

AUTONATION INC /FL
Form 10-Q
October 25, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

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 OF INCORPORATION)**

**73-1105145
(IRS EMPLOYER IDENTIFICATION NO.)**

**110 S.E. 6TH STREET
FT. LAUDERDALE, FLORIDA
(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)**

**33301
(ZIP CODE)**

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (954) 769-6000

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On October 22, 2007 the registrant had 183,963,303 outstanding shares of common stock, par value \$.01 per share.

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

ASSETS	September 30, 2007	December 31, 2006
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28.4	\$ 52.8
Receivables, net	669.8	801.0
Inventory	2,230.1	2,306.3
Other current assets	183.3	293.9
Total Current Assets	3,111.6	3,454.0
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$586.5 million and \$529.8 million, respectively	1,964.3	1,893.9
GOODWILL, NET	2,768.5	2,767.5
OTHER INTANGIBLE ASSETS, NET	316.8	317.2
OTHER ASSETS	181.8	174.4
Total Assets	\$ 8,343.0	\$ 8,607.0
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Vehicle floorplan payable trade	\$ 1,570.8	\$ 1,992.3
Vehicle floorplan payable non-trade	462.9	221.9
Accounts payable	208.1	208.7
Notes payable and current maturities of long-term obligations	79.5	13.6
Other current liabilities	511.5	583.8
Total Current Liabilities	2,832.8	3,020.3
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,652.2	1,557.9
DEFERRED INCOME TAXES	199.8	225.4
OTHER LIABILITIES	181.4	90.7
COMMITMENTS AND CONTINGENCIES (Note 12)		
SHAREHOLDERS EQUITY:		
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized; none issued		
Common stock, par value \$.01 per share; 1,500,000,000 shares authorized; 223,562,149 shares issued in each period including shares held in treasury	2.2	2.2
Additional paid-in capital	1,070.9	1,092.0
Retained earnings (Note 6)	3,214.4	2,989.4
Accumulated other comprehensive income (loss)	(.2)	(.4)

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Treasury stock, at cost; 39,633,717 and 16,809,630 shares held, respectively	(810.5)	(370.5)
Total Shareholders' Equity	3,476.8	3,712.7
Total Liabilities and Shareholders' Equity	\$ 8,343.0	\$ 8,607.0

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		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenue:				
New vehicle	\$ 2,681.0	\$ 2,887.2	\$ 7,750.8	\$ 8,374.4
Used vehicle	1,094.8	1,151.8	3,275.8	3,421.7
Parts and service	655.5	636.6	1,957.8	1,918.5
Finance and insurance, net	153.4	162.4	452.7	477.3
Other	17.1	17.0	51.3	56.0
TOTAL REVENUE	4,601.8	4,855.0	13,488.4	14,247.9
Cost of Sales:				
New vehicle	2,492.0	2,675.6	7,202.8	7,757.9
Used vehicle	1,006.3	1,050.8	2,989.5	3,106.1
Parts and service	368.7	356.1	1,100.8	1,071.6
Other	8.0	7.7	21.1	24.8
TOTAL COST OF SALES	3,875.0	4,090.2	11,314.2	11,960.4
Gross Profit:				
New vehicle	189.0	211.6	548.0	616.5
Used vehicle	88.5	101.0	286.3	315.6
Parts and service	286.8	280.5	857.0	846.9
Finance and insurance	153.4	162.4	452.7	477.3
Other	9.1	9.3	30.2	31.2
TOTAL GROSS PROFIT	726.8	764.8	2,174.2	2,287.5
Selling, general and administration expenses	518.1	541.4	1,550.6	1,612.0
Depreciation and amortization	22.3	20.8	64.9	60.6
Other expenses (income), net	.1	(.3)	1.6	(.2)
OPERATING INCOME	186.3	202.9	557.1	615.1
Floorplan interest expense	(34.0)	(36.1)	(99.5)	(102.7)
Other interest expense	(29.6)	(27.2)	(82.6)	(64.4)
Other interest expense Sr. Note Repurchases				(34.5)
Interest income	.8	.9	2.6	7.5
Other gains (losses), net	(.9)	.5	.1	1.2
INCOME FROM CONTINUING OPERATIONS				
BEFORE INCOME TAXES	122.6	141.0	377.7	422.2
PROVISION FOR INCOME TAXES	46.1	55.6	139.4	165.7
	76.5	85.4	238.3	256.5

NET INCOME FROM CONTINUING
OPERATIONSLoss from discontinued operations, net of income
taxes

	(4.4)	(3.6)	(11.3)	(14.8)
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NET INCOME

\$ 72.1	\$ 81.8	\$ 227.0	\$ 241.7
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BASIC EARNINGS (LOSS) PER SHARE:

Continuing operations

\$.39	\$.40	\$ 1.17	\$ 1.11
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Discontinued operations

\$ (.02)	\$ (.02)	\$ (.06)	\$ (.06)
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Net income

\$.37	\$.39	\$ 1.11	\$ 1.05
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Weighted average common shares outstanding

196.1	210.9	203.6	231.2
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DILUTED EARNINGS (LOSS) PER SHARE:

Continuing operations

\$.39	\$.40	\$ 1.16	\$ 1.09
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Discontinued operations

\$ (.02)	\$ (.02)	\$ (.05)	\$ (.06)
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Net income

\$.37	\$.38	\$ 1.10	\$ 1.03
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Weighted average common shares outstanding

197.5	215.0	205.6	235.0
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COMMON SHARES OUTSTANDING, net of

treasury stock

183.9	207.7	183.9	207.7
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The accompanying notes are an integral part of these statements.

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

	Common Stock		Additional		Retained	Accumulated			
	Shares	Amount	Paid-in		Earnings	Other	Treasury		Total
			Capital			Income	Stock		
						(Loss)			
BALANCE AT DECEMBER 31, 2006	223,562,149	\$ 2.2	\$ 1,092.0		\$ 2,989.4	\$ (.4)	\$ (370.5)		\$ 3,712.7
Cumulative effect of change in accounting for uncertainties in income taxes (FIN 48 - Note 6)					(2.0)				(2.0)
Exercise of stock options, including income tax benefit of \$16.0 million			(32.9)				140.8		107.9
Stock option expense			11.8						11.8
Other comprehensive income						.2			.2
Purchases of treasury stock							(580.8)		(580.8)
Net income					227.0				227.0
 BALANCE AT SEPTEMBER 30, 2007	 223,562,149	 \$ 2.2	 \$ 1,070.9		 \$ 3,214.4	 \$ (.2)	 \$ (810.5)		 \$ 3,476.8

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,	
	2007	2006
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	\$ 227.0	\$ 241.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	11.3	14.8
Depreciation and amortization	64.9	60.6
Amortization of debt issue costs and discounts	3.6	2.8
Stock option expense	11.8	11.9
Interest expense on bond repurchase		34.5
Income taxes	128.8	150.9
Other	1.0	(.6)
Changes in assets and liabilities, net of effects from business combinations and divestitures:		
Receivables	108.7	101.1
Inventory	89.0	257.3
Other assets	(5.2)	(18.6)
Vehicle floorplan payable, trade net	(425.2)	(304.2)
Accounts payable	(.6)	13.4
Other liabilities	(102.8)	(192.1)
Net cash provided by continuing operations	112.3	373.5
Net cash provided by discontinued operations	6.2	.3
Net cash provided by operating activities	118.5	373.8
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property and equipment	(129.0)	(136.5)
Proceeds from the sale of property and equipment	4.2	.7
Proceeds from assets held for sale	2.6	
Cash used in business acquisitions, net of cash acquired	(4.2)	(88.5)
Net change in restricted cash	(3.8)	(2.0)
Purchases of restricted investments	(13.7)	(4.9)
Proceeds from the sale of restricted investments	21.1	9.8
Cash received from business divestitures, net of cash relinquished	40.5	19.0
Other	(.3)	(.6)
Net cash used in continuing operations	(82.6)	(203.0)
Net cash used in discontinued operations		(.7)
Net cash used in investing activities	(82.6)	(203.7)

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,	
	2007	2006
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Purchases of treasury stock	(551.4)	(1,337.3)
Proceeds from senior unsecured notes issued		600.0
Proceeds from term loan		600.0
Proceeds from revolving credit facility	995.0	329.0
Payment of revolving credit facility	(829.0)	(238.0)
Net proceeds (payments) of vehicle floor plan payable non-trade	233.1	(56.6)
Payments of mortgage facilities	(3.3)	(4.2)
Payments of notes payable and long-term debt	(2.8)	(2.8)
Proceeds from the exercise of stock options	91.9	62.1
Tax benefit from stock options	16.0	14.4
Repurchases of 9% senior unsecured notes		(334.2)
Other	(2.1)	(16.6)
Net cash used in continuing operations	(52.6)	(384.2)
Net cash used in discontinued operations	(7.7)	(1.7)
Net cash used in financing activities	(60.3)	(385.9)
DECREASE IN CASH AND CASH EQUIVALENTS	(24.4)	(215.8)
CASH AND CASH EQUIVALENTS at beginning of period	52.8	246.8
CASH AND CASH EQUIVALENTS at end of period	\$ 28.4	\$ 31.0

The accompanying notes are an integral part of these statements.

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

1. Interim Financial Statements

Business and Basis of Presentation

AutoNation, Inc. (the Company), through its subsidiaries, is the largest automotive retailer in the United States. As of September 30, 2007, the Company owned and operated 325 new vehicle franchises from 246 stores located in major metropolitan markets, predominantly in the Sunbelt region of the United States. The Company offers a diversified range of automotive products and services, including new vehicles, used vehicles, vehicle maintenance and repair services, vehicle parts, extended service contracts, vehicle protection products and other aftermarket products. The Company also arranges financing for vehicle purchases through third-party finance sources.

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 the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information related to the Company's 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, the financial position and the results of operations of the Company for the periods presented.

The preparation of financial statements 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. Significant estimates made by the Company in the accompanying Unaudited Condensed Consolidated Financial Statements include allowances for doubtful accounts, accruals for chargebacks against revenue recognized from the sale of finance and insurance products, certain assumptions related to goodwill and other intangible, long-lived assets and 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 option 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 the Company's audited consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K.

Certain amounts have been reclassified from the previously reported financial statements to conform with the financial statement presentation of the current period.

New Accounting Pronouncements

As of January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48). See Note 6, Income Taxes, of Notes to Unaudited Condensed Consolidated Financial Statements for discussion.

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

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 defines fair value and applies to other accounting pronouncements that require or permit fair value measurements and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115 . SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159, if elected, on its Consolidated Financial Statements.

2. Receivables, Net

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

	September 30, 2007	December 31, 2006
Trade receivables	\$ 118.2	\$ 88.3
Manufacturer receivables	139.4	158.8
Other	68.0	101.9
	325.6	349.0
Less: Allowances	(5.1)	(6.3)
	320.5	342.7
Contracts-in-transit and vehicle receivables	342.9	429.4
Income tax refundable (See Note 6)	6.4	28.9
Receivables, net	\$ 669.8	\$ 801.0

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

3. Inventory and Vehicle Floorplan Payable

The components of inventory are as follows:

	September 30, 2007	December 31, 2006
New vehicles	\$ 1,745.7	\$ 1,856.8
Used vehicles	341.3	300.6
Parts, accessories and other	143.1	148.9
	\$ 2,230.1	\$ 2,306.3

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

At September 30, 2007 and December 31, 2006, vehicle floorplan payable-trade totaled \$1.6 billion and \$2.0 billion, respectively. Vehicle floorplan payable-trade reflects amounts borrowed to finance the purchase of specific vehicle inventories with the corresponding manufacturers' captive finance subsidiaries ("trade lenders"). Vehicle floorplan payable-non-trade totaled \$462.9 million and \$221.9 million at September 30, 2007 and December 31, 2006, respectively, and represents amounts borrowed to finance the purchase of specific vehicle inventories with non-trade lenders. Changes in vehicle floorplan payable-trade are reported as operating cash flows and changes in vehicle floorplan payable-non-trade are reported as financing cash flows in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows. On November 30, 2006, General Motors ("GM") completed the sale of a majority stake in General Motors Acceptance Corporation ("GMAC"), which was GM's wholly-owned captive finance subsidiary prior to this transaction. As a result of this sale, the Company has classified new borrowings from GMAC subsequent to this transaction as vehicle floorplan payable- non-trade, with related changes reflected as financing cash flows in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows. Accordingly, net floorplan borrowings from GMAC since this transaction (totaling \$246.9 million for the first nine months of 2007) are reflected as cash provided by financing activities, while repayments in 2007 of amounts due to GMAC prior to this transaction continue to be reflected as cash used by operating activities in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows.

The Company's floorplan facilities, which utilize LIBOR-based interest rates, averaged 6.4% and 6.1% for the nine months ended September 30, 2007 and 2006, respectively. Floorplan facilities are used to finance new vehicle inventories and the amounts outstanding thereunder are due on demand, but are generally paid within several business days after the related vehicles are sold. Floorplan facilities are primarily collateralized by new vehicle inventories and related receivables. The Company's manufacturer agreements generally require the manufacturer to have the ability to draft against the floorplan facilities so the floorplan lender directly funds the manufacturer for the purchase of inventory. The floorplan facilities contain certain operational covenants. At September 30, 2007, the Company was in compliance with such covenants in all material respects. At September 30, 2007, aggregate capacity under the floorplan credit facilities to finance new vehicles was approximately \$3.6 billion, of which \$2.0 billion total was outstanding.

4. Goodwill and Intangible Assets

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

September	December
30,	31,
2007	