479.4 million tranche due July 18, 2014 (the “extended term loan facility”). The revolving credit facility is bifurcated into a $57.0 million tranche due July 18, 2012 (the “non-extended revolving credit facility”) and a $581.6 million tranche due July 18, 2014 (the “extended revolving credit facility”).

As of September 30, 2011, we had borrowings outstanding of $26.8 million under the non-extended revolving credit facility and $273.2 million under the extended revolving credit facility. We have a $200.0 million letter of credit sublimit as part of our revolving credit facilities. The amount available to be borrowed under the revolving credit facilities is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was $59.7 million at September 30, 2011, leaving an additional borrowing capacity in the aggregate under both the non-extended and extended revolving credit facilities of $278.9 million at September 30, 2011.

Our non-extended term loan facility provides for various interest rates generally at LIBOR plus 0.875%. Our non-extended revolving credit facility provides for a 0.15% facility fee and various interest rates on borrowings generally at LIBOR plus 0.725%.

Our extended term loan facility provides for various interest rates generally at LIBOR plus 2.25%, and our extended revolving credit facility provides for a commitment fee on undrawn amounts of 0.50% and various interest rates on borrowings generally at LIBOR plus 2.25%.

The credit spread charged for our non-extended term loan and revolving credit facilities is impacted by our senior unsecured credit ratings.

The credit spread charged for the extended term loan and revolving credit facilities is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.0x to greater than or equal to 3.0x would result in a 25 basis point increase in the credit spread under both our extended term loan facility and extended revolving credit facility.

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

Other Debt

At September 30, 2011, we had $213.5 million outstanding under a mortgage facility with an automotive manufacturer’s captive finance subsidiary that matures on November 30, 2017. The mortgage facility utilizes a fixed interest rate of 5.864% and is secured by 10-year mortgages on certain of our store properties. At September 30, 2011, we had capital lease obligations of $31.0 million.

Restrictions and Covenants

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

Under our amended 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

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defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. Under the amended credit agreement, the maximum capitalization ratio is 60.0% and the maximum leverage ratio is 3.25x. In calculating our leverage ratio, we are not required to include letters of credit in the definition of debt (except to the extent of letters of credit in excess of $150.0 million), and, in calculating our capitalization ratio, we are permitted to add back to shareholders' equity all goodwill, franchise rights, and long-lived asset impairment charges subsequent to 2007.

The indenture for our 6.75% Senior Notes due 2018 contains certain limited covenants, including limitations on liens and sale and leaseback transactions, but does not contain a restricted payments covenant or a debt incurrence restriction. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

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

Under the terms of our amended credit agreement, at September 30, 2011, our leverage ratio and capitalization ratio were as follows:

	September 30, 2011	
	Requirement	Actual
Leverage ratio	< 3.25x	2.38x
Capitalization ratio	< 60.0%	45.9%

Both the leverage ratio and the capitalization ratio limit our ability to incur additional non-vehicle debt. The capitalization ratio also limits our ability to incur additional vehicle floorplan indebtedness.

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

6. INCOME TAXES

Income taxes payable included in Other Current Liabilities totaled $14.3 million at September 30, 2011, and $10.7 million at December 31, 2010.

We file income tax returns in the U.S. federal jurisdiction and various states. As a matter of course, various taxing authorities, including the IRS, regularly audit us. Currently, no tax years are under examination by the IRS. These audits may result in proposed assessments where the ultimate resolution may result in our owing additional taxes. We believe that our tax positions comply with applicable tax law and that we have adequately provided for these matters. It is our continuing policy to account for interest and penalties associated with income tax obligations as a component of Income Tax Provision in the accompanying Unaudited Condensed Consolidated Financial Statements.

7. SHAREHOLDERS' EQUITY

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Shares repurchased	5.7	2.9	10.8	25.9
Aggregate purchase price	$195.9	$55.0	$365.6	$506.6
Average purchase price per share	$34.66	$19.08	$33.85	$19.59

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As of September 30, 2011, $117.6 million remained available for share repurchases under the share repurchase program approved by our Board of Directors. From October 1, 2011 through October 19, 2011, we repurchased an additional 1.5 million shares for an aggregate purchase price of $51.9 million (average purchase price per share of $33.67) pursuant to a Rule 10b5-1 plan. In October 2011, our Board of Directors authorized an additional $250 million under our existing share repurchase program. As of October 19, 2011, $315.7 million remained available for share repurchases under the program.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Shares issued	1.4	1.6	3.8	1.9
Proceeds from exercise of stock options	$26.3	$24.5	$66.3	$30.1
Average exercise price per share	$18.35	$15.35	$17.54	$15.53

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Shares issued	—	—	163,892	188,740
Shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock	11,688	12,796	42,985	33,485

8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period, including outstanding unvested restricted stock awards which contain rights to non-forfeitable dividends. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of stock options.

The computation of weighted average common and common equivalent shares used in the calculation of basic and diluted earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding used in calculating basic earnings per share	144.4	147.5	146.9	160.0
Effect of dilutive stock-based awards	2.6	2.1	2.6	1.4
Weighted average common and common equivalent shares used in calculating diluted earnings per share	147.0	149.6	149.5	161.4

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Anti-dilutive options excluded from the computation of diluted earnings per share	0.4	0.5	0.4	3.7

9. ACQUISITIONS

We acquired one automotive retail franchise and related assets during the nine months ended September 30, 2011, for which we paid in cash $64.2 million. We acquired five automotive retail franchises during the nine months ended September 30, 2010, for which we paid in cash $73.1 million.

The acquisition that occurred during the nine months ended September 30, 2011 was not material to our financial condition or results of operations. Additionally, the pro forma consolidated income statements as if the results of this acquisition had been included in our consolidated results for the entire nine month periods ended September 30, 2011 and 2010, would not have been materially different from our reported consolidated income statements for these periods.

10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, employment-related lawsuits, class actions, purported class actions, and actions brought by governmental authorities. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, results of operations, and cash flows.

Other Matters

AutoNation, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by our subsidiaries of their respective dealership premises. Pursuant to these leases, our subsidiaries generally agree to indemnify the lessor and other related parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, we enter into agreements with third parties in connection with the sale of assets or businesses in which we agree to indemnify the purchaser or related parties from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, we enter into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, our liability would be limited by the terms of the applicable agreement.

From time to time, primarily in connection with dispositions of automotive stores, our subsidiaries assign or sublet to the dealership purchaser the subsidiaries' interests in any real property leases associated with such stores. In general, our subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, AutoNation and its subsidiaries generally remain subject to the terms of any guarantees made by us and our subsidiaries in connection with such leases. Although we generally have indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, we estimate that lessee rental payment obligations during the remaining terms of these leases with expirations ranging from 2011 to 2034 are approximately $65 million at September 30, 2011. We do not have any material known commitments that we or our subsidiaries will be called on to perform under any such assigned leases

or subleases at September 30, 2011. Our exposure under these leases is difficult to estimate and there can be no assurance that any performance of AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.

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At September 30, 2011, surety bonds, letters of credit, and cash deposits totaled $92.2 million, including $59.7 million of letters of credit. In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. We do not currently provide cash collateral for outstanding letters of credit.

In the ordinary course of business, we are subject to numerous laws and regulations, including automotive, environmental, health and safety, and other laws and regulations. We do not anticipate that the costs of such compliance will have a material adverse effect on our business, consolidated results of operations, cash flows, or financial condition, although such outcome is possible given the nature of our operations and the extensive legal and regulatory framework applicable to our business. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, establishes a new consumer financial protection agency with broad regulatory powers. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers through its regulation of automotive finance companies and other financial institutions. In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual employee health care costs that we fund, with the most significant increases commencing in 2014. Further, we expect that new laws and regulations, particularly at the federal level, in other areas may be enacted, which could also materially adversely impact our business. We do not have any material known environmental commitments or contingencies.

11. DISCONTINUED OPERATIONS

Discontinued operations are related to stores that were sold or terminated, that we have entered into an agreement to sell or terminate, or for which we otherwise deem a proposed sales transaction or termination to be probable, with no material changes expected. Generally, the sale of a store is completed within 60 to 90 days after the date of a sale agreement. We account for a store that either has been disposed of or is classified as held for sale as a discontinued operation if (a) the operations and cash flows of the store have been (or will be) eliminated from our ongoing operations and (b) we will not have any significant continuing involvement in the operations of the store after the disposal transaction.

In evaluating whether a store’s cash flows will be eliminated from our ongoing operations, we consider whether we expect to continue to generate revenues or incur expenses from the sale of similar products or services to customers of the disposed store in the same geographic market. If we believe that a significant portion of the cash flows previously generated by the disposed store will migrate to our other operating stores, we will not treat the disposition as a discontinued operation.

We received proceeds (net of cash relinquished) of $4.9 million during the nine months ended September 30, 2011, and $12.4 million during the same period in 2010 related to discontinued operations.

As of September 30, 2011, we had assets held for sale of $51.7 million in discontinued operations, primarily related to real estate we have not yet sold associated with stores that have been closed. Assets and liabilities of discontinued operations are reported in the “Corporate and other” category of our segment information.

12. SEGMENT INFORMATION

At September 30, 2011 and 2010, we had three operating and reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes, BMW, and Lexus. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

“Corporate and other” is comprised of our other businesses, including collision centers, E-commerce activities, and an auction operation, each of which generates revenues, as well as unallocated corporate overhead expenses and retrospective commissions for certain financing and insurance transactions that we arrange under agreements with third parties.

The operating segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer. We have determined that our three operating segments also represent our reportable segments.

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Reportable segment revenues and segment income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Domestic	$1,204.4	$1,102.6	$3,445.5	$3,048.7
Import	1,318.3	1,275.1	3,829.0	3,523.9
Premium Luxury	948.7	863.3	2,768.5	2,546.3
Corporate and other	35.1	32.9	110.9	95.9
Total revenues	$3,506.5	$3,273.9	$10,153.9	$9,214.8

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Segment income (loss)*:				
Domestic	$46.7	$42.5	$135.8	$116.1
Import	65.0	51.3	187.9	153.6
Premium Luxury	49.5	47.7	161.3	142.8
Corporate and other	(26.8)	(31.4)	(88.3)	(80.8)
Total segment income	134.4	110.1	396.7	331.7
Other interest expense	(16.4)	(16.1)	(48.6)	(39.8)
Loss on debt extinguishment	—	—	—	(19.6)
Interest income	—	0.3	0.6	0.8
Other losses, net	(2.4)	(0.7)	(0.2)	(1.1)
Income from continuing operations before income taxes	$115.6	$93.6	$348.5	$272.0

* Segment income (loss) is defined as operating income less floorplan interest expense.

13. BUSINESS AND CREDIT CONCENTRATIONS

We are subject to a concentration of risk in the event of financial distress of or other adverse event related to a major vehicle manufacturer. The core brands of vehicles that we sell are manufactured by Ford, Toyota, Nissan, General Motors, Honda, Mercedes, BMW, and Chrysler. Our business could be materially adversely impacted by a bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender.

We had receivables from manufacturers or distributors of $107.3 million at September 30, 2011, and $127.8 million at December 31, 2010. Additionally, a large portion of our Contracts-in-Transit included in Receivables, Net, in the accompanying Consolidated Balance Sheets, are due from automotive manufacturers' captive finance subsidiaries which provide financing directly to our new and used vehicle customers. Concentrations of credit risk with respect to non-manufacturer trade receivables are limited due to the wide variety of customers and markets in which our products are sold as well as their dispersion across many different geographic areas in the United States. Consequently, at September 30, 2011, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

14. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value estimates are made at a

specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. The assumptions used have a significant effect on the estimated amounts reported.

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

- Cash and cash equivalents, trade and manufacturer receivables, other current assets, vehicle floorplan payable, accounts payable, other current liabilities, and variable rate debt: The amounts reported in the accompanying Unaudited Condensed Consolidated Balance Sheets approximate fair value due to their short-term nature.
- Marketable Securities: Investments in marketable securities are stated at fair value, estimated based on quoted market prices. The carrying amount and fair value of our investments in marketable securities totaled $1.7 million at September 30, 2011 and $1.8 million at December 31, 2010.
- Fixed rate debt: Our fixed rate debt consists primarily of amounts outstanding under our senior unsecured notes and mortgages. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability and we estimate the fair value of our mortgages using a present value technique based on our current market interest rates for similar types of financial instruments. A summary of the carrying values and fair values of our 7% Senior Notes due 2014, 6.75% Senior Notes due 2018, mortgage facility, and capital leases and other long-term debt are as follows:

	September 30, 2011	December 31, 2010
Carrying value	$654.0	$635.3
Fair value	$663.4	$644.1

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

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

Nonfinancial assets such as goodwill, other intangible assets, and long-lived assets held and used are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized or for a business combination. The fair values less costs to sell of long-lived assets held for sale are assessed each reporting period they remain classified as held for sale. Subsequent changes in the held for sale long-lived asset’s fair value less cost to sell (increase or decrease) is reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale. The following tables presents nonfinancial assets measured and recorded at fair value on a nonrecurring basis during the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30, 2011
Description	Gain/(Loss)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Long-lived assets held for sale in discontinued operations	$10.9	$(0.5)

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Description	Nine Months Ended September 30, 2010 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Gain/(Loss)
Long-lived assets held and used	$3.7	$(0.6)
Long-lived assets held for sale:		
Continuing operations	$10.7	$(3.1)
Discontinued operations	34.9	(3.2)
Total long-lived assets held for sale	$45.6	$(6.3)

Goodwill and Other Intangible Assets

During the three and nine months ended September 30, 2011 and 2010, no impairment charges were recorded for the carrying value of goodwill or franchise rights in accordance with accounting guidance for goodwill and other intangible assets. See Note 5 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our most recent Annual Report on Form 10-K for information on how fair value measurements are derived for our goodwill and franchise rights.

Long-lived Assets Held and Used in Continuing Operations

During the three and nine months ended September 30, 2011, no impairment charges were recorded for the carrying value of long-lived assets held and used in continuing operations.

During the nine months ended September 30, 2010, long-lived assets held and used in continuing operations with a carrying amount of $4.3 million were written down to their fair value of $3.7 million, resulting in a non-cash impairment charge of $0.6 million, which was included in Other Expenses (Income), Net in our Unaudited Condensed Consolidated Financial Statements, of which $0.4 million was reflected as a component of Import Segment Income and $0.2 million was reflected as a component of Domestic Segment Income of our segment information. The $0.6 million of impairment charges includes $0.2 million that was recorded during the three months ended September 30, 2010.

Long-lived Assets Held for Sale in Continuing Operations

During the three and nine months ended September 30, 2011, no impairment charges were recorded for the carrying value of long-lived assets held for sale in continuing operations.

During the nine months ended September 30, 2010, long-lived assets held for sale in continuing operations with a carrying amount of $9.4 million were written down to their fair value of $6.0 million, resulting in a non-cash impairment charge of $3.4 million. Additionally, an adjustment of $0.3 million was recorded to long-lived assets held for sale with a carrying amount of $4.4 million as a result of an increase in the asset group's fair value. The adjustment was limited to the carrying amount of $4.7 million at the time the long-lived asset group was initially classified as held for sale. These amounts were included in Other Expenses (Income), Net in our Unaudited Condensed Consolidated Financial Statements and included as a component of Segment Income (Loss) in the "Corporate and other" category of our segment information. The $3.1 million of net impairment charges includes $2.6 million that was recorded during the three months ended September 30, 2010.

Long-lived Assets Held for Sale in Discontinued Operations

During the nine months ended September 30, 2011, long-lived assets held for sale in discontinued operations with a carrying amount of $11.4 million were written down to their fair value of $10.9 million, resulting in a non-cash impairment charge of $0.5 million. This amount was included in Loss from Discontinued Operations in our Unaudited

Condensed Consolidated Financial Statements. We recorded no impairment charges during the three months ended September 30, 2011.

During the nine months ended September 30, 2010, long-lived assets held for sale in discontinued operations with a carrying amount of $28.9 million were written down to their fair value of $25.1 million, resulting in a non-cash impairment charge of $3.8 million. Additionally, an adjustment of $0.6 million was recorded to long-lived assets held for sale in

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discontinued operations with a carrying amount of $9.2 million to increase the asset group's carrying amount to its fair value of $9.8 million. These amounts were included in Loss from Discontinued Operations in our Unaudited Condensed Consolidated Financial Statements in the "Corporate and other" category of our segment information. The $3.2 million of net impairment charges recorded includes $0.6 million that was recorded during the three months ended September 30, 2010.

As of September 30, 2011, we had assets held for sale of $81.9 million in continuing operations and $49.5 million in discontinued operations.

The fair value measurements for our long-lived assets held and used and 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.

15. CASH FLOW INFORMATION

We consider all highly liquid investments with purchased maturities of three months or less to be cash equivalents unless the investments are legally or contractually restricted for more than three months. We had non-cash investing activities related to the increase in property acquired under capital leases of $24.2 million for the nine months ended September 30, 2011. The effect of non-cash transactions is excluded from the accompanying Unaudited Condensed Consolidated Statements of Cash Flows.

We made interest payments of $71.4 million during the nine months ended September 30, 2011, and $52.8 million during the nine months ended September 30, 2010. We made income tax payments, net of income tax refunds, of $95.2 million during the nine months ended September 30, 2011, and $75.0 million during the nine months ended September 30, 2010.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Part I, Item 1. In addition, reference should be made to our Audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K.

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2011, we owned and operated 257 new vehicle franchises from 214 stores located in major metropolitan markets, predominantly in the Sunbelt region of the United States. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 32 different brands of new vehicles. The core brands of vehicles that we sell, representing approximately 90% of the new vehicles that we sold during the nine months ended September 30, 2011, are manufactured by Ford, Toyota, Nissan, General Motors, Honda, Mercedes, BMW, and Chrysler.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products. We also arrange financing for vehicle purchases through third-party finance sources. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets by, among other things, leveraging our market brands and advertising, improving asset management, implementing standardized processes, and increasing productivity across all of our stores.

At September 30, 2011, we had three operating and reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes, BMW, and Lexus. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the nine months ended September 30, 2011, new vehicle sales accounted for approximately 53% of our total revenue, but approximately 23% of our total gross profit. Used vehicle sales accounted for approximately 26% of our total revenue, and approximately 13% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 20% of our total revenue for the nine months ended September 30, 2011, contributed approximately 63% of our total gross profit for the same period.

Results of Operations

Third Quarter 2011 compared to Third Quarter 2010

During the three months ended September 30, 2011, we had net income from continuing operations of $70.7 million or $0.48 per share on a diluted basis, as compared to net income from continuing operations of $58.5 million or $0.39 per share on a diluted basis during the same period in 2010.

First Nine Months 2011 compared to First Nine Months 2010

During the nine months ended September 30, 2011, we had net income from continuing operations of $214.3 million or $1.43 per share on a diluted basis, as compared to net income from continuing operations of $167.2 million or $1.04 per share on a diluted basis during the same period in 2010.

Results for the nine months ended September 30, 2010, were adversely impacted by a loss on debt extinguishment, including debt refinancing costs and the write-off of previously deferred debt issuance costs, of $19.6 million ($12.1 million after-tax, or approximately $0.07 per share).

Market Conditions

In the third quarter of 2011, the seasonally adjusted annual rate ("SAAR") of industry new vehicle sales in the United States was 12.4 million, an increase of 7% as compared to the new vehicle SAAR of 11.6 million in the third quarter of 2010.

The earthquake and tsunami that struck Japan in March 2011 caused significant production and supply chain disruptions that resulted in significantly reduced new vehicle production by Japanese manufacturers, both in and outside of Japan, and lower new vehicle shipments from those manufacturers. In the second and third quarters of 2011, unit sales of new vehicles

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produced by Japanese manufacturers were negatively impacted by these disruptions; however, gross profit on those vehicles benefited significantly from constrained supply. Shipments from Japanese manufacturers began to improve at the end of the third quarter, and we believe that that they will continue to improve in the fourth quarter. We expect that the improving supply environment will result in lower gross profit on those vehicles in the fourth quarter, as compared to second and third quarters of 2011. Our planning assumption for 2011 full-year industry new vehicle unit sales in the United States remains at the mid-12 million unit level.

Continued concerns over sovereign debt levels in the United States and Europe, and the possible negative implications to banks and the global economy arising out of the European debt crisis, could adversely impact the U.S. economy, consumer confidence and demand for new and used vehicles.

Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or market on our consolidated balance sheets. We have generally not experienced losses on the sale of new vehicle inventory, in part due to incentives provided by manufacturers to promote sales of new vehicles and our inventory management practices. We had 33,914 units in new vehicle inventory at September 30, 2011, 48,499 units at December 31, 2010, and 41,788 units at September 30, 2010. We continue to monitor our new vehicle inventory levels closely based on current economic conditions.

In general, used vehicles that are not sold on a retail basis are liquidated at wholesale auctions. We record estimated losses on used vehicle inventory expected to be liquidated at wholesale auctions at a loss. Our used vehicle inventory balance was net of cumulative write-downs of $0.7 million at September 30, 2011, and $0.4 million at December 31, 2010.

Parts, accessories, and other inventory are carried at the lower of acquisition cost (first-in, first-out method) or market. We estimate the amount of potential obsolete inventory based upon past experience and market trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of $3.1 million at September 30, 2011, and $3.4 million at December 31, 2010.

Critical Accounting Policies and Estimates

We prepare our Unaudited Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis, and we base our estimates on historical experience and various other assumptions we believe to be reasonable. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our Unaudited Condensed Consolidated Financial Statements. For a complete discussion of our critical and significant accounting policies and estimates, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Goodwill and Other Intangible Assets

Goodwill and franchise rights assets are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We completed our annual tests for impairment of goodwill and other intangible assets as of April 30, 2011, and no impairment charges resulted from the required impairment test.

The fair values of the Domestic, Import, and Premium Luxury reporting units were substantially in excess of their carrying values as of April 30, 2011, the date of our most recent annual impairment test.

As of September 30, 2011, we have $156.5 million of goodwill related to the Domestic reporting unit, $531.5 million related to the Import reporting unit, and $484.2 million related to the Premium Luxury reporting unit. A significant change in the assumptions used to estimate fair value could result in a material impairment charge to the goodwill associated with our reporting units.

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Long-Lived Assets

We estimate the depreciable lives of our property and equipment, including leasehold improvements, and review them for impairment when events or changes in circumstances indicate that their carrying amounts may be impaired. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, a current expectation that more-likely-than-not a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life, or a current-period operating or cash flow loss combined with historical losses or projected future losses.

When property and equipment is identified as held for sale, we reclassify the held for sale assets to Other Current Assets and cease recording depreciation. We measure each long-lived asset or disposal group at the lower of its carrying amount or fair value less cost to sell and recognize a loss for any initial adjustment of the long-lived asset's or disposal group's carrying amount to fair value less cost to sell in the period the "held for sale" criteria are met. We periodically evaluate the carrying value of assets held for sale to determine if, based on market conditions, the values of these assets should be adjusted.

As of September 30, 2011, we had long-lived assets held for sale of $81.9 million in continuing operations and $49.5 million in discontinued operations.

We recorded no impairment charges during the three and nine months ended September 30, 2011, associated with assets held and used or assets held for sale in continuing operations. During the nine months ended September 30, 2011, we recorded a non-cash impairment charge of $0.5 million associated with long-lived assets held for sale in discontinued operations, which is included in Loss from Discontinued Operations in our Unaudited Condensed Consolidated Financial Statements. We recorded no impairment charges during the three months ended September 30, 2011, associated with assets held for sale in discontinued operations.

The fair value measurements for our property and equipment and assets held for sale are based on Level 3 inputs, which considered information from third-party real estate valuation sources, or, in certain cases, pending agreements to sell the related assets. Although we believe our property and equipment and assets held for sale are appropriately valued, the assumptions and estimates used may change and we may be required to record impairment charges to reduce the value of these assets.

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Reported Operating Data
Historical operating results include the results of acquired businesses from the date of acquisition.

($ in millions, except per vehicle data)	Three Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$1,881.6	$1,773.3	$ 108.3	6.1	$5,413.3	$4,890.4	$ 522.9	10.7
Used vehicle	911.9	812.4	99.5	12.2	2,630.6	2,327.7	302.9	13.0
Parts and service	578.0	564.1	13.9	2.5	1,720.0	1,648.9	71.1	4.3
Finance and insurance, net	121.9	111.9	10.0	8.9	349.6	311.9	37.7	12.1
Other	13.1	12.2	0.9		40.4	35.9	4.5	
Total revenue	$3,506.5	$3,273.9	$ 232.6	7.1	$10,153.9	$9,214.8	$ 939.1	10.2
Gross profit:								
New vehicle	$138.2	$111.9	$ 26.3	23.5	$400.2	$323.7	$ 76.5	23.6
Used vehicle	66.5	69.2	(2.7)	(3.9)	223.2	205.0	18.2	8.9
Parts and service	241.9	245.6	(3.7)	(1.5)	731.6	721.6	10.0	1.4
Finance and insurance	121.9	111.9	10.0	8.9	349.6	311.9	37.7	12.1
Other	6.7	6.8	(0.1)		20.2	20.8	(0.6)	
Total gross profit	575.2	545.4	29.8	5.5	1,724.8	1,583.0	141.8	9.0
Selling, general and administrative expenses	411.4	402.9	(8.5)	(2.1)	1,236.7	1,159.4	(77.3)	(6.7)
Depreciation and amortization	20.9	18.7	(2.2)		62.7	57.2	(5.5)	
Other expenses (income), net	(1.2)	2.9	4.1		(3.1)	4.5	7.6	
Operating income	144.1	120.9	23.2	19.2	428.5	361.9	66.6	18.4
Floorplan interest expense	(9.7)	(10.8)	1.1		(31.8)	(30.2)	(1.6)	
Other interest expense	(16.4)	(16.1)	(0.3)		(48.6)	(39.8)	(8.8)	
Loss on debt extinguishment	—	—	—		—	(19.6)	19.6	
Interest income	—	0.3	(0.3)		0.6	0.8	(0.2)	
Other losses, net	(2.4)	(0.7)	(1.7)		(0.2)	(1.1)	0.9	
Income from continuing operations before income taxes	$115.6	$93.6	$ 22.0	23.5	$348.5	$272.0	$ 76.5	28.1
Retail vehicle unit sales:								
New vehicle	56,309	56,121	188	0.3	163,843	153,305	10,538	6.9
Used vehicle	44,226	42,904	1,322	3.1	129,148	121,020	8,128	6.7
	100,535	99,025	1,510	1.5	292,991	274,325	18,666	6.8
Revenue per vehicle retailed:								
New vehicle	$33,416	$31,598	$ 1,818	5.8	$33,040	$31,900	$ 1,140	3.6
Used vehicle	$17,648	$17,073	$ 575	3.4	$17,762	$17,180	$ 582	3.4
Gross profit per vehicle retailed:								
New vehicle	$2,454	$1,994	$ 460	23.1	$2,443	$2,111	$ 332	15.7
Used vehicle	$1,524	$1,583	$ (59)	(3.7)	$1,690	$1,627	$ 63	3.9
Finance and insurance	$1,213	$1,130	$ 83	7.3	$1,193	$1,137	$ 56	4.9

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (%)	2010 (%)	2011 (%)	2010 (%)
Revenue mix percentages:				
New vehicle	53.7	54.2	53.3	53.1
Used vehicle	26.0	24.8	25.9	25.3
Parts and service	16.5	17.2	16.9	17.9
Finance and insurance, net	3.5	3.4	3.4	3.4
Other	0.3	0.4	0.5	0.3
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	24.0	20.5	23.2	20.4
Used vehicle	11.6	12.7	12.9	13.0
Parts and service	42.1	45.0	42.4	45.6
Finance and insurance	21.2	20.5	20.3	19.7
Other	1.1	1.3	1.2	1.3
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	7.3	6.3	7.4	6.6
Used vehicle - retail	8.6	9.3	9.5	9.5
Parts and service	41.9	43.5	42.5	43.8
Total	16.4	16.7	17.0	17.2
Selling, general and administrative expenses	11.7	12.3	12.2	12.6
Operating income	4.1	3.7	4.2	3.9
Operating items as a percentage of total gross profit:				
Selling, general and administrative expenses	71.5	73.9	71.7	73.2
Operating income	25.1	22.2	24.8	22.9

	September 30, 2011	September 30, 2010
Days supply:		
New vehicle (industry standard of selling days, including fleet)	45 days	57 days
Used vehicle (trailing 30 days)	43 days	46 days

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit.

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in millions)	2011	2010	Variance	2011	2010	Variance
Floorplan assistance	$15.7	$14.8	$0.9	$44.7	$41.2	$3.5
Floorplan interest expense (new vehicles)	(9.1)	(10.1)	1.0	(30.0)	(28.6)	(1.4)
Net new vehicle inventory carrying benefit	$6.6	$4.7	$1.9	$14.7	$12.6	$2.1

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Same Store Operating Data

We have presented below our operating results on a same store basis to reflect our internal performance. The "Same Store" amounts presented below include the results of dealerships for the identical months in each period presented in the comparison, commencing with the first full month in which the dealership was owned by us.

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions, except per vehicle data)	2011	2010	Variance Favorable / (Unfavorable)	% Variance	2011	2010	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$1,835.7	$1,773.3	$62.4	3.5	$5,272.5	$4,890.4	$382.1	7.8
Used vehicle	885.5	812.4	73.1	9.0	2,556.3	2,327.7	228.6	9.8
Parts and service	569.4	564.1	5.3	0.9	1,685.1	1,648.9	36.2	2.2
Finance and insurance, net	119.3	111.9	7.4	6.6	341.7	311.9	29.8	9.6
Other	13.0	12.2	0.8		39.7	35.9	3.8	
Total revenue	$3,422.9	$3,273.9	$149.0	4.6	$9,895.3	$9,214.8	$680.5	7.4
Gross profit:								
New vehicle	$134.7	$111.9	$22.8	20.4	$389.4	$323.7	$65.7	20.3
Used vehicle	65.7	69.2	(3.5)	(5.1)	218.7	205.0	13.7	6.7
Parts and service	237.9	245.6	(7.7)	(3.1)	715.6	721.6	(6.0)	(0.8)
Finance and insurance	119.3	111.9	7.4	6.6	341.7	311.9	29.8	9.6
Other	6.6	6.8	(0.2)		19.7	20.8	(1.1)	
Total gross profit	$564.2	$545.4	$18.8	3.4	$1,685.1	$1,583.0	$102.1	6.4
Retail vehicle unit sales:								
New vehicle	54,844	56,121	(1,277)	(2.3)	158,983	153,305	5,678	3.7
Used vehicle	43,414	42,904	510	1.2	126,339	121,020	5,319	4.4
	98,258	99,025	(767)	(0.8)	285,322	274,325	10,997	4.0
Revenue per vehicle retailed:								
New vehicle	$33,471	$31,598	$1,873	5.9	$33,164	$31,900	$1,264	4.0
Used vehicle	$17,633	$17,073	$560	3.3	$17,776	$17,180	$596	3.5
Gross profit per vehicle retailed:								
New vehicle	$2,456	$1,994	$462	23.2	$2,449	$2,111	$338	16.0
Used vehicle	$1,529	$1,583	$(54)	(3.4)	$1,692	$1,627	$65	4.0
Finance and insurance	$1,214	$1,130	$84	7.4	$1,198	$1,137	$61	5.4

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (%)	2010 (%)	2011 (%)	2010 (%)
Revenue mix percentages:				
New vehicle	53.6	54.2	53.3	53.1
Used vehicle	25.9	24.8	25.8	25.3
Parts and service	16.6	17.2	17.0	17.9
Finance and insurance, net	3.5	3.4	3.5	3.4
Other	0.4	0.4	0.4	0.3
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	23.9	20.5	23.1	20.4
Used vehicle	11.6	12.7	13.0	13.0
Parts and service	42.2	45.0	42.5	45.6
Finance and insurance	21.1	20.5	20.3	19.7
Other	1.2	1.3	1.1	1.3
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	7.3	6.3	7.4	6.6
Used vehicle - retail	8.7	9.3	9.5	9.5
Parts and service	41.8	43.5	42.5	43.8
Total	16.5	16.7	17.0	17.2

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New Vehicle

($ in millions, except per vehicle data)	Three Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	$1,881.6	$1,773.3	$108.3	6.1	$5,413.3	$4,890.4	$522.9	10.7
Gross profit	$138.2	$111.9	$26.3	23.5	$400.2	$323.7	$76.5	23.6
Retail vehicle unit sales	56,309	56,121	188	0.3	163,843	153,305	10,538	6.9
Revenue per vehicle retailed	$33,416	$31,598	$1,818	5.8	$33,040	$31,900	$1,140	3.6
Gross profit per vehicle retailed	$2,454	$1,994	$460	23.1	$2,443	$2,111	$332	15.7
Gross profit as a percentage of revenue	7.3 %	6.3 %			7.4 %	6.6 %		
Days supply (industry standard of selling days, including fleet)	45 days	57 days						

	Three Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Revenue	$1,835.7	$1,773.3	$62.4	3.5	$5,272.5	$4,890.4	$382.1	7.8
Gross profit	$134.7	$111.9	$22.8	20.4	$389.4	$323.7	$65.7	20.3
Retail vehicle unit sales	54,844	56,121	(1,277)	(2.3)	158,983	153,305	5,678	3.7
Revenue per vehicle retailed	$33,471	$31,598	$1,873	5.9	$33,164	$31,900	$1,264	4.0
Gross profit per vehicle retailed	$2,456	$1,994	$462	23.2	$2,449	$2,111	$338	16.0
Gross profit as a percentage of revenue	7.3 %	6.3 %			7.4 %	6.6 %		

Third Quarter 2011 compared to Third Quarter 2010

Same store new vehicle revenue increased during the three months ended September 30, 2011, as compared to the same period in 2010, as a result of an increase in revenue per new vehicle retailed, partially offset by a decrease in same store unit volume. The decrease in same store unit volume was primarily due to the significant production and supply chain disruptions caused by the earthquake and tsunami that struck Japan in March 2011. These production and supply chain disruptions resulted in significantly reduced new vehicle production by Japanese manufacturers and lower new vehicle shipments from those manufacturers, which adversely impacted our new vehicle sales unit volume primarily in our Import segment. Manufacturers also reduced incentives during the three months ended September 30, 2011, as compared to the same period in 2010, which adversely impacted same store unit volume.

Same store revenue per new vehicle retailed increased during the three months ended September 30, 2011, as compared to the same period in 2010. Same store revenue per new vehicle retailed benefited from a shift in mix away from import vehicles, which have relatively lower average selling prices, toward domestic and premium luxury vehicles. Same store revenue per new vehicle retailed also benefited from an increase in the average selling prices for new vehicles, primarily due to increases in manufacturer pricing and supply and demand imbalances resulting from the Japan supply constraints.

Same store gross profit per new vehicle retailed benefited from an increase in new vehicle gross profit due primarily to the tight supply of vehicles produced by Japanese manufacturers.

First Nine Months 2011 compared to First Nine Months 2010

Same store new vehicle revenue increased during the nine months ended September 30, 2011, as compared to the same period in 2010, as a result of an increase in same store unit volume and an increase in same store revenue per new vehicle retailed. The increase in same store unit volume was primarily due to improved market conditions, including improved credit availability offered to consumers and increased consumer demand, as well as reinstatement or expansion of certain manufacturer leasing programs. The increase in same store unit volume for the nine months ended September 30, 2011, was partially offset by the Japan supply constraints, which adversely impacted unit sales in the second and third quarters of 2011, and by a decrease in manufacturer incentives.

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Same store revenue per new vehicle retailed increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to a shift in mix away from import vehicles, which have relatively lower average selling prices, toward domestic and premium luxury vehicles. Same store revenue per new vehicle retailed also benefited from an increase in the average selling prices for new vehicles in the Import segment, primarily due to the supply and demand imbalances resulting from the Japan supply constraints, and in the Premium Luxury segment, primarily due to improved market conditions.

Same store gross profit per new vehicle retailed benefited from a shift in mix away from import vehicles, which generate relatively lower gross profit per vehicle retailed, due to the tight supply of vehicles produced by Japanese manufacturers, as well as from an increase in new vehicle gross profit in all three segments. Same store gross profit per new vehicle retailed also benefited from the recognition of certain performance-based manufacturer incentives related to premium luxury vehicles previously sold, which favorably impacted gross profit and operating income by $6.0 million. We were able to recognize these incentives due to our achievement of certain manufacturer incentive program goals during the first half of 2011. We expect to recognize the remaining incentives under this program in the fourth quarter of 2011.

See “Market Conditions” above for a discussion of the automotive retail environment, including our expectations regarding the supply of vehicles produced by Japanese manufacturers, and the related impact on new vehicle sales and margins.

New Vehicle Inventories

Our new vehicle inventories were $1.2 billion or 45 days supply at September 30, 2011, as compared to new vehicle inventories of $1.5 billion or 63 days supply at December 31, 2010 and $1.3 billion or 57 days supply at September 30, 2010. We had 33,914 units in new vehicle inventory at September 30, 2011, 48,499 units at December 31, 2010, and 41,788 units at September 30, 2010.

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit.

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in millions)	2011	2010	Variance	2011	2010	Variance
Floorplan assistance	$15.7	$14.8	$0.9	$44.7	$41.2	$3.5
Floorplan interest expense (new vehicles)	(9.1)	(10.1)	1.0	(30.0)	(28.6)	(1.4)
Net new vehicle inventory carrying benefit	$6.6	$4.7	$1.9	$14.7	$12.6	$2.1

Third Quarter 2011 compared to Third Quarter 2010

The net new vehicle inventory carrying benefit increased during the three months ended September 30, 2011, as compared to the same period in 2010 due to a decrease in floorplan interest expense primarily due to lower floorplan interest rates and an increase in floorplan assistance primarily due to an increase in the floorplan assistance rate per unit.

First Nine Months 2011 compared to First Nine Months 2010

The net new vehicle inventory carrying benefit increased during the nine months ended September 30, 2011, as compared to the same period in 2010 due to an increase in floorplan assistance primarily as a result of higher new vehicle sales, partially offset by an increase in floorplan interest expense primarily due to higher average vehicle floorplan payable balances during the period, partially offset by lower floorplan interest rates.

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Used Vehicle

($ in millions, except per vehicle data)	Three Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Retail revenue	$780.5	$732.5	$48.0	6.6	$2,293.9	$2,079.1	$214.8	10.3
Wholesale revenue	131.4	79.9	51.5	64.5	336.7	248.6	88.1	35.4
Total revenue	$911.9	$812.4	$99.5	12.2	$2,630.6	$2,327.7	$302.9	13.0
Retail gross profit	$67.4	$67.9	$(0.5)	(0.7)	$218.3	$196.9	$21.4	10.9
Wholesale gross profit (loss)	(0.9)	1.3	(2.2)		4.9	8.1	(3.2)	
Total gross profit	$66.5	$69.2	$(2.7)	(3.9)	$223.2	$205.0	$18.2	8.9
Retail vehicle unit sales	44,226	42,904	1,322	3.1	129,148	121,020	8,128	6.7
Revenue per vehicle retailed	$17,648	$17,073	$575	3.4	$17,762	$17,180	$582	3.4
Gross profit per vehicle retailed	$1,524	$1,583	$(59)	(3.7)	$1,690	$1,627	$63	3.9
Gross profit as a percentage of revenue	8.6%	9.3%			9.5%	9.5%		
Days supply (trailing 30 days)	43 days	46 days						

	Three Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance
Same Store:								
Retail revenue	$765.5	$732.5	$33.0	4.5	$2,245.8	$2,079.1	$166.7	8.0
Wholesale revenue	120.0	79.9	40.1	50.2	310.5	248.6	61.9	24.9
Total revenue	$885.5	$812.4	$73.1	9.0	$2,556.3	$2,327.7	$228.6	9.8
Retail gross profit	$66.4	$67.9	$(1.5)	(2.2)	$213.8	$196.9	$16.9	8.6
Wholesale gross profit (loss)	(0.7)	1.3	(2.0)		4.9	8.1	(3.2)	
Total gross profit	$65.7	$69.2	$(3.5)	(5.1)	$218.7	$205.0	$13.7	6.7
Retail vehicle unit sales	43,414	42,904	510	1.2	126,339	121,020	5,319	4.4
Revenue per vehicle retailed	$17,633	$17,073	$560	3.3	$17,776	$17,180	$596	3.5
Gross profit per vehicle retailed	$1,529	$1,583	$(54)	(3.4)	$1,692	$1,627	$65	4.0
Gross profit as a percentage of revenue	8.7%	9.3%			9.5%	9.5%		

Third Quarter 2011 compared to Third Quarter 2010

Same store retail used vehicle revenue increased during the three months ended September 30, 2011, as compared to the same period in 2010, as a result of both an increase in same store unit volume and an increase in revenue per used vehicle retailed. The increase in used vehicle sales volume was driven in part by an increase in sales of value-priced vehicles. We opened 19 Value Vehicle Outlets ("VVOs") primarily in the second half of 2010 and an additional 8 in the first nine months of 2011 to address industry supply constraints and meet market demand. Through our VVOs, which are located on existing store facilities, we sell vehicles that we would have traditionally wholesaled with an average retail price lower than that of used vehicles we typically retail. Additionally, used vehicle sales volumes benefited from an increase in trade-in volume. These increases were partially offset by a decline in certified pre-owned vehicle sales due to elevated used vehicle pricing in comparison to new vehicle pricing and a decrease in supply of vehicles eligible for certified pre-owned designation.

Same store revenue per used vehicle retailed benefited from an increase in the average selling prices for used vehicles in all three segments primarily due to tighter supply, which has driven up the wholesale values of used vehicles. Used vehicle supply has been impacted by the decline in new vehicle sales in recent years, and the decline in off-lease vehicles, as well as by customers retaining their vehicles for longer periods of time. Used vehicle prices also increased in the third quarter of 2011 due to the Japan supply constraints for new vehicles. The increase in same store revenue per used vehicle retailed was partially offset by a decline in revenues as a result of increased sales of value-priced vehicles, which have lower average retail prices than used vehicles we typically retail.

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Same store gross profit per used vehicle retailed decreased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to increased sales of value-priced vehicles, which generate a relatively lower gross profit per vehicle retailed than used vehicles we typically retail.

First Nine Months 2011 compared to First Nine Months 2010

Same store retail used vehicle revenue increased during the nine months ended September 30, 2011, as compared to the same period in 2010, as a result of both an increase in same store unit volume and an increase in revenue per used vehicle retailed. The increase in used vehicle sales volume was driven in part by an increase in sales of value-priced vehicles through our VVOs. Additionally, used vehicle sales volumes benefited from an increase in trade-in volume associated with the increase in new vehicle sales volume. These increases were partially offset by a decline in certified pre-owned vehicle sales due to elevated used vehicle pricing in comparison to new vehicle pricing and a decrease in supply of vehicles eligible for certified pre-owned designation.

Same store revenue per used vehicle retailed benefited from an increase in the average selling prices for used vehicles in all three segments primarily due to tighter supply, which has driven up the wholesale values of used vehicles. Used vehicle supply has been impacted by the decline in new vehicle sales in recent years, and the decline in off-lease vehicles, as well as by customers retaining their vehicles for longer periods of time. The increase in same store revenue per used vehicle retailed was partially offset by a decline in revenues as a result of increased sales of value-priced vehicles, which have lower average retail prices than used vehicles we typically retail.

Same store gross profit per used vehicle retailed increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in gross profit per used vehicle retailed due to the tighter supply of used vehicle inventory. The increase in same store gross profit per used vehicle retailed was partially offset by increased sales of value-priced vehicles, which generate a relatively lower gross profit per vehicle retailed than used vehicles we typically retail.

Used Vehicle Inventories

Used vehicle inventories were $305.4 million or 43 days supply at September 30, 2011, compared to $271.8 million or 42 days supply at December 31, 2010, and $306.0 million or 46 days supply at September 30, 2010.

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Parts and Service

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2011	2010	Variance Favorable / (Unfavorable)	% Variance	2011	2010	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue	$578.0	$564.1	$13.9	2.5	$1,720.0	$1,648.9	$71.1	4.3
Gross Profit	$241.9	$245.6	$(3.7)	(1.5)	$731.6	$721.6	$10.0	1.4
Gross profit as a percentage of revenue	41.9%	43.5%			42.5%	43.8%		
Same Store:								
Revenue	$569.4	$564.1	$5.3	0.9	$1,685.1	$1,648.9	$36.2	2.2
Gross Profit	$237.9	$245.6	$(7.7)	(3.1)	$715.6	$721.6	$(6.0)	(0.8)
Gross profit as a percentage of revenue	41.8%	43.5%			42.5%	43.8%		

Parts and service revenue is primarily derived from vehicle repairs paid directly by customers or via reimbursement from manufacturers and others under warranty programs.

Third Quarter 2011 compared to Third Quarter 2010

During the three months ended September 30, 2011, same store parts and service gross profit decreased as compared to the same period in 2010. Same store parts and service gross profit was adversely impacted by declines in gross profit associated with warranty of $6.5 million and the preparation of vehicles for sale and service work outsourced to third-parties of $2.8 million, partially offset by an increase in gross profit associated with customer-pay service of $1.8 million.

Warranty was adversely impacted during the three months ended September 30, 2011, by fewer vehicles in operation as a result of lower vehicle sales in recent years and, to a lesser extent, improved quality of vehicles manufactured in recent years. Additionally, warranty was favorably impacted by the rise in manufacturer recalls in the automotive industry in the prior year. Gross profit associated with the preparation of vehicles for sale and service work outsourced to third-parties was adversely impacted by lower new vehicle sales volume. Customer-pay service gross profit benefited from improved market conditions and better marketing of products and services in the service department.

First Nine Months 2011 compared to First Nine Months 2010

During the nine months ended September 30, 2011, same store parts and service gross profit decreased as compared to the same period in 2010, primarily due to a decline in gross profit associated with warranty of $11.1 million, partially offset by an increase in gross profit associated with customer-pay service of $4.6 million.

Warranty was adversely impacted during the nine months ended September 30, 2011, by fewer vehicles in operation as a result of lower vehicle sales in recent years and, to a lesser extent, improved quality of vehicles manufactured in recent years. Additionally, warranty benefited from an increase in warranty service related to the rise of manufacturer recalls in the automotive industry in the prior year. Customer-pay service gross profit benefited from improved market conditions and better marketing of products and services in the service department.

We expect the decline in new vehicle sales over the past few years, which has led to a decline in the total number of recent-model-year vehicles in operation, our primary service base, may have an adverse impact on our parts and service business for the next several years.

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Finance and Insurance

($ in millions, except per vehicle data)	Three Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance	Nine Months Ended September 30, 2011	2010	Variance Favorable / (Unfavorable)	% Variance
Reported:								
Revenue and gross profit	$121.9	$111.9	$10.0	8.9	$349.6	$311.9	$37.7	12.1
Gross profit per vehicle retailed	1,213	1,130	$83	7.3	1,193	1,137	$56	4.9
Same Store:								
Revenue and gross profit	$119.3	$111.9	$7.4	6.6	$341.7	$311.9	$29.8	9.6
Gross profit per vehicle retailed	$1,214	$1,130	$84	7.4	$1,198	$1,137	$61	5.4

Third Quarter 2011 compared to Third Quarter 2010

Same store finance and insurance revenue and gross profit increased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in same store finance and insurance revenue and gross profit per vehicle retailed, partially offset by a decrease in new vehicle sales in the Import segment.

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

First Nine Months 2011 compared to First Nine Months 2010

Same store finance and insurance revenue and gross profit increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new and used vehicle sales volumes and an increase in same store finance and insurance revenue and gross profit per vehicle retailed, partially offset by a decrease in new vehicle sales in the Import segment.

Same store finance and insurance revenue and gross profit per vehicle benefited from an increase in revenue associated with arranging customer financing, an increase in margin on product contracts sold, more customers financing vehicles through the dealerships, and an increase in amounts financed per transaction. This benefit was partially offset by a decline in profit resulting from chargeback experience.

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Segment Results

In the following table, total Segment Income (Loss) of the operating segments is reconciled to consolidated operating income.

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2011	2010	Variance Favorable / (Unfavorable)	% Varince	2011	2010	Variance Favorable / (Unfavorable)	% Variance
Revenue								
Domestic	$1,204.4	$1,102.6	$101.8	9.2	$3,445.5	$3,048.7	$396.8	13.0
Import	1,318.3	1,275.1	43.2	3.4	3,829.0	3,523.9	305.1	8.7
Premium Luxury	948.7	863.3	85.4	9.9	2,768.5	2,546.3	222.2	8.7
Corporate and other	35.1	32.9	2.2	6.7	110.9	95.9	15.0	15.6
Total revenue	$3,506.5	$3,273.9	$232.6	7.1	$10,153.9	$9,214.8	$939.1	10.2
*Segment income (loss)								
Domestic	$46.7	$42.5	$4.2	9.9	$135.8	$116.1	$19.7	17.0
Import	65.0	51.3	13.7	26.7	187.9	153.6	34.3	22.3
Premium Luxury	49.5	47.7	1.8	3.8	161.3	142.8	18.5	13.0
Corporate and other	(26.8)	(31.4)	4.6		(88.3)	(80.8)	(7.5)	
Total segment income	134.4	110.1	24.3	22.1	396.7	331.7	65.0	19.6
Add: Floorplan interest expense	9.7	10.8	1.1		31.8	30.2	(1.6)	
Operating income	$144.1	$120.9	$23.2	19.2	$428.5	$361.9	$66.6	18.4
*Segment income (loss) is defined as operating income less floorplan interest expense.								
Retail new vehicle unit sales:								
Domestic	19,789	17,635	2,154	12.2	56,276	47,762	8,514	17.8
Import	26,914	29,858	(2,944)	(9.9)	80,430	80,676	(246)	(0.3)
Premium Luxury	9,606	8,628	978	11.3	27,137	24,867	2,270	9.1
	56,309	56,121	188	0.3	163,843	153,305	10,538	6.9

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Domestic

The Domestic segment operating results included the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2011	2010	Variance Favorable / (Unfavorable)	% Variance	2011	2010	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,204.4	$1,102.6	$101.8	9.2	$3,445.5	$3,048.7	$396.8	13.0
Segment income	$46.7	$42.5	$4.2	9.9	$135.8	$116.1	$19.7	17.0
Retail new vehicle unit sales	19,789	17,635	2,154	12.2	56,276	47,762	8,514	17.8

Third Quarter 2011 compared to Third Quarter 2010

Domestic revenue increased during the three months ended September 30, 2011, as compared to the same period in 2010, due to an increase in new and used unit volume and an increase in revenue per new and used vehicle retailed. The increase in new and used unit volume was primarily due to improved market conditions, including increased consumer demand, as well as reinstatement or expansion of certain manufacturer leasing programs. New revenue and unit sales increased for all three domestic manufacturers as compared to the third quarter of 2010. Revenue per vehicle retailed benefited from an increase in the average selling prices for large new vehicles and small used vehicles.

Domestic segment income increased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new unit volume. Domestic segment income also benefited from an increase in finance and insurance revenue and gross profit. Increases in Domestic segment income were partially offset by an increase in volume-related expenses.

First Nine Months 2011 compared to First Nine Months 2010

Domestic revenue increased during the nine months ended September 30, 2011, as compared to the same period in 2010, due to an increase in new and used unit volume and an increase in revenue per used vehicle retailed. The increase in new unit volume was primarily due to improved market conditions, including increased consumer demand, as well as reinstatement or expansion of certain manufacturer leasing programs. The increase in used unit volume was primarily due to improved market conditions. New revenue and unit sales increased for all three domestic manufacturers as compared to the first nine months of 2010. Revenue per used vehicle retailed benefited from an increase in the average selling prices for small and large used vehicles.

Domestic segment income increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new and used unit volume. Domestic segment income also benefited from an increase in finance and insurance revenue and gross profit. Increases in Domestic segment income were partially offset by an increase in volume-related expenses.

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Import

The Import segment operating results included the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2011	2010	Variance Favorable / (Unfavorable)	% Variance	2011	2010	Variance Favorable / (Unfavorable)	% Variance
Revenue	$1,318.3	$1,275.1	$43.2	3.4	$3,829.0	$3,523.9	$305.1	8.7
Segment income	$65.0	$51.3	$13.7	26.7	$187.9	$153.6	$34.3	22.3
Retail new vehicle unit sales	26,914	29,858	(2,944)	(9.9)	80,430	80,676	(246)	(0.3)

Third Quarter 2011 compared to Third Quarter 2010

Import revenue increased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to the recent acquisitions we completed in the third quarter of 2010 and the first quarter of 2011, as well as an increase in revenue per new and used vehicle retailed, partially offset by a decrease in new unit volume due to the Japan supply constraints. Revenue per new and used vehicle retailed benefited from an increase in the average selling prices for both small and large new and used vehicles, primarily due to the Japan supply constraints.

Import segment income increased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new vehicle gross profit due to the Japan supply constraints, as well as the effect of the recent acquisitions noted above. Import segment income also benefited from an increase in finance and insurance revenue and gross profit. Increases in Import segment income were partially offset by an increase in selling, general, and administrative expenses primarily due to an increase in sales commissions resulting from higher new vehicle gross profit.

First Nine Months 2011 compared to First Nine Months 2010

Import revenue increased during the nine months ended September 30, 2011, as compared to the same period in 2010, due to an increase in used unit volume, primarily due to the recent acquisitions noted above, and an increase in revenue per new and used vehicle retailed. Revenue per new and used vehicle retailed benefited from an increase in the average selling prices for both small and large new and used vehicles, due in part to the Japan supply constraints.

Import segment income increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to the effect of the recent acquisitions noted above, as well as an increase in used unit volume and new and used vehicle gross profit due to the Japan supply constraints. Import segment income also benefited from an increase in finance and insurance revenue and gross profit. Increases in Import segment income were partially offset by an increase in selling, general, and administrative expenses primarily due to an increase in sales commissions resulting from higher new and used vehicle gross profit.

See “Market Conditions” above for a discussion of the automotive retail environment, including our expectations regarding the supply of vehicles produced by Japanese manufacturers, and the related impact on new vehicle sales and margins.

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Premium Luxury

The Premium Luxury segment operating results included the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
($ in millions)	2011	2010	Variance Favorable / (Unfavorable)	% Variance	2011	2010	Variance Favorable / (Unfavorable)	% Variance
Revenue	$948.7	$863.3	$85.4	9.9	$2,768.5	$2,546.3	$222.2	8.7
Segment income	$49.5	$47.7	$1.8	3.8	$161.3	$142.8	$18.5	13.0
Retail new vehicle unit sales	9,606	8,628	978	11.3	27,137	24,867	2,270	9.1

Third Quarter 2011 compared to Third Quarter 2010

Premium Luxury revenue increased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new unit volume and an increase in revenue per new and used vehicle retailed. The increase in new unit volume was primarily due to improved market conditions, including increased consumer demand. Revenue per new and used vehicle retailed benefited from an increase in the average selling prices for both small new vehicles and small and large used vehicles.

Premium Luxury segment income increased during the three months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new unit volume and supply and demand imbalances for vehicles produced by Japanese manufacturers as a result of the Japan supply constraints. Premium Luxury segment income also benefited from an increase in finance and insurance revenue and gross profit. Increases in Premium Luxury segment income were partially offset by an increase in volume-related expenses.

First Nine Months 2011 compared to First Nine Months 2010

Premium Luxury revenue increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new and used unit volume and an increase in revenue per new and used vehicle retailed. The increase in new and used unit volume was primarily due to improved market conditions, including increased consumer demand. Revenue per new and used vehicle retailed benefited from an increase in the average selling prices for both small and large new vehicles and large used vehicles.

Premium Luxury segment income increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in new unit volume and supply and demand imbalances for vehicles produced by Japanese manufacturers as a result of the Japan supply constraints. Premium Luxury segment income also benefited from an increase in finance and insurance revenue and gross profit.

Additionally, as noted above in the “New Vehicle” section, we achieved certain manufacturer incentive program goals during the first nine months of 2011. As a result, we were able to recognize certain performance-based manufacturer incentives, related to premium luxury vehicles previously sold, which favorably impacted Premium Luxury segment income. Increases in Premium Luxury segment income were partially offset by an increase in volume-related expenses.

See “Market Conditions” above for a discussion of the automotive retail environment, including our expectations regarding the supply of vehicles produced by Japanese manufacturers, and the related impact on new vehicle sales and margins.

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Selling, General, and Administrative Expenses

Our Selling, General, and Administrative expenses ("SG&A") consist primarily of compensation, including salaries, commissions and incentive-based compensation, as well as advertising (net of reimbursement-based manufacturer advertising rebates), occupancy costs, legal, accounting, and professional services, and general corporate expenses.

Third Quarter 2011 compared to Third Quarter 2010

SG&A expenses increased $8.5 million during the three months ended September 30, 2011, as compared to the same period in 2010, due to a $4.6 million increase in compensation expense and a $5.1 million increase in other SG&A expenses, partially offset by a $1.4 million decrease in gross advertising expenditures. As a percentage of total gross profit, SG&A expenses decreased to 71.5% during the three months ended September 30, 2011, from 73.9% in the same period in 2010, resulting from our continued effective management of our cost structure and improved gross profit.

First Nine Months 2011 compared to First Nine Months 2010

SG&A expenses increased $77.3 million during the nine months ended September 30, 2011, as compared to the same period in 2010, due to a $47.8 million increase in compensation expense, a $21.4 million increase in other SG&A expenses, a $4.2 million increase associated with hail storm-related losses, and a $5.3 million increase in gross advertising expenditures, partially offset by a $1.4 million increase in advertising reimbursements from manufacturers. As a percentage of total gross profit, SG&A expenses decreased to 71.7% during the nine months ended September 30, 2011, from 73.2% in the same period in 2010, resulting from our continued effective management of our cost structure and improved gross profit.

Non-Operating Income (Expense)

Floorplan Interest Expense

Third Quarter 2011 compared to Third Quarter 2010

Floorplan interest expense was $9.7 million for the three months ended September 30, 2011, as compared to $10.8 million for the same period in 2010. The decrease in floorplan interest expense of $1.1 million during the three months ended September 30, 2011, is primarily the result of lower floorplan interest rates.

First Nine Months 2011 compared to First Nine Months 2010

Floorplan interest expense was $31.8 million for the nine months ended September 30, 2011, as compared to $30.2 million for the same period in 2010. The increase in floorplan interest expense of $1.6 million during the nine months ended September 30, 2011, is primarily the result of higher average vehicle floorplan payable balances, partially offset by lower floorplan interest rates.

Other Interest Expense

Other interest expense was incurred primarily on borrowings under our term loan facilities, revolving credit facilities, mortgage facility, and outstanding senior unsecured notes.

Third Quarter 2011 compared to Third Quarter 2010

Other interest expense was $16.4 million for the three months ended September 30, 2011, which was relatively flat compared to $16.1 million for the same period in 2010.

First Nine Months 2011 compared to First Nine Months 2010

Other interest expense was $48.6 million for the nine months ended September 30, 2011, compared to $39.8 million for the same period in 2010. The increase in other interest expense of $8.8 million during the nine months ended September 30, 2011, as compared to the same period in 2010, was primarily due to $9.8 million increase in interest expense resulting from higher levels of debt outstanding during the period associated with our 6.75% Senior Notes due 2018 and revolving credit facilities, and a $1.4 million increase in interest expense resulting from higher interest rates on our extended term loan facility, partially offset by a decrease in interest expense of $3.6 million resulting from lower levels of debt outstanding during the period associated with our 7% Senior Notes due 2014, Floating Rate Senior Notes due 2013, and mortgage facility.

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Loss on Debt Extinguishment

We expensed $19.6 million pre-tax in the second quarter of 2010 related to the debt refinancing transactions we completed in the second quarter of 2010, including $3.5 million for the write-off of previously deferred debt issuance costs. This expense is recorded in Loss on Debt Extinguishment in the accompanying Unaudited Condensed Consolidated Financial Statements. Please refer to Note 7 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our most recent Annual Report on Form 10-K for a discussion of the debt refinancing transactions that we completed during the second quarter of 2010.

Provision for Income Taxes

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

Third Quarter 2011 compared to Third Quarter 2010

Our effective income tax rate was 38.8% for the three months ended September 30, 2011, and 37.5% for the three months ended September 30, 2010. The effective income tax rate for the three months ended September 30, 2010, reflects the benefit of certain favorable tax adjustments.

First Nine Months 2011 compared to First Nine Months 2010

Our effective income tax rate was 38.5% for the nine months ended September 30, 2011, and 38.5% for the nine months ended September 30, 2010.

Discontinued Operations

Discontinued operations are related to stores that were sold or terminated, that we have entered into an agreement to sell or terminate, or for which we otherwise deem a proposed sales transaction or termination to be probable, with no material changes expected. We account for a store that either has been disposed of or is classified as held for sale as a discontinued operation if (a) the operations and cash flows of the store have been (or will be) eliminated from our ongoing operations and (b) we will not have any significant continuing involvement in the operations of the store after the disposal transaction.

In evaluating whether a store’s cash flows will be eliminated from our ongoing operations, we consider whether we expect to continue to generate revenues or incur expenses from the sale of similar products or services to customers of the disposed store in the same geographic market. If we believe that a significant portion of the cash flows previously generated by the disposed store will migrate to our other operating stores, we will not treat the disposition as a discontinued operation.

We had no income or loss from discontinued operations during the three months ended September 30, 2011, and a loss from discontinued operations, net of income taxes, totaling $2.3 million during the nine months ended September 30, 2011, primarily related to expected losses on real estate to be sold, as well as to carrying costs for real estate we have not yet sold associated with stores that have been closed. We had a loss from discontinued operations, net of income taxes, totaling $1.6 million during the three months ended September 30, 2010, and $7.9 million during the nine months ended September 30, 2010, related to operational losses for stores that were classified as discontinued operations, as well as carrying costs for real estate not yet sold related to stores that had been closed.

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 facilities and secured used 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.

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Available Liquidity Resources

We had the following sources of liquidity available:

(In millions)	September 30, 2011	December 31, 2010
Cash and Cash Equivalents	$67.3	$95.1
Revolving Credit Facility (1)	$278.9	$398.9
Secured Used Floorplan Facilities (2)	$99.5	$70.6

(1) Based on aggregate borrowings outstanding of $300.0 million and outstanding letters of credit of $59.7 million at September 30, 2011, and aggregate borrowings outstanding of $180.0 million and outstanding letters of credit of $59.7 million at December 31, 2010. See “Long-Term Debt – Amended Credit Agreement” for additional information.

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

In the ordinary course of business, we are required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of our performance. At September 30, 2011, surety bonds, letters of credit, and cash deposits totaled $92.2 million, including $59.7 million of letters of credit. We do not currently provide cash collateral for outstanding letters of credit.

In February 2009, we filed a shelf registration statement with the SEC that enables us to offer for sale, from time to time and as the capital markets permit, an unspecified amount of common stock, preferred stock, debt securities, guarantees, warrants, subscription rights, depositary shares, and stock purchase contracts and units. Our 6.75% Senior Notes due 2018 were offered pursuant to this shelf registration statement.

Current market conditions may provide an opportunity to enhance our balance sheet through a refinancing of our existing debt obligations. We are currently monitoring debt markets and would consider a refinancing upon favorable terms. This may include a refinancing of our existing term loan and revolving credit facilities, so as to increase our borrowing capacity, increase our maximum leverage ratio, lower our credit spreads, and/or extend our maturities. We may also consummate additional financings and/or other refinancings. There can be no assurance as to the timing, mix or ultimate terms of, or that we would proceed with, any such transaction. Please refer to “Capital Allocation” below for a description of our capital allocation strategy.

Capital Allocation

We use our capital resources to make capital investments in our business, to complete dealership acquisitions, and to repurchase our common stock and/or debt. A key component of our long-term strategy is to maximize the return on investment generated by the use of cash flow that our business generates, while maintaining a strong balance sheet. 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 potential impact on our capital structure, our ability to complete dealership acquisitions that meet our market and brand criteria and return on investment threshold, and limitations set forth in our debt agreements.

Share Repurchases

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2011	2010	2011	2010
Shares repurchased	5.7	2.9	10.8	25.9
Aggregate purchase price	$195.9	$55.0	$365.6	$506.6
Average purchase price per share	$34.66	$19.08	$33.85	$19.59

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The decision to repurchase shares at any given point in time is based on factors such as the market price of our common stock versus our view of its intrinsic value, the potential impact on our capital structure (including compliance with our 3.25x maximum leverage ratio and other financial covenants in our debt agreements as well as our available liquidity), and the expected return on competing uses of capital such as dealership acquisitions, capital investments in our current businesses, or repurchases of our debt.

As of September 30, 2011, $117.6 million remained available for share repurchases under our existing share repurchase program. From October 1, 2011 through October 19, 2011, we repurchased an additional 1.5 million shares for an aggregate purchase price of $51.9 million (average purchase price per share of $33.67) pursuant to a Rule 10b5-1 plan. In October 2011, our Board of Directors authorized an additional $250 million under our existing share repurchase program.As of October 19, 2011, $315.7 million remained available for share repurchases under the program.

Senior Note Repurchases

We did not repurchase any of our debt during the three and nine months ended September 30, 2011 or 2010.

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

Capital Expenditures

The following table sets forth information regarding our capital expenditures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2011	2010	2011	2010
Purchases of property and equipment, including operating lease buy-outs (1)	$50.0	$40.0	$113.6	$80.3

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

Excluding acquisition-related spending, land purchased for future sites, and lease buy-outs, and net of related asset sales, we anticipate that our capital expenditures will be approximately $145 million in 2011, including accrued construction in progress, primarily related to our store facilities.

Acquisitions and Divestitures

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2011	2010	2011	2010
Cash received from (used in) business acquisitions, net	$—	$(60.6)	$(64.2)	$(73.1)
Cash received from (used in) business divestitures, net	$3.7	$7.6	$4.9	$12.4

Cash Dividends

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not anticipate paying cash dividends for the foreseeable future.

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Long-Term Debt

The following table sets forth our non-vehicle long-term debt as of September 30, 2011, and December 31, 2010.

(In millions)	September 30, 2011	December 31, 2010
7% Senior Notes due 2014	$14.7	$14.7
6.75% Senior Notes due 2018	394.8	394.4
Term loan facility due 2012	54.0	54.0
Term loan facility due 2014	479.4	479.4
Revolving credit facility due 2012	26.8	16.1
Revolving credit facility due 2014	273.2	163.9
Mortgage facility (1)	213.5	219.2
Capital leases due from 2011 to 2031	31.0	7.0
	$1,487.4	$1,348.7
Less: current maturities	(93.2)	(8.1)
Long-term debt, net of current maturities	$1,394.2	$1,340.6

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

Debt Refinancing

Please refer to Note 7 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our most recent Annual Report on Form 10-K for a discussion of certain refinancing transactions that we completed during the second quarter of 2010.

Senior Unsecured Notes

At September 30, 2011, we had outstanding $394.8 million of 6.75% Senior Notes due 2018. Interest on the 6.75% Senior Notes due 2018 is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At September 30, 2011, we had outstanding $14.7 million of 7% Senior Notes due 2014. Interest on the 7% Senior Notes due 2014 is payable on April 15 and October 15 of each year. The 7% Senior Notes due 2014 will mature on April 15, 2014, and may be redeemed by us currently at 101.75% of principal and at 100% of principal on or after April 15, 2012.

The 6.75% Senior Notes due 2018 and the 7% Senior Notes due 2014 are guaranteed by substantially all of our subsidiaries.

Amended Credit Agreement

Under our amended credit agreement, we have a $533.4 million term loan facility and a $638.6 million revolving credit facility. The term loan facility is bifurcated into a $54.0 million tranche due July 18, 2012 (the “non-extended term loan facility”) and a $479.4 million tranche due July 18, 2014 (the “extended term loan facility”). The revolving credit facility is bifurcated into a $57.0 million tranche due July 18, 2012 (the “non-extended revolving credit facility”) and a $581.6 million tranche due July 18, 2014 (the “extended revolving credit facility”).

As of September 30, 2011, we had borrowings outstanding of $26.8 million under the non-extended revolving credit facility and $273.2 million under the extended revolving credit facility. We have a $200.0 million letter of credit sublimit as part of our revolving credit facilities. The amount available to be borrowed under the revolving credit facilities is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was $59.7 million at September 30, 2011, leaving an additional borrowing capacity in the aggregate under both the non-extended and extended revolving credit facilities of $278.9 million at September 30, 2011.

Our non-extended term loan facility provides for various interest rates generally at LIBOR plus 0.875%. Our non-extended revolving credit facility provides for a 0.15% facility fee and various interest rates on borrowings generally at LIBOR plus 0.725%.

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Our extended term loan facility provides for various interest rates generally at LIBOR plus 2.25%, and our extended revolving credit facility provides for a commitment fee on undrawn amounts of 0.50% and various interest rates on borrowings generally at LIBOR plus 2.25%.

The credit spread charged for our non-extended term loan and revolving credit facilities is impacted by our senior unsecured credit ratings.

The credit spread charged for the extended term loan and revolving credit facilities is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.0x to greater than or equal to 3.0x would result in a 25 basis point increase in the credit spread under both our extended term loan facility and extended revolving credit facility.

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

Vehicle Floorplan Payable

Vehicle floorplan payable-trade totaled $1.0 billion at September 30, 2011, and $1.4 billion at December 31, 2010. Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific new vehicle inventories with manufacturers' captive finance subsidiaries.

Vehicle floorplan payable-non-trade totaled $468.1 million at September 30, 2011, and $486.5 million at December 31, 2010, and represents amounts borrowed to finance the purchase of specific new and, to a lesser extent, used vehicle inventories with non-trade lenders, as well as amounts borrowed under our secured used floorplan facilities, which are primarily collateralized by used vehicle inventories and related receivables.

At September 30, 2011, the aggregate capacity under our used floorplan facilities was $245.0 million. As of that date, $86.6 million had been borrowed under those facilities, and the remaining borrowing capacity of $158.4 million was limited to $99.5 million based on the eligible used vehicle inventory that could have been pledged as collateral.

At December 31, 2010, the aggregate capacity under our used floorplan facilities was $170.0 million. As of that date, $89.0 million had been borrowed under those facilities, and the remaining borrowing capacity of $81.0 million was limited to $70.6 million based on the eligible used vehicle inventory that could have been pledged as collateral.

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

Other Debt

At September 30, 2011, we had $213.5 million outstanding under a mortgage facility with an automotive manufacturer's captive finance subsidiary that matures on November 30, 2017. The mortgage facility utilizes a fixed interest rate of 5.864% and is secured by 10-year mortgages on certain of our store properties. At September 30, 2011, we had capital lease obligations of $31.0 million.

Restrictions and Covenants

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

Under our amended 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. Pursuant to the April 14, 2010 amendment to our credit agreement, both of these covenants were modified. Under the amended credit agreement, the maximum capitalization ratio is 60% and the maximum leverage ratio is 3.25x. In calculating our leverage ratio, we are not required to include letters of credit in the definition of debt (except to the extent of letters of credit in excess of $150.0 million), and, in calculating our capitalization ratio, we are permitted to add back to shareholders' equity all goodwill, franchise rights, and long-lived asset impairment charges subsequent to 2007. The specific

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terms of these covenants can be found in our amended credit agreement, which we filed with our Quarterly Report on Form 10-Q for the second quarter of 2010 on July 22, 2010.

The indenture for our 6.75% Senior Notes due 2018 contains certain limited covenants, including limitations on liens and sale and leaseback transactions, but does not contain a restricted payments covenant or a debt incurrence restriction. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.

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

As of September 30, 2011, we were in compliance with the requirements of the financial covenants under our debt agreements. Under the terms of our amended credit agreement, at September 30, 2011, our leverage ratio and capitalization ratio were as follows:

	September 30, 2011	
	Requirement	Actual
Leverage ratio	< 3.25x	2.38x
Capitalization ratio	< 60%	45.9%

Both the leverage ratio and the capitalization ratio limit our ability to incur additional non-vehicle debt. The capitalization ratio also limits our ability to incur additional vehicle floorplan indebtedness.

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

Cash Flows

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

	Nine Months Ended September 30,	
(In millions)	2011	2010
Net cash provided by operating activities	$311.1	$197.7
Net cash used in investing activities	$(174.7)	$(133.3)
Net cash used in financing activities	$(164.2)	$(153.4)

Cash Flows from Operating Activities

Our primary sources of operating cash flows are collections from contracts-in-transit and customers following the sale of vehicles and proceeds from vehicle floorplan payable-trade. Our primary uses of cash from operating activities are repayments of vehicle floorplan payable-trade, personnel related expenditures, and payments related to taxes and leased properties.

Net cash provided by operating activities increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an decrease in working capital requirements and an increase in earnings.

During the nine months ended September 30, 2010, we paid $28.1 million in connection with refinancing our indebtedness, including debt tender premiums. Cash flows from operating activities for the nine months ended September 30, 2010, reflect $16.1 million of these cash payments that we charged to expense related to these transactions. In addition, we charged to expense $3.5 million of previously deferred debt issuance costs. Cash flows from financing activities for the nine months ended September 30, 2010, discussed below, reflect $11.9 million of debt issuance costs that will be amortized to expense over the term of the new debt arrangements.

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Cash Flows from Investing Activities

Net cash flows from investing activities consist primarily of cash used in capital additions, activity from business acquisitions, business divestitures, property dispositions, purchases and sales of investments, and other transactions. Net cash used in investing activities increased during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to an increase in purchases of property and equipment.

We will make facility and infrastructure upgrades and improvements from time to time as we identify projects that are required to maintain our current business or that we expect to provide us with acceptable rates of return. Excluding acquisition-related spending, land purchased for future sites, property acquired under capital leases, and lease buy-outs, and net of related asset sales, we project that 2011 capital expenditures will be approximately $145 million, including accrued construction in progress.

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 stock option exercises.

During the nine months ended September 30, 2011, we repurchased 10.8 million shares of common stock for an aggregate purchase price of $365.6 million (average purchase price per share of $33.85). During the nine months ended September 30, 2011, 42,985 shares were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During the nine months ended September 30, 2010, we repurchased 25.9 million shares of common stock for an aggregate purchase price of $506.6 million (average purchase price per share of $19.59). During the nine months ended September 30, 2010, 33,485 shares were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

During the nine months ended September 30, 2011, we borrowed $300.0 million and repaid $180.0 million under our revolving credit facility, for net borrowings of $120.0 million. During the nine months ended September 30, 2010, we borrowed $325.0 million and repaid $115.0 million under our revolving credit facility, for net borrowings of $210.0 million.

During the nine months ended September 30, 2010, we (1) accepted for payment, and thereafter cancelled, all of our outstanding Floating Rate Senior Notes due 2013 and 88.9% of our 7% Senior Notes due 2014, representing an aggregate principal amount of $264.0 million of old notes, (2) amended the indenture for the old notes to eliminate most of the restrictive covenants and certain events of default and to shorten the notice periods required to undertake an optional redemption, (3) issued $400.0 million aggregate principal amount of 6.75% Senior Notes due 2018, and (4) amended and extended our credit agreement. The 6.75% Senior Notes due 2018 were sold at 98.488% of the aggregate principal amount providing for a yield to maturity of 7.0%.

A portion of the proceeds from the sale of the 6.75% Senior Notes due 2018 was used (1) to pay approximately $274.5 million for the old notes that were validly tendered and accepted for payment (which included accrued and unpaid interest for the old notes, as well as consent payments for those that were tendered and accepted for payment by April 13, 2010), (2) to reduce the size of our term loan facility by approximately $66.6 million (from $600.0 million to $533.4 million), (3) to pay transaction fees and expenses related to the debt offering, the tender offers, and the amendment to the credit agreement, and (4) for general corporate purposes. As noted above, cash flows from financing activities reflect cash payments of $11.9 million that will be amortized to expense over the term of the new indebtedness.

During the nine months ended September 30, 2011, cash flows from financing activities were also impacted by an increase in proceeds from the exercise of stock options and an increase in the related tax benefit from the exercise of stock options as compared to the same period in 2010.

Seasonality

Our operations generally experience higher volumes of vehicle sales and service 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. Accordingly, we expect our revenue and operating results to be generally lower in the first and fourth quarters as compared to the second and third quarters.

However, revenue may be impacted significantly from quarter to quarter by actual or threatened severe weather events and by other factors unrelated to weather conditions, such as changing economic conditions and automotive manufacturer incentive programs.

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Forward-Looking Statements

Our business, financial condition, results of operations, cash flows, and prospects, and the prevailing market price and performance of our common stock may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, including statements regarding our expectations for the automotive retail industry, including statements regarding the impact on our business of the earthquake and tsunami that struck Japan, 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 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including statements that describe our objectives, plans or goals are, or may be deemed to be, forward-looking statements. Words such as "anticipate," "expect," "intend," "goal," "plan," "believe," "continue," "may," "will," and variations of such words and similar expressions are intended to identify such forward-looking statements. Our forward-looking statements reflect our current expectations concerning future results and events, and they involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance or achievements to be materially different from any future results, performance and achievements expressed or implied by these statements. The risks, uncertainties, and other factors that our stockholders and prospective investors should consider include, but are not limited to, the following:

- The automotive retailing industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.
- Production and supply chain disruptions caused by the earthquake and tsunami that struck Japan in March 2011 could materially adversely impact our new vehicle sales.
- Our results of operations and financial condition have been and could continue to be adversely affected by the unfavorable economic conditions that have affected the United States for the past few years. Concerns over sovereign debt levels in the United States and Europe, and the possible negative implications to banks and the global economy arising out of the European debt crisis, could adversely impact the U.S. economy, consumer confidence and demand for new and used vehicles.
- 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 dependent upon the success and continued financial viability of the vehicle manufacturers and distributors with which we hold franchises.
- Goodwill and other intangible assets comprise a significant portion of our total assets. We must test our 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 new vehicle sales are impacted by the consumer incentive and marketing programs of vehicle manufacturers.
- Natural disasters and adverse weather events can disrupt our business.
- We are subject to restrictions imposed by, and significant influence from, vehicle manufacturers that may adversely impact our business, financial condition, results of operations, cash flows, and prospects, including our ability to acquire additional stores.
- 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 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.
- We are subject to interest rate risk in connection with our vehicle floorplan payables, revolving credit facility, and term loan facility that could have a material adverse effect on our profitability.
- Our largest stockholders, as a result of their ownership stakes in us, have the ability to exert substantial influence over actions to be taken or approved by our stockholders. These stockholders are represented on our Board of Directors

and, therefore, may also have the ability to exert substantial influence over actions to be taken or approved by our Board. In addition, future share repurchases and purchases by our affiliates could further reduce our public float and adversely impact the liquidity of our common stock.

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Please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, for additional discussion of the foregoing risks. We undertake no obligation to update any forward-looking statements to reflect subsequent events or circumstances.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is changing LIBOR-based interest rates. Interest rate derivatives may be used to hedge a portion of our variable rate debt when appropriate based on market conditions. Our fixed rate debt, primarily consisting of amounts outstanding under senior unsecured notes and mortgages, totaled $654.0 million and had a fair value of $663.4 million as of September 30, 2011, and totaled $635.3 million and had a fair value of $644.1 million as of December 31, 2010.

Interest Rate Risk

We had $1.5 billion of variable rate vehicle floorplan payable at September 30, 2011, and $1.9 billion at December 31, 2010. Based on these amounts, a 100 basis point change in interest rates would result in an approximate change of $15.1 million at September 30, 2011, and $18.7 million at December 31, 2010, 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 $833.4 million of other variable rate debt outstanding at September 30, 2011, and $713.4 million at December 31, 2010. Based on the amounts outstanding, a 100 basis point change in interest rates would result in an approximate change to annual interest expense of $8.3 million at September 30, 2011, and $7.1 million at December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We continue to centralize certain key store-level accounting and administrative activities, which we expect will streamline our internal control over financial reporting. The initial or "core" phase consisted of implementing a standard data processing platform in the store and centralizing to a shared services center certain key accounting processes (non-inventory accounts payable, bank account reconciliations, and certain accounts receivable). We have implemented the core phase in substantially all of our stores.

We are also transferring certain additional accounting responsibilities to our shared services center (the "extended" phase), which includes accounting for vehicle sales, lien payoffs, receipt of vehicles, floorplan transactions, and manufacturer payables, as well as certain other reconciliation processes. We have substantially implemented the extended phase in 147 of our 214 stores as of September 30, 2011.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, as updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, which could materially affect our business, financial condition, or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information with respect to shares of common stock repurchased by AutoNation, Inc. during the three months ended September 30, 2011.

Period	Total Number of Shares Purchased (1)	Avg. Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Programs (in millions)(1)
July 1, 2011 to July 31, 2011	10,932	$37.43	—	$313.5
August 1, 2011 to August 31, 2011	3,113,376	$34.95	3,112,620	$204.7
September 1, 2011 to September 30, 2011	2,538,196	$34.31	2,538,196	$117.6
Total	5,662,504		5,650,816	

(1) On October 23, 2007, our Board of Directors approved a stock repurchase program that authorized us to repurchase up to $250 million in shares of our common stock. In each of October 2009, May 2010, July 2010, May 2011, and October 2011, our Board increased the amount authorized under the program by $250 million. As of October 19, 2011, $315.7 million remained available for share repurchases under the program. Our stock repurchase program does not have an expiration date. In the third quarter of 2011, all of our shares were repurchased under our stock repurchase program, except for 11,688 shares that were surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock.

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ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act
32.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350
32.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished herewith.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTONATION, INC.

Date: October 21, 2011

By: /s/ Michael J. Stephan
Michael J. Stephan
Vice President – Corporate Controller

(Duly Authorized Officer and
Principal Accounting Officer)