Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto of AutoNation, Inc. (the "Company," formerly Republic Industries, Inc.) which are included elsewhere herein. All references to historical share and per share data of the Company's common stock, par value $.01 per share ("Common Stock"), have been retroactively adjusted to reflect the two-for-one stock split that occurred in June 1996, which is more fully described in Note 7, Shareholders' Equity, of Notes to Consolidated Financial Statements.

In May 1998, the Company announced its intention to separate the Company's solid waste subsidiary, Republic Services, Inc. ("RSG"), from the Company. The Company and RSG have entered into certain agreements providing for the separation and governing various interim and ongoing relationships between the companies. The Company also announced its intention to distribute its remaining shares of common stock in RSG as of the distribution date to the Company's stockholders in 1999, subject to certain conditions and consents (the "Distribution"). The Distribution was conditioned, in part, on the Company obtaining a private letter ruling from the Internal Revenue Service ("IRS") to the effect that, among other things, the Distribution would qualify as a tax free distribution for federal income tax purposes under Section 355 of the Internal Revenue Code of 1986, as amended, in form and substance satisfactory to the Company.

In July 1998, the Company filed its request for the private letter ruling with the IRS, and continued to process the request through February 1999 with the expectation of completing the Distribution in mid-1999. In March 1999, the IRS advised the Company in writing that the IRS would not rule as requested. In light of the IRS action, the Company's Board of Directors decided not to complete the Distribution. Alternatively, the Company has decided to sell its remaining interest in RSG. Accordingly, as discussed in Note 12, Discontinued Operations, of Notes to Consolidated Financial Statements, the Company's solid waste services segment has been accounted for as discontinued operations and the accompanying Consolidated Financial Statements presented herein have been restated to report separately the net assets and operating results of these discontinued operations.

In October 1997, the Company sold its electronic security services division. Accordingly, the operating results and gain on disposition of the electronic security services segment have been classified as discontinued operations for all periods presented in the accompanying Consolidated Financial Statements.

Business Combinations

The Company makes its decisions to acquire or invest in businesses based on financial and strategic considerations.

Businesses acquired through December 31, 1998 and accounted for under the purchase method of accounting are included in the Consolidated Financial Statements from the date of acquisition. Businesses acquired and accounted for under the pooling of interests method of accounting have been included retroactively in the Consolidated Financial Statements as if the companies had operated as one entity since inception.

During the year ended December 31, 1998, the Company acquired various businesses primarily in the automotive retail and solid waste services industries. The Company issued an aggregate of approximately 21.9 million shares of Common Stock and paid approximately $736.1 million of cash for primarily automotive retail acquisitions accounted for under the purchase method of accounting. The Company issued an aggregate of approximately 3.4 million shares of Common Stock and paid approximately $485.3 million of cash and certain properties for solid waste acquisitions accounted for under the purchase method of accounting.

Management's Discussion and Analysis of Financial Condition and Results of Operations

During the year ended December 31, 1997, the Company acquired various businesses in the automotive retail, automotive rental and solid waste services industries. The Company issued an aggregate of approximately 53.7 million shares of Common Stock and paid approximately $248.6 million of cash or notes in such transactions which have been accounted for under the purchase method of accounting, and issued an aggregate of approximately 83.5 million shares of Common Stock in such transactions which have been accounted for under the pooling of interests method of accounting.

During the year ended December 31, 1996, the Company acquired various businesses in the automotive retail, automotive rental, solid waste services and electronic security services industries. The Company issued an aggregate of approximately 9.1 million shares of Common Stock and paid approximately $51.5 million of cash in such transactions which have been accounted for under the purchase method of accounting, and issued an aggregate of approximately 71.4 million shares of Common Stock in such transactions which have been accounted for under the pooling of interests method of accounting.

As discussed in Note 12, Discontinued Operations, of Notes to Consolidated Financial Statements, the Company has decided to sell its remaining interest in RSG. In addition, the Company sold its electronic security services division in October 1997. Accordingly, the financial position and results of operations of businesses acquired in the solid waste services and electronic security services segments have been accounted for as discontinued operations in the accompanying Consolidated Financial Statements.

See Note 2, Business Combinations, of Notes to Consolidated Financial Statements, for further discussion of business combinations.

Consolidated Results of Operations

The following is a summary of the Company's consolidated results of operations both in gross dollars and on a diluted per share basis for the years ended December 31:

(IN MILLIONS, EXCEPT PER SHARE DATA)	1998		1997		1996	
	AMOUNT	DILUTED PER SHARE	AMOUNT	DILUTED PER SHARE	AMOUNT	DILUTED PER SHARE
Income (loss) from continuing operations	$ 334.6	$ .71	$ 64.6	$ .15	$ (51.0)	$ (.16)
Income from discontinued operations:						
Solid waste services	153.3	.33	135.6	.31	67.5	.21
Electronic security services	—	—	9.5	.02	8.4	.03
Gain on sale of electronic security services division	11.6	.02	230.0	.54	—	—
	164.9	.35	375.1	.87	75.9	.24
Extraordinary charge	—	—	—	—	(31.6)	(.10)
Net income (loss)	$ 499.5	$ 1.06	$ 439.7	$ 1.02	$ (6.7)	$ (.02)

The 1997 and 1996 results from continuing operations include restructuring and other pre-tax charges. In addition, the 1997 results from continuing operations include a non-recurring gain from the sale of the ADT Limited common stock further described below. The diluted earnings per share effect of restructuring and other pre-tax charges and the 1997 non-recurring gain was to decrease diluted earnings per share from continuing operations by $.21 from $.36 to $.15 in 1997 and by $.23 from $.07 to a loss of $(.16) in 1996.

Business Segment Information

The following table sets forth revenue with percentages of total revenue, and sets forth cost of operations, selling, general and administrative expenses, restructuring and other charges and operating income (loss) with percentages of the applicable segment revenue, for the Company's business segments for the years ended December 31:

(IN MILLIONS)	1998	%	1997	%	1996	%
Revenue:						
Automotive retail	$ 12,664.6	78.6	$ 6,122.8	66.7	$ 2,933.7	52.1
Automotive rental	3,453.6	21.4	3,055.1	33.3	2,699.4	47.9
	16,118.2	100.0	9,177.9	100.0	5,633.1	100.0
Cost of Operations:						
Automotive retail	10,909.6	86.2	5,459.0	89.1	2,611.3	89.0
Automotive rental	2,622.9	76.0	2,337.5	76.5	2,167.2	80.3
	13,532.5		7,796.5		4,778.5	
Selling, General and Administrative:						
Automotive retail	1,359.2	10.7	647.2	10.6	289.1	9.9
Automotive rental	637.0	18.4	536.9	17.6	537.1	19.9
Corporate	54.3	—	30.1	—	21.7	—
	2,050.5		1,214.2		847.9	
Restructuring and Other Charges:						
Automotive retail	—	—	85.0	1.4	—	—
Automotive rental	—	—	94.1	3.1	23.5	.9
Corporate	—	—	—	—	6.0	—
	—		179.1		29.5	
Operating Income (Loss):						
Automotive retail	395.8	3.1	(68.4)	(1.1)	33.3	1.1
Automotive rental	193.7	5.6	86.6	2.8	(28.4)	(1.1)
Corporate	(54.3)	—	(30.1)	—	(27.7)	—
	$ 535.2		$ (11.9)		$ (22.8)	

Management's Discussion and Analysis of Financial Condition and Results of Operations

Automotive Retail

The Company's automotive retail business consists primarily of the sale of new and used vehicles and related automotive services and products. The Company owns and operates franchised automotive dealerships and used vehicle megastores under the name AutoNation USA℠. The Company has aggressively expanded its automotive retail operations through the acquisition of franchised automotive dealerships and currently plans to continue this expansion. The Company has established framework agreements with various manufacturers which allow the Company to acquire franchised automotive dealerships nationwide.

Automotive retail revenue was $12.66 billion, $6.12 billion and $2.93 billion for the years ended December 31, 1998, 1997 and 1996, respectively. The increase in 1998 over 1997 of $6.54 billion, or 106.8 percent, is a result of acquisitions which accounted for 97.5 percent, new AutoNation USA megastores which accounted for 10.4 percent and volume declines offset by price increases which accounted for (1.1) percent. The increase in 1997 over 1996 of $3.19 billion, or 108.7 percent, is a result of acquisitions which accounted for 85.4 percent, new AutoNation USA megastores which accounted for 19.5 percent and price increases offset by volume declines which accounted for 3.8 percent.

Cost of automotive retail sales was $10.91 billion, $5.46 billion and $2.61 billion or, as percentages of automotive retail revenue, 86.2 percent, 89.1 percent and 89.0 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The increases in aggregate dollars are primarily attributed to acquisitions. The 1998 decrease in cost of automotive retail sales as a percentage of revenue is primarily due to reduced inventory costs and product mix.

Selling, general and administrative expenses related to the Company's automotive retail operations were $1.36 billion, $647.2 million and $289.1 million or, as percentages of automotive retail revenue, 10.7 percent, 10.6 percent and 9.9 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The increases in aggregate dollars primarily reflect the expansion of the Company's automotive retail operations.

During the year ended December 31, 1997, the Company recorded approximately $150.0 million of pre-tax charges associated with combining the Company's franchised automotive dealerships and used vehicle megastore operations into one automotive retail division. Approximately $85.0 million of these charges appear as restructuring and other charges in the Company's 1997 Consolidated Statement of Operations and consists of: $42.5 million for consolidation of information systems; $25.3 million related primarily to relocating certain operations; and $17.2 million of severance and other costs. The remaining $65.0 million of these charges relates to inventory consolidation and is included in cost of automotive retail sales in the Company's 1997 Consolidated Statement of Operations. During the year ended December 31, 1998, the Company reduced its estimated restructuring reserves for information systems and increased its estimated reserves for the relocation of certain operations by approximately $21.0 million. The decrease in the information systems reserve is a result of the Company's decision to eliminate or delay the conversion of certain systems. The increase in the relocation reserve is due to the Company's decision to close its reconditioning centers and relocate the reconditioning operations to the Company's AutoNation USA megastores.

Through December 31, 1998, the Company has spent approximately $30.3 million related to restructuring activities and has recorded $30.6 million of these restructuring charges against certain assets. As of December 31, 1998, approximately $24.1 million remained in accrued liabilities related to these charges. The Company believes the activities associated with these charges will be substantially completed during 1999.

Operating income (loss) from the Company's automotive retail operations was $395.8 million, $(68.4) million and $33.3 million for the years ended December 31, 1998, 1997 and 1996, respectively. Excluding restructuring and other pre-tax charges in 1997 as previously discussed, operating income from the Company's automotive retail operations would have been $81.6 million or 1.3 percent of automotive retail revenue.

Automotive Rental

The Company's automotive rental business primarily rents vehicles on a daily or weekly basis through National Car Rental System, Inc. ("National"), Alamo Rent-A-Car, Inc. ("Alamo") and CarTemps USA ("CarTemps").

Automotive rental revenue was $3.45 billion, $3.06 billion and $2.7 billion for the years ended December 31, 1998, 1997 and 1996, respectively. The increase in 1998 over 1997 of $398.5 million, or 13.0 percent, is a result of acquisitions which accounted for 10.3 percent, and volume and primarily price which accounted for 2.7 percent. The increase in 1997 over 1996 of $355.7 million, or 13.2 percent, is a result of volume which accounted for 4.6 percent, price which accounted for 4.4 percent and acquisitions which accounted for 4.2 percent.

Cost of automotive rental operations was $2.62 billion, $2.34 billion and $2.17 billion or, as a percentage of automotive rental revenue, 76.0 percent, 76.5 percent and 80.3 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The increases in aggregate dollars for 1998 and 1997 are primarily attributed to acquisitions, maintaining a larger fleet and, in 1997, higher rental volume. The decreases in such expenses as percentages of revenue are primarily a result of revenue improvement from rental rate increases.

Selling, general and administrative expenses related to the Company's automotive rental operations were $637.0 million, $536.9 million and $537.1 million or, as percentages of automotive rental revenue, 18.4 percent, 17.6 percent and 19.9 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The 1998 increase in aggregate dollars over 1997 is primarily due to acquisitions and costs associated with implementing the Company's Global Odyssey operating system ("Global Odyssey"). The 1998 increase in selling, general and administrative expenses as a percentage of revenue versus 1997 is primarily due to costs associated with implementing Global Odyssey and higher selling costs. The 1997 decrease as a percentage of automotive rental revenue versus 1996 is primarily due to the reduction of selling and administrative expenses of acquired businesses.

During the year ended December 31, 1997, the Company recorded approximately $94.1 million of restructuring and other charges associated with integrating the Company's automotive rental operations. The primary components of this charge were as follows: $32.0 million related to elimination of redundant information systems; $18.0 million related to fleet consolidation; and $44.1 million related to closure or sale of duplicate rental facilities and merger and other non-recurring expenses. Through December 31, 1998, the Company has spent approximately $45.5 million related to restructuring activities and has recorded $26.6 million of these restructuring charges against certain assets. As of December 31, 1998, approximately $22.0 million remained in accrued liabilities related to these charges. The Company believes the activities associated with these charges will be substantially completed during 1999.

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During the year ended December 31, 1996, the Company recorded pre-tax charges of approximately $75.7 million related to the integration of the operations of Alamo into those of the Company. Approximately $23.5 million of such expenses appear as restructuring and other charges in the Company's Consolidated Statement of Operations for the year ended December 31, 1996 with the remainder of approximately $52.2 million included in cost of automotive rental operations and selling, general and administrative expenses. These costs primarily include asset write-offs, severance benefits, accounting and legal merger costs and changes in various estimated reserve requirements. The activities associated with these charges were substantially completed during 1997.

Operating income (loss) from the Company's automotive rental operations was $193.7 million, $86.6 million and $(28.4) million for the years ended December 31, 1998, 1997 and 1996, respectively. Excluding restructuring and other pre-tax charges as previously discussed, operating income from the Company's automotive rental operations would have been $180.7 million and $47.3 million in 1997 and 1996, respectively.

Corporate

Corporate expenses were $54.3 million, $30.1 million and $27.7 million for the years ended December 31, 1998, 1997 and 1996, respectively. Such increases are a result of the overall growth experienced by the Company.

Interest Income

Interest income was $10.2 million, $13.3 million and $19.8 million for the years ended December 31, 1998, 1997 and 1996, respectively. The decreases are primarily a result of lower average cash balances on hand during 1998 and 1997.

Interest Expense

Interest expense was incurred primarily on borrowings under the Company's revolving credit facility for acquisitions and debt assumed in acquisitions. Interest expense was $22.0 million, $11.1 million and $37.5 million for the years ended December 31, 1998, 1997 and 1996, respectively. The increase in 1998 over 1997 is primarily due to borrowings for acquisitions. The decrease in 1997 versus 1996 is primarily due to the repayment of debt. Interest expense related to vehicle inventory financing and revenue earning vehicle financing is included in cost of automotive retail sales and cost of automotive rental operations, respectively, in the accompanying Consolidated Statements of Operations.

Other Income (Expense)

Other income for the year ended December 31, 1997 consists primarily of a $102.3 million pre-tax gain from the May 1997 sale of the Company's 15.0 million shares of ADT Limited common stock, net of fees and expenses. Such shares of ADT Limited common stock were received in March 1997 upon the Company's exercise of a warrant which became exercisable upon termination of the Company's agreement to acquire ADT Limited by mutual agreement of the parties in September 1996.

Income Taxes

The provision for income taxes from continuing operations was $188.1 million, $38.3 million and $15.3 million for the years ended December 31, 1998, 1997 and 1996, respectively. The effective income tax rate was 36.0 percent, 37.2 percent and 42.9 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The 1996 income tax provision is primarily due to the Company providing valuation allowances on certain deferred tax assets and varying higher historical effective income tax rates of acquired businesses.

Effective with RSG's initial public offering in July 1998, RSG is no longer included in the Company's consolidated federal income tax return.

Discontinued Operations

Solid Waste Services As a result of the Company's decision to sell its remaining interest in RSG, the net assets and operating results of the Company's solid waste services segment have been classified as discontinued operations for all periods presented in the accompanying Consolidated Financial Statements.

A summary of the Company's solid waste services operations is as follows for the years ended December 31:

(in millions)	1998	1997	1996
Revenue	$ 1,369.1	$1,127.7	$ 953.3
Expenses:			
Cost of operations	949.0	809.1	703.6
Selling, general and administrative	120.8	107.1	126.9
Restructuring and other charges	—	—	8.8
Operating income	299.3	211.5	114.0
Interest expense	(7.4)	(5.7)	(10.9)
Interest and other income	.6	6.7	13.9
Income before income taxes	292.5	212.5	117.0
Provision for income taxes	105.3	76.9	49.5
Net income before minority interest	187.2	135.6	67.5
Minority interest	33.9	—	—
Net income	$ 153.3	$ 135.6	$ 67.5

Revenue from the Company's solid waste services operations was $1.37 billion, $1.13 billion and $953.3 million for the years ended December 31, 1998, 1997 and 1996, respectively. The increase in 1998 over 1997 of $241.4 million, or 21.4 percent, is a result of internal growth which accounted for 12.8 percent of the increase and acquisitions which accounted for 8.6 percent of the increase. Price and primarily volume contributed 7.0 percent of the internal growth increase and "tuck-in" acquisitions contributed 5.8 percent of the increase. The increase in 1997 over 1996 of $174.4 million, or 18.3 percent, is a result of internal growth which accounted for 10.8 percent of the increase and acquisitions which accounted for 7.5 percent of the increase. Price and primarily volume contributed 7.4 percent of the internal growth increase and "tuck-in" acquisitions contributed 3.4 percent.

Cost of solid waste services operations was $949.0 million, $809.1 million and $703.6 million or, as a percentage of solid waste revenue, 69.3 percent, 71.7 percent and 73.8 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The increases in aggregate dollars are a result of the expansion of the Company's solid waste services operations through acquisitions and internal growth. The decreases in cost of solid waste services operations as a percentage of revenue are primarily a result of improved operating efficiencies.

Selling, general and administrative expenses related to the Company's solid waste services operations were $120.8 million, $107.1 million and $126.9 million or, as percentages of solid waste revenue, 8.8 percent, 9.5 percent and 13.3 percent for the years ended December 31, 1998, 1997 and 1996, respectively. The decreases in selling, general and administrative expenses as percentages of revenue in each of the years are primarily due to leveraging the existing overhead structure over an expanding revenue base.

Management's Discussion and Analysis of Financial Condition and Results of Operations

During the year ended December 31, 1996, the Company recorded restructuring and other charges totaling $8.8 million. These charges consist primarily of the cost of closing certain landfills, asset write-offs and merger expenses. The activities associated with these charges were completed during 1997.

Operating income from the Company's solid waste services operations was $299.3 million, $211.5 million and $114.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. Excluding restructuring and other charges as previously discussed, operating income from the Company's solid waste services operations would have been $122.8 million in 1996.

Minority interest during the year ended December 31, 1998 represents 36.1 percent (the percentage of RSG common stock issued in the initial public offering described below under "Financial Condition") of RSG's net income during the period subsequent to the initial public offering. Such amount has been reflected as a reduction of income from discontinued operations in the accompanying Consolidated Statements of Operations.

Effective with RSG's initial public offering in July 1998 as further described below, RSG is financed autonomously. Accordingly, RSG's operating cash flow is retained by RSG and is no longer commingled with the Company's cash flow from its automotive operations. In addition, borrowings under the Company's $1.0 billion revolving credit facility are no longer used to finance RSG's working capital requirements or acquisitions. In July 1998, RSG entered into a $1.0 billion unsecured revolving credit facility (the "RSG Credit Facility") with a group of banks to finance its working capital requirements and future acquisitions. The RSG Credit Facility is comprised of a $500.0 million facility with a term of 364 days and a $500.0 million facility with a term of five years. Borrowings under the RSG Credit Facility bear interest at LIBOR based interest rates.

Electronic Security Services In October 1997, the Company sold its electronic security services division for approximately $610.0 million resulting in an after tax gain of approximately $230.0 million. In 1998, the Company finalized the sale resulting in an additional after tax gain of approximately $11.6 million. The operating results and gain on disposition of the electronic security services segment have been classified as discontinued operations for all periods presented in the accompanying Consolidated Financial Statements. Revenue and net income from the electronic security services segment was $83.8 million and $9.5 million in 1997 for the period prior to disposition, respectively, and $85.3 million and $8.4 million for 1996, respectively.

See Note 12, Discontinued Operations, of Notes to Consolidated Financial Statements, for further discussion of these discontinued operations.

Extraordinary Charge

During the year ended December 31, 1996, in connection with refinancing Alamo's debt at substantially lower interest rates, the Company recorded an extraordinary charge of approximately $31.6 million, net of income taxes. Included in this charge are bond redemption premiums, the write-off of debt issue costs, prepayment penalties and other related fees. See Note 4, Notes Payable and Long-Term Debt, of Notes to Consolidated Financial Statements for further discussion of this charge.

Financial Condition

At December 31, 1998, the Company had $217.3 million in cash and approximately $426.2 million of availability under its $1.0 billion unsecured revolving credit facility which may be used for general corporate purposes. In March 1999, the Company entered into a $500.0 million 364-day unsecured bank revolving credit facility. This facility will be used for general corporate purposes and complements the $1.0 billion bank revolving credit facility maturing in April 2002.

In July 1998, the Company's solid waste subsidiary, RSG, completed an initial public offering resulting in net proceeds of approximately $1.43 billion. Proceeds from the offering were used to finance the growth of the Company's automotive operations. The Company intends to sell its remaining interest in RSG. Proceeds from the sale will be used to finance the growth of the Company's automotive operations.

The Company finances vehicle purchases for its domestic automotive rental operations primarily through a $3.55 billion program comprised of a $2.3 billion single-seller commercial paper program and three bank-sponsored multi-seller commercial paper conduit facilities totaling $1.25 billion. Borrowings under these programs are secured by eligible vehicle collateral and bear interest at market-based commercial paper rates. As of December 31, 1998, the Company had approximately $202.6 million of availability under these programs. In January 1999, the Company increased the commercial paper program to $3.9 billion through an increase in the conduit facilities from $1.25 billion to $1.6 billion. In February 1999, the Company issued $1.8 billion of rental vehicle asset-backed notes consisting of $550.0 million floating rate notes; $750.0 million 5.88 percent fixed rate notes; and $500.0 million 6.02 percent fixed rate notes (collectively, the "Notes"). The Company fixed the effective interest rate on the $550.0 million floating rate notes at 5.73 percent through the use of certain derivative transactions. Letters of credit totaling $150.0 million provide credit enhancement for the Notes. Proceeds from the Notes were used to refinance amounts outstanding under the Company's commercial paper programs. As a result of the refinancing, the Company has reduced its commercial paper program from $3.9 billion to $3.24 billion, comprised of a $1.99 billion single-seller program and three bank-sponsored multi-seller commercial paper conduit facilities totaling $1.25 billion. As of December 31, 1998, approximately 90 percent of the revenue earning vehicles financed under these programs were acquired under programs that allow the Company to require counterparties to repurchase vehicles held for periods up to 24 months. The Company expects to continue to fund its revenue earning vehicle purchases with secured vehicle financings.

The Company has vehicle inventory financing and other credit facilities to fund its automotive retail operations. In November 1998, the Company entered into a $500.0 million bank-sponsored multi-seller commercial paper conduit facility to finance new and used vehicle inventory for the Company's automotive retail operations. This facility supplements the new and used vehicle inventory finance facilities provided by vehicle manufacturer captive finance companies. As of December 31, 1998, approximately $7.5 million was financed under this facility. In connection with the development of the AutoNation USA megastores, the Company is the lessee under a $500.0 million operating lease facility established to acquire and develop properties used in its business. The Company has guaranteed the residual value of the properties under this facility which guarantee totaled approximately $418.6 million at December 31, 1998.

In September 1998, the Company entered into a $1.0 billion commercial paper warehouse facility with unrelated financial institutions for the securitization of installment loan receivables generated by the Company's automotive finance subsidiary. Through December 31, 1998, the Company has securitized approximately $698.8 million of loan receivables under this program, net of retained interests. Installment loans sold under this program are nonrecourse beyond the Company's retained interests. Proceeds from the securitization were primarily used to repay borrowings under the Company's revolving credit facility. The Company expects to continue to securitize receivables under this facility and/or other programs. The Company has entered into certain interest rate derivative transactions with certain financial institutions to manage the impact of interest rate changes on securitized installment loan receivables. These derivative transactions consist of a series of interest rate caps and floors which effectuate a variable to fixed rate swap at a weighted average rate of 5.18 percent at December 31, 1998. Variable rates on the underlying portfolio are indexed to the Commercial Paper Nonfinancial Rate.

The Company uses interest rate swap agreements to manage the impact of interest rate changes on the Company's variable rate debt. The amounts exchanged by the counterparties to interest rate swap agreements are based upon the notional amounts and other terms, generally related to interest rates, of the derivatives. While notional amounts of interest rate swaps form part of the basis for the amounts exchanged by the counterparties, the notional amounts are not themselves exchanged and, therefore, do not represent a measure of the Company's exposure as an end user of derivative financial instruments. At December 31, 1998, notional principal amounts related to interest rate swaps (variable to fixed rate) were $2.55 billion. As of December 31, 1998, the weighted average fixed rate payment on variable to fixed rate swaps was 5.87 percent. Variable rates received are indexed to the Commercial Paper Nonfinancial Rate ($2.45 billion notional principal amount) and LIBOR ($.10 billion notional principal amount). Including the Company's variable to fixed interest rate swaps, the Company's ratio of fixed interest rate debt to total debt outstanding was 50 percent as of December 31, 1998.

In August 1998, the Company's Board of Directors authorized the repurchase of up to $500.0 million of Common Stock over the following 12 months. Repurchases are made either pursuant to Rule 10b-18 of the Securities Exchange Act of 1934, as amended, or in privately negotiated transactions. As of December 31, 1998, the Company had repurchased 9.1 million shares of Common Stock for an aggregate price of approximately $136.0 million.

The Company believes that it has sufficient operating cash flow and other financial resources necessary to meet its anticipated capital requirements and obligations as they come due.

Cash Flows

Cash and cash equivalents increased $644.7 million and decreased by $191.3 million and $13.1 million during the years ended December 31, 1998, 1997 and 1996, respectively. The major components of these changes are discussed below.

CASH FLOWS FROM OPERATING ACTIVITIES

Cash used in operating activities of continuing operations was $368.8 million, $847.5 million and $459.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. As previously discussed, the Company finances its revenue earning vehicle purchases with secured vehicle financings. Cash (used in) provided by operating activities of continuing operations was $(79.9) million, $(344.4) million and $131.4 million for the years ended December 31, 1998, 1997 and 1996, respectively, excluding revenue earning vehicle depreciation and purchases of revenue earning vehicles (net of sales) totaling $288.9 million, $503.1 million and $591.0 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Cash provided by operating activities of discontinued operations was $297.1 million, $275.0 million and $154.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. The increases are primarily a result of the expansion of the Company's solid waste operations during the periods.

Cash Flows from Investing Activities

Cash flows from investing activities consist primarily of cash used for business acquisitions and capital additions and other transactions as further described below.

Cash used in business acquisitions was $1.22 billion, $216.6 million and $51.5 million for the years ended December 31, 1998, 1997 and 1996, respectively. See "Business Combinations" of Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2, Business Combinations, of Notes to Consolidated Financial Statements for a further discussion of business combinations.

Capital additions were $437.9 million, $294.5 million and $105.9 million during the years ended December 31, 1998, 1997 and 1996, respectively. The increases are primarily a result of expansion of the Company's automotive retail and rental businesses.

In July 1998, the Company's solid waste subsidiary, RSG, completed an initial public offering resulting in net proceeds of approximately $1.43 billion.

In October 1997, the Company sold its electronic security services division for approximately $610.0 million.

In March 1997, the Company exercised its warrant to acquire 15.0 million common shares of ADT Limited for $20 per share. In May 1997, the Company sold the 15.0 million ADT Limited common shares for $27.50 per share to certain institutional investors.

Cash used in investing activities of discontinued operations was $182.2 million, $170.8 million and $176.9 million during the years ended December 31, 1998, 1997 and 1996, respectively, and consists primarily of capital additions.

The Company intends to finance capital expenditures and cash used in business acquisitions through cash on hand, the Company's revolving credit facility and other financings.

Cash Flows from Financing Activities

Cash flows from financing activities during the years ended December 31, 1998, 1997 and 1996 included revenue earning vehicle financing, commercial bank borrowings, repayments of debt and other transactions as further described below.

During the year ended December 31, 1998, the Company repurchased approximately 9.1 million shares of Common Stock for an aggregate price of approximately $136.0 million under its $500.0 million share repurchase program.

During the year ended December 31, 1997, the Company sold 15.8 million shares of Common Stock in a private placement transaction resulting in net proceeds of approximately $552.7 million.

During the year ended December 31, 1996, the Company sold an aggregate of 22.0 million shares of Common Stock in private placement transactions resulting in net proceeds of approximately $550.9 million.

Cash provided by (used in) financing activities of discontinued operations was $928.8 million, $(88.2) million and $(146.6) million during the years ended December 31, 1998, 1997 and 1996, respectively, and consists primarily of bank borrowings and/or repayments.

These financing activities were used to fund revenue earning vehicle purchases, capital additions and acquisitions as well as to repay debt assumed in acquisitions and expand the Company's business during these years.

Quantitative and Qualitative Disclosures about Market Risk

The tables below provide information about the Company's market sensitive financial instruments and constitute "forward-looking statements". All items described are non-trading.

The Company's major market risk exposure is changing interest rates, primarily in the United States. Due to its limited foreign operations, the Company does not have material market risk exposures relative to changes in foreign exchange rates. The Company's policy is to manage interest rates through the use of a combination of fixed and floating rate debt. Interest rate derivatives may be used to adjust interest rate exposures when appropriate, based upon market conditions. These derivatives consist of interest rate swaps, caps and floors which are entered into with a group of financial institutions with investment grade credit ratings, thereby minimizing the risk of credit loss. The Company uses variable to fixed interest rate swap agreements to manage the impact of interest rate changes on the Company's variable rate debt. Expected maturity dates for variable rate debt and interest rate swaps are based upon contractual maturity dates. Average pay rates under interest rate swaps are based upon contractual fixed rates. Average variable receive rates under interest rate swaps are based on implied forward rates in the yield curve at the reporting date.

The Company has entered into a series of interest rate caps and floors contractually maturing in 2004 to manage the impact of interest rate changes on securitized installment loan receivables. Expected maturity dates are based upon the estimated repayment of the underlying receivables after considering estimated prepayments and credit losses. Average rates on interest rate caps and floors are based upon contractual rates.

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 judgement. The fair value of variable rate debt approximates the carrying value since interest rates are variable and, thus, approximate current market rates. The fair value of interest rate swaps, caps and floors is determined from dealer quotations and represents the discounted future cash flows through maturity or expiration using current rates, and is effectively the amount the Company would pay or receive to terminate the agreements.

December 31, 1998

	EXPECTED MATURITY DATE							FAIR VALUE DEC. 31, 1998
(IN MILLIONS)	1999	2000	2001	2002	2003	THEREAFTER	TOTAL	
(Asset)/Liability								
Continuing Operations:								
Variable rate debt	$ 3,887.8	$ 1,259.9	$ —	$ 535.0	$ —	$ —	$ 5,682.7	$ 5,682.7
Average interest rates	5.68%	5.55%	—	6.52%	—	—		
Interest rate swaps	650.0	1,000.0	250.0	150.0	500.0	—	2,550.0	47.0
Average pay rate	5.83%	5.94%	6.15%	5.88%	5.63%	—		
Average receive rate	5.19%	5.41%	5.53%	5.53%	5.53%	—		
Interest rate caps	287.2	192.6	146.1	90.3	20.9	—	737.1	(8.9)
Average rate	5.47%	5.47%	5.47%	5.47%	5.47%	—		
Interest rate floors	287.2	192.6	146.1	90.3	20.9	—	737.1	7.1
Average rate	4.61%	4.61%	4.61%	4.61%	4.61%	—		
Discontinued Operations:								
Variable rate debt	$ 495.2	$ 3.4	$ 3.2	$ 3.0	$ 503.1	$ 35.9	$ 1,043.8	$ 1,043.8
Average interest rates	6.40%	5.06%	5.31%	5.19%	6.42%	5.21%		

December 31, 1997

(IN MILLIONS)	EXPECTED MATURITY DATE							FAIR VALUE DEC.31, 1997
	1998	1999	2000	2001	2002	THEREAFTER	TOTAL	
(Asset)/Liability								
Continuing Operations:								
Variable rate debt.	$ 2,713.9	$ 153.7	$ 1,072.7	$ —	$ 285.0	$ —	$ 4,225.3	$ 4,225.3
Average interest rates. . .	6.17%	6.20%	5.86%	—	5.97%	—		
Interest rate swaps.	300.0	650.0	1,000.0	150.0	150.0	—	2,250.0	8.0
Average pay rate.	5.85%	5.81%	5.95%	6.50%	5.88%	—		
Average receive rate. . . .	5.50%	5.50%	5.50%	5.50%	5.50%	—		
Discontinued Operations:								
Variable rate debt.	$ 1.1	$ 1.5	$ 1.7	$ 1.8	$ 1.9	$ 35.1	$ 43.1	$ 43.1
Average interest rates. . .	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%		

Seasonality

The Company's automotive retail operations generally experience higher volumes of vehicle sales in the second and third quarters of each year in part due to consumer buying trends and the introduction of new vehicle models.

The Company's automotive rental operations and particularly the leisure travel segment are highly seasonal. In these operations, the third quarter, which includes the peak summer travel months, has historically been the strongest quarter of the year. During the peak season, the Company increases its rental fleet and workforce to accommodate increased rental activity. As a result, any occurrence that disrupts travel patterns during the summer period could have a material adverse effect. The first and fourth quarters for the Company's automotive rental operations are generally the weakest, when there is limited leisure travel and a greater potential for adverse weather conditions. Many of the operating expenses such as rent, general insurance and administrative personnel are fixed and cannot be reduced during periods of decreased rental demand.

Year 2000

The Company utilizes software and related technologies throughout its businesses that will be affected by the date change in the year 2000 ("Y2K"). The Company is addressing the issue of computer programs, embedded chips and third-party suppliers that may be impacted by Y2K. The Company has developed a dedicated Y2K Project Office to coordinate compliance efforts and ensure that the project status is monitored and reported throughout the organization.

The Company has identified four core phases in preparing for Y2K:

Assessment – In the assessment phase, an inventory is performed of software, hardware, telecommunications equipment and embedded chip technology. Also, critical systems and vendors are identified and prioritized.

Analysis – In the analysis phase, each system or item assessed as critical is reviewed to determine Y2K compliance. Key vendors are also evaluated at this time to determine their compliance status.

Remediation – In the remediation phase, modifications or replacements are made to critical systems and equipment to make them Y2K-compliant or the systems and/or vendors are replaced with compliant systems or vendors. Decisions are also made as to whether changes are necessary or feasible for key third-party suppliers.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Testing and Validation – In this phase, the Company prepares, executes and verifies the testing of critical systems.

Each division of the Company has developed plans to correct Y2K issues and, to date, has made progress as follows:

Automotive Retail Division The Company's franchised automotive dealerships and AutoNation USA megastores use one of six Dealer Management Systems ("DMS"), which perform the core functions of a dealership's operations. The Company has determined, subject to verification and testing, that the DMS systems provided by these vendors are Y2K-compliant or will be Y2K-compliant with an upgrade. Approximately 60 percent of the Company's franchised automotive dealerships using these DMS systems have been upgraded to a compliant version with the remaining 40 percent scheduled to complete such upgrades by the end of the second quarter of 1999. The Company intends to obtain further documentation to support such compliance, as well as conduct testing to verify compliance.

The Company has developed other software applications that are in use at its AutoNation USA megastores as well as some of its franchised automotive dealerships. Although none of these systems are considered mission critical, after an initial pilot to assess these systems, the Company has proceeded with an effort to assess, analyze, remediate and test this code. This effort is 65 percent complete with completion scheduled for the end of the second quarter of 1999.

The Company has completed an inventory of its franchised automotive dealerships and megastores to identify other business systems, products, suppliers and embedded chips. Those issues identified are expected to be remediated or replaced by the end of the second quarter of 1999.

Automotive Rental Division For over a year, the Company, in conjunction with external consultants, has been developing the Global Odyssey system, which will replace substantially all rental systems, as well as the applicable hardware and operating systems. This system was designed to be Y2K-compliant and Y2K testing was completed prior to the recent implementation of the Global Odyssey reservation, operations and financial systems at National Car Rental's North American locations prior to the end of 1998. The Global Odyssey fleet system was implemented at National Car Rental's North American locations during the first quarter of 1999.

Alamo's existing systems have been undergoing remediation as a contingency to Global Odyssey not being fully deployed in 1999. That process, which began in 1997, has remediated 100 percent of the systems and 80 percent has been tested and put into production. A full integration test is expected to be completed during the third quarter of 1999.

The Rental Division has surveyed the majority of its North American rental locations to identify other critical business systems, products and vendors, including embedded chip issues. Work is ongoing to remediate or replace business systems, products and vendors that are not Y2K-compliant. Completion of remediation or replacement is expected by the end of the second quarter of 1999. The Company has also developed a plan for its European locations, some of which are supported by the Alamo mainframe, which is discussed above. The remaining European locations are supported by systems developed and supported by the United Kingdom headquarters which are currently scheduled to be Y2K-compliant by the end of the third quarter of 1999.

Solid Waste Division Republic Services, Inc. has identified six critical systems or processes related to Y2K compliance. These are hauling and disposal fleet operations, electrical systems, telecommunications, payroll processing, billing systems and payments to critical third parties. Republic Services, Inc. primarily uses industry standard automated applications in most of its locations which are provided by third parties. The majority of these applications are believed to be Y2K-compliant, but Republic Services, Inc. is currently testing compliance in coordination with the vendors. The three locations with proprietary software are currently in the remediation phase and expect to be completed by the end of the second quarter of 1999.

Republic Services, Inc. is currently finalizing its assessment of embedded chips and third-party suppliers. Republic Services, Inc. expects to complete the inventory and assessment of this information during the first quarter of 1999. As information is received related to these areas, Republic Services, Inc. analyzes the compliance of products and develops a strategy for repair or replacement of non-compliant systems as well as testing and validation of such items. Republic Services, Inc. expects to be substantially complete with the analysis of this information by the end of the third quarter of 1999. The remediation phase is expected to be complete by the end of the third quarter of 1999.

COSTS TO ADDRESS Y2K To date, the Company's automotive retail and rental divisions have spent approximately $7.1 million on Y2K efforts across all areas and expect to spend a total of approximately $27.9 million when complete; of which $9.1 million is scheduled to be incurred as capital expenditures and depreciated accordingly. Such amounts exclude costs associated with replacing the Company's automotive rental systems with Global Odyssey since the Global Odyssey implementation was planned in advance and not accelerated as a result of Y2K. The Company expects to fund Y2K costs through operating cash flow. All system modification costs associated with Y2K will be expensed as incurred. Y2K expenditures vary significantly in project phases and vary depending on remedial methods used. Past expenditures in relation to total estimated costs should not be considered or relied on as a basis for estimating progress to completion for any element of the Y2K project.

Republic Services, Inc. has spent approximately $1.2 million to date on Y2K efforts across all areas and expects to spend a total of approximately $4.0 million when complete; of which $1.3 million is scheduled to be incurred as capital expenditures and depreciated accordingly.

RISKS AND CONTINGENCY PLANS The Company presently believes, that upon remediation of its business software applications, as well as other equipment with embedded technology, the Y2K issue will not present a materially adverse risk to the Company's future consolidated results of operations, liquidity and capital resources. However, if such remediation is not completed in a timely manner or the level of timely compliance by key suppliers or vendors is not sufficient, the Company believes that the most likely worst case scenario would be the delay or disruption in the delivery of products which could have a material adverse impact on the Company's operations including, but not limited to, loss of revenue, increased operating costs, loss of customers or suppliers, or other significant disruptions to the Company's business. The Company has initiated comprehensive contingency and business continuation plans, which are expected to be in place in the second quarter of 1999 in order to ensure enough time for implementation of such plans, if necessary and thus possibly avoid such risks.

Determining the Y2K readiness of third-party products and business dependencies requires pursuit, collection and appraisal of voluntary statements made or provided by those parties, if available, together with independent factual research. The Company has identified its material third-party relationships and has surveyed these parties. The results are being analyzed as surveys are received. Although the Company has taken, and will continue to take, reasonable efforts to gather information to determine and verify the readiness of products and dependencies, there can be no assurances that reliable information will be offered or otherwise available. In addition, verification methods (including testing methods) may not be reliable or fully implemented. Accordingly, notwithstanding the foregoing efforts, there are no assurances that the Company is correct in its determination or belief that a product (information technology and other computerized equipment) or a business dependency (including a supplier, distributor or ancillary industry group) is Y2K ready.

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New Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. The Company will adopt SOP 98-1 prospectively beginning January 1, 1999. Adoption of this Statement will not have a material impact on the Company's consolidated financial position or results of operations.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 requires all costs associated with pre-opening, pre-operating and organization activities to be expensed as incurred. The Company's accounting policies conform with the requirements of SOP 98-5; therefore adoption of this Statement will not impact the Company's consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 is effective for fiscal years beginning after June 15, 1999. SFAS 133 cannot be applied retroactively. The Company will adopt SFAS 133 beginning January 1, 2000. The Company has not yet quantified the impact of adopting SFAS 133 on the Company's consolidated financial statements. However, SFAS 133 could increase volatility in earnings and other comprehensive income.

Forward-Looking Statements

Certain statements and information included herein constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, competition in the Company's lines of business; the ability to integrate and successfully operate acquired businesses and the risks associated with such businesses; the dependence on vehicle manufacturers to approve franchised automotive dealership acquisitions and the restrictions imposed by vehicle manufacturers on franchised automotive dealership acquisitions and operations; the risk of unfavorable economic conditions on the Company's operations; the Company's dependence on key personnel; the ability to obtain financing on acceptable terms to finance the Company's operations and growth strategy and for the Company to operate within the limitations imposed by financing arrangements; the risks and costs associated with complying with the date change in the year 2000; the ability to develop and implement operational and financial systems to manage rapidly growing operations; and other factors contained in the Company's filings with the Securities and Exchange Commission.

Consolidated Balance Sheets

(in millions, except share data)	As of December 31, 1998	1997
Assets		
Current Assets:		
Cash and cash equivalents	$ 217.3	$ 129.2
Receivables, net	1,605.3	846.3
Revenue earning vehicles, net	4,588.7	4,466.5
Inventory	1,853.5	1,083.1
Other current assets	141.5	120.1
Total Current Assets	8,406.3	6,645.2
Investments	172.3	13.4
Property and Equipment, Net	2,043.6	1,295.1
Intangible and Other Assets, Net	2,473.4	1,225.6
Net Assets of Discontinued Operations	830.2	1,016.9
	$ 13,925.8	$ 10,196.2
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 307.4	$ 220.6
Accrued liabilities	697.9	500.3
Insurance reserves	128.3	102.1
Revenue earning vehicle debt	2,618.2	2,209.4
Notes payable and current maturities of long-term debt	1,441.8	521.2
Other current liabilities	346.8	263.4
Total Current Liabilities	5,540.4	3,817.0
Long-term Debt, Net of Current Maturities	555.9	306.6
Long-term Revenue Earning Vehicle Debt	1,759.7	1,962.7
Deferred Income Taxes	227.1	196.9
Other Liabilities	418.5	428.7
Commitments and Contingencies		
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; 467,240,307 and 432,705,796 shares issued and outstanding including shares held in treasury, respectively	4.7	4.3
Additional paid-in capital	4,628.9	3,051.5
Retained earnings	930.9	431.4
Accumulated other comprehensive loss	(4.3)	(2.9)
Treasury stock, at cost; 9,110,400 shares held at December 31, 1998	(136.0)	—
Total Shareholders' Equity	5,424.2	3,484.3
	$ 13,925.8	$ 10,196.2

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

(in millions, except per share data)	1998	1997	1996
	For the Years Ended December 31,		
Revenue:			
Automotive retail sales	$ 12,664.6	$ 6,122.8	$ 2,933.7
Automotive rental revenue	3,453.6	3,055.1	2,699.4
	16,118.2	9,177.9	5,633.1
Expenses:			
Cost of automotive retail sales	10,909.6	5,459.0	2,611.3
Cost of automotive rental operations	2,622.9	2,337.5	2,167.2
Selling, general and administrative	2,050.5	1,214.2	847.9
Restructuring and other charges	—	179.1	29.5
Operating Income (Loss)	535.2	(11.9)	(22.8)
Interest Income	10.2	13.3	19.8
Interest Expense	(22.0)	(11.1)	(37.5)
Other Income (Expense), Net	(.7)	112.6	4.8
Income (Loss) From Continuing Operations Before Income Taxes	522.7	102.9	(35.7)
Provision For Income Taxes	188.1	38.3	15.3
Income (Loss) From Continuing Operations Before Extraordinary Charge	334.6	64.6	(51.0)
Discontinued Operations:			
Income from discontinued operations, net of minority interest and income taxes	153.3	145.1	75.9
Gain on disposal of segment, net of income tax provision of $8.4 in 1998 and $233.7 in 1997	11.6	230.0	—
Income from discontinued operations	164.9	375.1	75.9
Income Before Extraordinary Charge	499.5	439.7	24.9
Extraordinary Charge Related to Early Extinguishment of Debt, Net of Benefit For Income Taxes of $15.0	—	—	(31.6)
Net Income (Loss)	$ 499.5	$ 439.7	$ (6.7)
Basic Earnings (Loss) Per Share:			
Continuing operations	$ .74	$ .16	$ (.16)
Discontinued operations	.36	.93	.24
Extraordinary charge	—	—	(.10)
Net income (loss)	$ 1.10	$ 1.09	$ (.02)
Diluted Earnings (Loss) Per Share:			
Continuing operations	$ .71	$ .15	$ (.16)
Discontinued operations	.35	.87	.24
Extraordinary charge	—	—	(.10)
Net income (loss)	$ 1.06	$ 1.02	$ (.02)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

(In millions)	For the Years Ended December 31, 1998, 1997 and 1996					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Comprehensive Income (Loss)
Balance at December 31, 1995	$ 3.0	$ 675.6	$ 107.8	$ 2.6	$ —	
Comprehensive loss:						
Net loss	—	—	(6.7)	—	—	$ (6.7)
Other comprehensive loss – foreign currency translation adjustments	—	—	—	(.8)	—	(.8)
Comprehensive loss	—	—	—	—	—	$ (7.5)
Sales of common stock	.2	550.7	—	—	—	
Stock issued in acquisitions	.1	86.5	—	—	—	
Exercise of stock options and warrants, including income tax benefit of $20.3 million	—	43.7	—	—	—	
Distributions to former owners of pooled companies	—	—	(78.4)	—	—	
Other	.1	31.1	4.4	—	—	
Balance at December 31, 1996	3.4	1,387.6	27.1	1.8	—	
Comprehensive income (loss):						
Net income	—	—	439.7	—	—	$ 439.7
Other comprehensive loss – foreign currency translation adjustments	—	—	—	(4.7)	—	(4.7)
Comprehensive income	—	—	—	—	—	$ 435.0
Sales of common stock	.2	552.5	—	—	—	
Stock issued in acquisitions	.6	942.5	—	—	—	
Exercise of stock options and warrants, including income tax benefit of $32.7 million	.1	92.0	—	—	—	
Distributions to former owners of pooled companies	—	—	(31.4)	—	—	
Other	—	76.9	(4.0)	—	—	
Balance at December 31, 1997	4.3	3,051.5	431.4	(2.9)	—	
Comprehensive income (loss):						
Net income	—	—	499.5	—	—	$ 499.5
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	—	(1.6)
Unrealized loss on marketable securities	—	—	—	—	—	(.4)
Unrealized gain on interest-only strip receivables	—	—	—	—	—	.6
Other comprehensive loss	—	—	—	(1.4)	—	(1.4)
Comprehensive income	—	—	—	—	—	$ 498.1
Stock issued in acquisitions	.3	540.9	—	—	—	
Sale of common stock of RSG	—	998.5	—	—	—	
Purchases of treasury stock	—	—	—	—	(136.0)	
Exercise of stock options and warrants, including income tax benefit of $4.8 million	.1	38.0	—	—	—	
Balance at December 31, 1998	$ 4.7	$4,628.9	$ 930.9	$ (4.3)	$(136.0)	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

(In millions)	For the Years Ended December 31, 1998	1997	1996
Cash Used in Operating Activities:			
Net income (loss)	$ 499.5	$ 439.7	$ (6.7)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Purchases of revenue earning vehicles	(6,974.6)	(5,227.3)	(4,695.3)
Sales of revenue earning vehicles	5,780.1	3,892.3	3,356.4
Depreciation of revenue earning vehicles	905.6	831.9	747.9
Depreciation and amortization of property and equipment	92.4	62.7	47.6
Amortization of intangible assets	53.6	22.9	5.1
Non-cash restructuring and other charges	—	186.0	86.7
Loss on extinguishment of debt, net of income taxes	—	—	31.6
Gain on sale of marketable securities	—	(102.3)	—
Income from discontinued operations	(164.9)	(375.1)	(75.9)
Changes in assets and liabilities, net of effects from business combinations:			
Receivables	(504.6)	(193.7)	(94.5)
Inventory	66.5	(205.9)	(21.4)
Other assets	(26.9)	76.1	(58.0)
Accounts payable and accrued liabilities	(101.2)	(264.3)	108.3
Other liabilities	5.7	9.5	108.6
	(368.8)	(847.5)	(459.6)
Cash Provided by (Used in) Investing Activities:			
Cash used in business acquisitions, net of cash acquired	(1,221.4)	(216.6)	(51.5)
Purchases of property and equipment	(437.9)	(294.5)	(105.9)
Purchases of marketable securities	(195.5)	(300.0)	—
Sales of marketable securities	94.1	402.3	42.3
Proceeds from sale of common stock of RSG	1,433.6	—	—
Cash received on disposal of electronic security division	—	610.0	—
Other	(64.7)	(49.1)	(239.3)
	(391.8)	152.1	(354.4)
Cash Provided by Financing Activities:			
Proceeds from revenue earning vehicle financing	46,950.4	29,103.7	17,802.7
Payments on revenue earning vehicle financing	(46,578.3)	(28,688.7)	(17,452.0)
Proceeds from long-term debt and notes payable	17.1	373.2	227.0
Payments of long-term debt and notes payable	(294.2)	(732.1)	(350.6)
Net proceeds (payments) from revolving credit and vehicle inventory financing facilities	373.8	(139.7)	158.6
Sales of common stock	—	552.7	550.9
Purchases of treasury stock	(136.0)	—	—
Other	28.8	19.0	33.8
	361.6	488.1	970.4
Cash Provided by (Used in) Discontinued Operations:			
Operating activities	297.1	275.0	154.0
Investing activities	(182.2)	(170.8)	(176.9)
Financing activities	928.8	(88.2)	(146.6)
	1,043.7	16.0	(169.5)
Increase (Decrease) in Cash and Cash Equivalents	644.7	(191.3)	(13.1)
Cash and Cash Equivalents at Beginning of Period	129.2	320.5	357.8
Cash and Cash Equivalents at End of Period	773.9	129.2	344.7
Less: Cash and Cash Equivalents of Discontinued Operations at End of Period	(556.6)	—	(24.2)
Cash and Cash Equivalents of Continuing Operations at End of Period	$ 217.3	$ 129.2	$ 320.5

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

(ALL TABLES IN MILLIONS, EXCEPT PER SHARE DATA)

Note 1 Summary of Significant Accounting Policies

The accompanying Consolidated Financial Statements include the accounts of AutoNation, Inc. and its subsidiaries (the "Company," formerly Republic Industries, Inc.). All intercompany accounts and transactions have been eliminated.

In May 1998, the Company announced its intention to separate the Company's solid waste subsidiary, Republic Services, Inc. ("RSG"), from the Company. The Company and RSG have entered into certain agreements providing for the separation and governing various interim and ongoing relationships between the companies. The Company also announced its intention to distribute its remaining shares of common stock in RSG as of the distribution date to the Company's stockholders in 1999, subject to certain conditions and consents (the "Distribution"). The Distribution was conditioned, in part, on the Company obtaining a private letter ruling from the Internal Revenue Service ("IRS") to the effect that, among other things, the Distribution would qualify as a tax-free distribution for federal income tax purposes under Section 355 of the Internal Revenue Code of 1986, as amended, in form and substance satisfactory to the Company.

In July 1998, the Company filed its request for the private letter ruling with the IRS, and continued to process the request through February 1999 with the expectation of completing the Distribution in mid-1999. In March 1999, the IRS advised the Company in writing that the IRS would not rule as requested. In light of the IRS action, the Company's Board of Directors decided not to complete the Distribution. Alternatively, the Company has decided to sell its remaining interest in RSG. Accordingly, as discussed in Note 12, Discontinued Operations, the Company's solid waste services segment has been accounted for as discontinued operations and the accompanying Consolidated Financial Statements presented herein have been restated to report separately the net assets and operating results of these discontinued operations.

In October 1997, the Company sold its electronic security services division. Accordingly, as discussed in Note 12, Discontinued Operations, these operations have been accounted for as discontinued operations and the accompanying Consolidated Financial Statements presented herein have been restated to report separately the operating results of these discontinued operations.

In order to maintain consistency and comparability between periods presented, certain amounts have been reclassified from the previously reported financial statements to conform with the financial statement presentation of the current period.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

All per share data and numbers of shares of the Company's common stock, par value $.01 per share ("Common Stock") for all periods included in the consolidated financial statements and notes thereto have been adjusted to reflect a two-for-one stock split in the form of a 100 percent stock dividend that occurred in June 1996, as is more fully described in Note 7, Shareholders' Equity.

Notes to Consolidated Financial Statements

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

	1998	1997
Automotive retail trade receivables	$ 493.6	$ 198.7
Automotive rental trade receivables	264.7	207.1
Vehicle manufacturer receivables	458.2	366.4
Automotive finance receivables	354.0	38.1
Other	97.1	73.3
	1,667.6	883.6
Less: allowance for doubtful accounts	(62.3)	(37.3)
	$ 1,605.3	$ 846.3

Automotive finance receivables are generated by the Company's automotive retail finance subsidiary and include finance lease receivables, installment loan receivables and retained interests in securitized installment loan receivables. In 1998, the Company entered into a $1.0 billion commercial paper warehouse facility with certain financial institutions for the securitization of installment loan receivables. Through December 31, 1998, the Company has securitized approximately $698.8 million of loan receivables under this program. Installment loans sold under this program are nonrecourse beyond the Company's retained interests. The Company sells its receivables to a commercial paper conduit but retains responsibility for servicing the loans for which it is paid a servicing fee. The Company retains a subordinated interest in the sold receivables and the future excess cash flow from the loan portfolio after required interest payments, servicing and other fees and expenses. The Company provides additional credit enhancement in the form of restricted cash deposits. As further discussed in Note 13, Derivative Financial Instruments, the Company enters into interest rate protection agreements to manage the impact of interest rate changes on amounts securitized.

The Company accounts for the sale of receivables in accordance with Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Gains or losses from the sales of automotive finance receivables are recognized in the period in which sales occur. In determining the gain or loss for each sale, the Company allocates the book value of the loan portfolio between amounts sold and retained interests based upon relative fair values. The Company's retained interests in securitized installment loan receivables consist of retained interests in sold principal, interest-only strip receivables representing the present value of future excess cash flow and servicing assets. Retained interests in the sold principal are carried at allocated carrying amounts and subsequently assessed for impairment. Interest-only strip receivables are carried at fair value and marked to market as a component of other comprehensive income. Servicing assets are initially recorded at allocated carrying amounts and subsequently amortized over the servicing period and assessed for impairment.

Revenue Earning Vehicles Revenue earning vehicles are stated at cost less accumulated depreciation. The straight-line method is used to depreciate revenue earning vehicles to their estimated residual values over periods typically ranging from three to 12 months. Depreciation expense includes costs relating to damaged vehicles and gains and losses on revenue earning vehicle sales in the ordinary course of business and is included as a component of cost of automotive rental operations in the accompanying Consolidated Statements of Operations.

A summary of revenue earning vehicles at December 31 is as follows:

	1998	1997
Revenue earning vehicles	$ 5,062.8	$ 4,980.1
Less: accumulated depreciation	(474.1)	(513.6)
	$ 4,588.7	$ 4,466.5

Revenue earning vehicles with a net book value of approximately $3.73 billion at December 31, 1998 were acquired under programs that allow the Company to require counterparties to repurchase vehicles held for periods of up to 24 months. The agreements contain varying mileage and damage limitations.

The Company also leases vehicles under operating lease agreements which require the Company to provide normal maintenance and liability coverage. The agreements generally have terms of four to 13 months. Many agreements provide for an option to terminate the leases early and allow for the purchase of leased vehicles subject to certain restrictions.

INVENTORY Inventory consists primarily of retail vehicles held for sale valued using the specific identification method, net of reserves. Cost includes acquisition expenses, including reconditioning and transportation costs. Parts and accessories are valued at the factory list price which approximates lower of cost (first-in, first-out) or market.

A summary of inventory at December 31 is as follows:

	1998	1997
New vehicles	$ 1,274.3	$ 642.7
Used vehicles	457.3	377.4
Parts and accessories	119.3	55.2
Other	2.6	7.8
	$ 1,853.5	$ 1,083.1

INVESTMENTS Investments consist of marketable securities and investments in businesses accounted for under the equity method. Marketable securities include investments in debt securities classified as available for sale and are stated at fair value with unrealized gains and losses included in other comprehensive income. Fair value is estimated based on quoted market prices. Equity method investments represent investments in 50 percent or less owned automotive businesses over which the Company has the ability to exercise significant influence. The Company records its initial equity method investments at cost and subsequently adjusts the carrying amounts of the investments for the Company's share of the earnings or losses of the investee after the acquisition date as a component of other income (loss) in the Company's Consolidated Statements of Operations.

A summary of investments at December 31 is as follows:

	1998	1997
Marketable securities	$ 101.4	$ 4.7
Equity method investments	70.9	8.7
	$ 172.3	$ 13.4

Notes to Consolidated Financial Statements

Investments in marketable securities at December 31 are as follows:

	1998	1997
U.S. government debt securities	$ 70.0	$ —
Corporate debt securities	31.4	4.7
	$ 101.4	$ 4.7

At December 31, 1998, aggregate maturities of marketable securities are as follows:

	COST	FAIR VALUE
Due in 2 – 5 years	$ 91.9	$ 91.3
Due in 6 – 10 years	3.0	3.0
Due after 10 years	7.1	7.1
	$ 102.0	$ 101.4

Gross unrealized losses on U.S. government debt securities were $.6 million at December 31, 1998. There were no gross unrealized losses on corporate debt securities at December 31, 1998 or 1997. There were no gross unrealized gains on U.S. government or corporate debt securities at December 31, 1998 or 1997. Proceeds from sales of available for sale securities were $94.1 million, $402.3 million and $42.3 million for the years ended December 31, 1998, 1997 and 1996, respectively. Gross realized gains and losses were not material for the years ended December 31, 1998 and 1996. During the year ended December 31, 1997, realized gains of $102.3 million were recognized on the sale of 15.0 million common shares of ADT Limited. Such shares of ADT Limited common stock were received in March 1997 upon the Company's exercise of a warrant which became exercisable upon termination of the Company's agreement to acquire ADT Limited by mutual agreement of the parties in September 1996.

Property and Equipment Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance and repairs are charged to expense as incurred. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Consolidated Statements of Operations.

The Company revises the estimated useful lives of property and equipment acquired through its business acquisitions to conform with its policies regarding property and equipment. Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method. The estimated useful lives are: 20 to 40 years for buildings and improvements, three to 15 years for equipment and five to 10 years for furniture and fixtures.

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

	1998	1997
Land	$ 687.0	$ 474.9
Furniture, fixtures and equipment	530.6	299.8
Buildings and improvements	1,116.9	752.0
	2,334.5	1,526.7
Less: accumulated depreciation and amortization	(290.9)	(231.6)
	$ 2,043.6	$ 1,295.1

Intangible and Other Assets Intangible and other assets consist primarily of the cost of acquired businesses in excess of the fair value of net assets acquired. The cost in excess of the fair value of net assets is amortized over 40 years on a straight-line basis. Accumulated amortization of intangible assets was $85.6 million and $31.7 million at December 31, 1998 and 1997, respectively.

The Company continually evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of intangible assets or whether the remaining balance of intangible assets should be evaluated for possible impairment. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the intangible assets in measuring their recoverability.

Liability Insurance The Company retains up to $1.0 million of risk per claim plus claims-handling expense under its various liability insurance programs for third-party property damage and bodily injury claims, primarily relating to claims arising from the Company's automotive rental operations. Costs in excess of this retained risk per claim are insured under various contracts with insurance carriers. The ultimate costs of these retained insurance risks are estimated by management and by actuarial evaluation based on historical claims experience, adjusted for current trends and changes in claims-handling procedures. In 1996, the Company changed its method of accounting for estimated auto rental liability insurance claims by no longer discounting such liability. The effect of this change was not material to the Company's consolidated financial position or results of operations.

Revenue Recognition Revenue from the Company's automotive retail operations consists of sales of new and used vehicles, parts and service and finance and insurance products. An estimated allowance for chargebacks against revenue recognized from sales of finance and insurance products is established during the period in which related revenue is recognized. Revenue from the Company's automotive rental operations consists primarily of fees from rentals and the sale of related rental products. The Company recognizes revenue over the period in which products are sold, vehicles are rented or services are provided.

Derivative Financial Instruments The Company utilizes interest rate protection agreements with several counterparties to manage the impact of interest rate changes on the Company's debt obligations. The Company does not use derivative financial instruments for trading purposes. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Income or expense on derivative financial instruments used to manage interest rate exposure is recorded on an accrual basis, as an adjustment to the yield of the underlying exposures over the periods covered by the contracts. If an interest rate

Notes to Consolidated Financial Statements

swap is terminated early, any resulting gain or loss is deferred and amortized as an adjustment of the cost of the underlying exposure position over the remaining periods originally covered by the terminated swap. If all or part of an underlying position is terminated, the related pro rata portion of any unrecognized gain or loss on the swap is recognized in income at that time as part of the gain or loss on the termination. Amounts receivable or payable under the agreements are included in receivables or accrued liabilities in the accompanying Consolidated Balance Sheets and were not material at December 31, 1998 or 1997.

Advertising The Company expenses the cost of advertising as incurred or when such advertising initially takes place. No advertising costs were capitalized at December 31, 1998 or 1997. Advertising expense was $283.1 million, $229.1 million and $148.3 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Statements of Cash Flows The Company considers 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. The effect of non-cash transactions related to business combinations, as discussed in Note 2, Business Combinations, and other non-cash transactions are excluded from the accompanying Consolidated Statements of Cash Flows.

The Company made interest payments of approximately $382.5 million, $286.4 million and $285.1 million for the years ended December 31, 1998, 1997 and 1996, respectively, including interest on vehicle inventory and revenue earning vehicle financing. The Company made income tax payments of approximately $139.8 million, $72.1 million and $20.4 million for the years ended December 31, 1998, 1997 and 1996, respectively.

New Accounting Pronouncements In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. The Company will adopt SOP 98-1 prospectively beginning January 1, 1999. Adoption of this Statement will not have a material impact on the Company's consolidated financial position or results of operations.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 requires all costs associated with pre-opening, pre-operating and organization activities to be expensed as incurred. The Company's accounting policies conform with the requirements of SOP 98-5; therefore adoption of this Statement will not impact the Company's consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 is effective for fiscal years beginning after June 15, 1999. SFAS 133 cannot be applied retroactively. The Company will adopt SFAS 133 beginning January 1, 2000. The Company has not yet quantified the impact of adopting SFAS 133 on the Company's consolidated financial statements. However, SFAS 133 could increase volatility in earnings and other comprehensive income.

Note 2 Business Combinations

Businesses acquired through December 31, 1998 and accounted for under the purchase method of accounting are included in the Consolidated Financial Statements from the date of acquisition. Businesses acquired and accounted for under the pooling of interests method of accounting have been included retroactively in the Consolidated Financial Statements as if the companies had operated as one entity since inception.

During the year ended December 31, 1998, the Company acquired various businesses primarily in the automotive retail and solid waste services industries. The Company issued an aggregate of approximately 21.9 million shares of Common Stock and paid approximately $736.1 million of cash for primarily automotive retail acquisitions accounted for under the purchase method of accounting. The Company issued an aggregate of 3.4 million shares of Common Stock and paid approximately $485.3 million of cash and certain properties for solid waste acquisitions accounted for under the purchase method of accounting.

During the year ended December 31, 1997, the Company acquired various businesses in the automotive retail, automotive rental and solid waste services industries. The Company issued an aggregate of approximately 53.7 million shares of Common Stock and paid approximately $248.6 million of cash or notes in such transactions which have been accounted for under the purchase method of accounting, and issued an aggregate of approximately 83.5 million shares of Common Stock in such transactions which have been accounted for under the pooling of interests method of accounting.

During the year ended December 31, 1996, the Company acquired various businesses in the automotive retail, automotive rental, solid waste services and electronic security services industries. The Company issued an aggregate of approximately 9.1 million shares of Common Stock and paid approximately $51.5 million of cash in such transactions which have been accounted for under the purchase method of accounting, and issued an aggregate of approximately 71.4 million shares of Common Stock in such transactions which have been accounted for under the pooling of interests method of accounting.

The preliminary purchase price allocations for business combinations accounted for under the purchase method of accounting for the years ended December 31 were as follows:

	1998	1997	1996
Revenue earning vehicles	$ 26.8	$ 415.3	$ 79.4
Property and equipment	372.6	517.8	3.4
Intangible and other assets	1,252.7	1,138.7	57.8
Net assets of discontinued operations	553.5	140.9	71.1
Working capital (deficiency)	733.7	61.6	(8.9)
Debt assumed	(1,102.3)	(1,095.9)	(59.2)
Other liabilities	(74.4)	(18.7)	(5.5)
Common stock issued	(541.2)	(943.1)	(86.6)
Cash used in business acquisitions, net of cash acquired	$ 1,221.4	$ 216.6	$ 51.5

As discussed in Note 12, Discontinued Operations, the Company has decided to sell its remaining interest in RSG. In addition, the Company sold its electronic security services division in October 1997. Accordingly, the financial position and results of operations of businesses acquired in the solid waste services and electronic security services segments have been accounted for as discontinued operations in the accompanying Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Company's unaudited pro forma consolidated results of continuing operations assuming automotive retail and rental acquisitions accounted for under the purchase method of accounting had occurred at the beginning of each period presented are as follows for the years ended December 31:

	1998	1997
Revenue	$ 18,604.1	$ 16,673.0
Income from continuing operations	360.9	122.8
Diluted earnings per share from continuing operations	.76	.27

The unaudited pro forma results of continuing operations are presented for informational purposes only and may not necessarily reflect the future results of operations of the Company or what the results of operations would have been had the Company owned and operated these businesses as of the beginning of each period presented.

Note 3 Revenue Earning Vehicle Debt

Revenue earning vehicle debt at December 31 is as follows:

	1998	1997
Amounts under various commercial paper programs secured by eligible vehicle collateral; interest based on market-dictated commercial paper rates; weighted average interest rates of 5.54% and 5.85% at December 31, 1998 and 1997, respectively; matures February 2000, as amended	$ 3,363.2	$ 2,919.4
Amounts under various medium-term note programs secured by eligible vehicle collateral:		
Fixed rate component; weighted average interest rates of 7.12% and 7.09% at December 31, 1998 and 1997, respectively; maturities through 2003	655.9	736.3
Floating rate component based on a spread over three month LIBOR; weighted average interest rates of 5.80% and 6.28% at December 31, 1998 and 1997, respectively; maturities through 2001	143.7	166.5
Other uncommitted secured vehicle financings primarily with financing institutions in the United Kingdom; LIBOR based interest rates; weighted average interest rates of 6.16% and 6.99% at December 31, 1998 and 1997, respectively; amounts due on demand	215.1	349.9
	4,377.9	4,172.1
Less: long-term portion	(1,759.7)	(1,962.7)
	$ 2,618.2	$ 2,209.4

The Company's $3.55 billion commercial paper programs are comprised of a $2.3 billion single-seller commercial paper program and three bank-sponsored, multi-seller commercial paper conduit facilities totaling $1.25 billion. Bank lines of credit of $2.07 billion terminating March 1999 provide liquidity backup for the facilities. Letters of credit totaling $335.0 million provide credit enhancement and additional liquidity backup for the facilities. The weighted average interest rate on total revenue earning vehicle debt was 5.82 percent and 6.17 percent at December 31, 1998 and 1997, respectively. Interest expense on revenue earning vehicle debt is included as a component of cost of automotive rental operations in the accompanying Consolidated Statements of Operations.

In January 1999, the Company increased the commercial paper programs to $3.9 billion through an increase in the conduit facilities from $1.25 billion to $1.6 billion. On February 26, 1999, the Company issued $1.8 billion of rental vehicle asset backed notes consisting of $550.0 million floating rate notes; $750.0 million 5.88 percent fixed rate notes; and $500.0 million 6.02 percent fixed rate notes (collectively, the "Notes"). The Company fixed the effective interest rate on the $550.0 million floating rate notes at 5.73 percent through the use of certain derivative transactions. Letters of credit totaling $150.0 million provide credit enhancement for the Notes. Proceeds from the Notes were used to refinance amounts outstanding under the Company's commercial paper programs. As a result of the refinancing, the Company has reduced its commercial paper programs from $3.9 billion to $3.24 billion comprised of a $1.99 billion single-seller program and three bank sponsored multi-seller commercial paper conduit facilities totaling $1.25 billion. Bank lines of credit of $1.79 billion terminating February 2000 provide liquidity backup for these facilities. Letters of credit totaling $310.0 million provide credit enhancement and additional liquidity backup for the facilities.

At December 31, 1998, aggregate maturities of revenue earning vehicle debt were as follows:

1999	$ 2,618.2
2000	1,259.9
2001	325.0
2002	—
2003	174.8
	$ 4,377.9

Note 4 Notes Payable and Long-Term Debt

Notes payable and long-term debt at December 31 is as follows:

	1998	1997
Vehicle inventory credit facilities; secured by the Company's vehicle inventory; weighted average interest rates of 5.81% and 6.36% at December 31, 1998 and 1997, respectively; amounts primarily due on demand	$ 1,339.2	$ 472.5
$1.0 billion unsecured revolving credit facility; interest payable using LIBOR based rates; weighted average interest rates of 6.57% and 5.93% at December 31, 1998 and 1997, respectively; matures 2002	500.0	250.0
Other notes; secured by real property, equipment and other assets; interest ranging from 6% to 10%; maturing through 2009	158.5	105.3
	1,997.7	827.8
Less: current portion	(1,441.8)	(521.2)
	$ 555.9	$ 306.6

The Company's revolving credit facility requires, among other items, that the Company maintain certain financial ratios and comply with certain financial covenants. The Company was in compliance with these ratios and covenants at December 31, 1998.

In March 1999, the Company entered into a $500.0 million, 364-day unsecured bank revolving credit facility. This facility will be used for general corporate purposes and complements the $1.0 billion bank revolving credit facility maturing 2002.

In November 1998, the Company entered into a $500.0 million, 364-day, bank-sponsored, multi-seller commercial paper conduit facility to finance new and used vehicle inventory for the Company's automotive retail operations. The facility supplements the new and used vehicle inventory finance facilities provided by vehicle manufacturer captive finance companies. At December 31, 1998, approximately $7.5 million was financed under this facility.

In December 1996, the Company completed a tender offer and consent solicitation resulting in the repurchase of approximately $100.0 million aggregate principal amount 11.75 percent senior notes due 2006 ("Senior Notes"), which were issued in February 1996. The Company recorded an extraordinary charge of $31.6 million, net of income taxes, during 1996 related to the early extinguishment of the Senior Notes and certain other debt. Included in this charge are bond redemption premiums, the write-off of debt issue costs, prepayment penalties and other fees related to the tender offer and the repayment of other debt.

Interest expense on vehicle inventory credit facilities is included as a component of cost of automotive retail sales in the accompanying Consolidated Statements of Operations.

At December 31, 1998, aggregate maturities of notes payable and long-term debt were as follows:

1999	$ 1,441.8
2000	10.1
2001	2.3
2002	537.2
2003	1.2
Thereafter	5.1
	$ 1,997.7

Note 5 Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Accordingly, deferred income taxes have been provided to show the effect of temporary differences between the recognition of revenue and expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities and their reported amounts in the financial statements.

Certain businesses acquired in 1997 and 1996 and accounted for under the pooling of interests method of accounting were subchapter S corporations for income tax purposes. The subchapter S corporation status of these companies was terminated effective with the closing date of the acquisitions. For purposes of these Consolidated Financial Statements, federal and state income taxes have been recorded as if these companies had filed subchapter C corporation tax returns for the pre-acquisition periods, and the current income tax expense is reflected as an increase to additional paid-in capital.

Effective with the RSG initial public offering in July 1998 as further described in Note 7, Shareholders' Equity, RSG is no longer included in the Company's consolidated federal income tax return.

The components of the provision for income taxes related to continuing operations for the years ended December 31 are as follows:

	1998	1997	1996
Current:			
Federal	$ 140.1	$ 10.2	$ 15.1
State	12.3	.2	(2.1)
Federal and state deferred	60.1	32.3	(9.6)
Foreign deferred	(9.9)	(4.4)	(8.8)
Change in valuation allowance	(14.5)	—	20.7
Provision for income taxes	$ 188.1	$ 38.3	$ 15.3

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate for continuing operations for the years ended December 31 is as follows:

	1998	1997	1996
Statutory federal income tax rate	35.0%	35.0%	(35.0)%
Non-deductible expenses	2.4	3.9	10.9
State income taxes, net of federal benefit	2.2	2.5	(1.9)
Change in valuation allowance	(2.8)	—	57.4
Other, net	(.8)	(4.2)	11.5
Effective tax rate	36.0%	37.2%	42.9%

Components of the net deferred income tax liability at December 31 are as follows:

	1998	1997
Deferred income tax liabilities:		
Book basis in property over tax basis	$ 532.0	$ 385.4
Deferred income tax assets:		
Net operating losses	(98.5)	(55.0)
Accruals not currently deductible	(378.6)	(270.0)
Valuation allowance	172.2	136.5
Net deferred income tax liability	$ 227.1	$ 196.9

At December 31, 1998, the Company had available domestic net operating loss carryforwards of approximately $134.9 million which begin to expire in the year 2011 and foreign net operating loss carryforwards of approximately $89.4 million, the majority of which have an indefinite carryforward. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company provides valuation allowances to offset portions of deferred tax assets due to uncertainty surrounding the future realization of such deferred tax assets. The Company adjusts the valuation allowance in the period management determines it is more likely than not that deferred tax assets will or will not be realized.

The foreign losses included in income from continuing operations before income taxes and extraordinary charge for the years ended December 31, 1998, 1997 and 1996 were $(28.8) million, $(11.5) million and $(22.0) million, respectively.

Note 6 Other Comprehensive Income

During the year ended December 31, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. The changes in the components of other comprehensive income (loss), net of income taxes, are as follows for the years ended December 31:

	1998			1997			1996		
	PRE-TAX AMOUNT	TAX EFFECT	NET AMOUNT	PRE-TAX AMOUNT	TAX EFFECT	NET AMOUNT	PRE-TAX AMOUNT	TAX EFFECT	NET AMOUNT
Foreign currency translation adjustments	$ (1.6)	$ —	$ (1.6)	$ (4.7)	$ —	$ (4.7)	$ (.8)	$ —	$ (.8)
Unrealized loss on marketable securities	(.6)	.2	(.4)	—	—	—	—	—	—
Unrealized gain on interest-only strip receivables	.9	(.3)	.6	—	—	—	—	—	—
Other comprehensive loss	$ (1.3)	$ (.1)	$ (1.4)	$ (4.7)	$ —	$ (4.7)	$ (.8)	$ —	$ (.8)

Accumulated other comprehensive loss consists of the following at December 31:

	1998	1997
Foreign currency translation adjustments	$ (4.5)	$ (2.9)
Unrealized loss on marketable securities	(.4)	—
Unrealized gain on interest-only strip receivables	.6	—
	$ (4.3)	$ (2.9)

No material reclassification adjustments were recorded in 1998 or 1996. During the year ended December 31, 1997, the Company reclassified unrealized holding gains totaling approximately $65.0 million, net of income taxes of approximately $37.3 million, to realized gains in connection with the sale of the shares of ADT Limited common stock in May 1997.

Note 7 Shareholders' Equity

During the year ended December 31, 1998, the Company's solid waste subsidiary, RSG, completed an initial public offering of approximately 36.1 percent of its outstanding common stock, resulting in net proceeds of approximately $1.43 billion. In addition, in August 1998, the Company's Board of Directors authorized the repurchase of up to $500.0 million of Common Stock over the following 12 months. Repurchases are made either pursuant to Rule 10b-18 of the Securities Exchange Act of 1934, as amended, or in privately negotiated transactions. As of December 31, 1998, the Company had repurchased an aggregate of 9.1 million shares of Common Stock for an aggregate purchase price of approximately $136.0 million.

During the year ended December 31, 1997, the Company sold 15.8 million shares of Common Stock in a private placement transaction resulting in net proceeds of approximately $552.7 million. In addition, in May 1997, the Company's Certificate of Incorporation was amended to increase the number of authorized shares of Common Stock from 500.0 million to 1.5 billion shares.

During the year ended December 31, 1996, the Company sold an aggregate of 22.0 million shares of Common Stock in private placement transactions resulting in net proceeds of approximately $550.9 million. In May 1996, the Board of Directors declared a two-for-one split of the Company's Common Stock in the form of a 100 percent stock dividend, payable June 8, 1996, to holders of record on May 28, 1996. In addition, in May 1996, the Company's Certificate of Incorporation was amended to increase the number of authorized shares of Common Stock from 350.0 million shares to 500.0 million shares.

The Company has 5.0 million authorized shares of preferred stock, par value $.01 per share, none of which are issued or outstanding. The Board of Directors has the authority to issue the preferred stock in one or more series and to establish the rights, preferences and dividends.

Note 8 Stock Options and Warrants

The Company has various stock option plans under which shares of Common Stock may be granted to key employees and directors of the Company. Options granted under the plans are non-qualified and are granted at a price equal to the fair market value of the Common Stock at the date of grant. Generally, options granted will have a term of 10 years from the date of grant, and will vest in increments of 25 percent per year over a four-year period on the yearly anniversary of the grant date. In October 1998, the Company's Board of Directors approved the repricing of approximately 32.1 million employee stock options at $12.75 per share, equal to the closing price of the Company's Common Stock on the last business day prior to the date of the repricing. Option holders will be precluded from exercising any of their repriced options prior to January 2, 2000. All other terms of the existing options, including the vesting schedules, remain unchanged.

A summary of stock option and warrant transactions is as follows for the years ended December 31:

	1998		1997		1996	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Options and warrants outstanding at beginning of period	48.1	$ 15.67	52.5	$ 7.63	49.6	$ 4.87
Granted	16.9	21.89	15.2	28.52	8.7	21.86
Exercised	(9.3)	3.62	(18.7)	3.24	(5.6)	4.03
Canceled	(1.1)	25.34	(.9)	24.59	(.2)	9.44
Options and warrants outstanding at end of period	54.6	12.52	48.1	15.67	52.5	7.63
Options and warrants exercisable at end of period	18.8	11.27	26.8	8.71	38.5	4.12
Options available for future grants	28.2		14.0		7.9	

Notes to Consolidated Financial Statements

The following table summarizes information about outstanding and exercisable stock options and warrants at December 31, 1998:

	Outstanding			Exercisable	
Exercise Price or Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 1.13– $12.38	15.3	3.10	$ 7.29	14.1	$ 6.96
$12.75	32.1	7.98	12.75	—	—
$13.38– $31.19	7.2	8.33	23.24	4.7	24.19
	54.6	6.66	12.52	18.8	11.27

In March 1999, approximately 8.5 million options held by employees of RSG were cancelled and replaced with options to acquire common shares of RSG.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for stock-based employee compensation arrangements whereby no compensation cost related to stock options is deducted in determining net income (loss). Had compensation cost for the Company's stock option plans been determined pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) and earnings (loss) per share would have decreased (increased) accordingly. Using the Black-Scholes option pricing model for all options granted after December 31, 1994, the Company's pro forma net income (loss), pro forma earnings (loss) per share and pro forma weighted average fair value of options granted, with related assumptions, are as follows for the years ended December 31:

	1998	1997	1996
Pro forma net income (loss)	$ 368.5	$ 375.3	$ (25.4)
Pro forma diluted earnings (loss) per share	.81	.88	(.08)
Pro forma weighted average fair value of options granted	13.87	10.03	9.80
Risk free interest rates	4.76–4.82%	5.74–5.78%	5.98–6.17%
Expected lives	5–7 years	5–7 years	5–7 years
Expected volatility	40%	40%	40%

Note 9 Commitments and Contingencies

Legal Proceedings By letter dated January 11, 1996, Acme Commercial Corp. d/b/a CarMax, The Auto Superstore, ("CarMax") accused the Company's wholly owned subsidiary, AutoNation USA, of infringing CarMax's trademark rights by using the marks AutoNation USA℠ and "The Better Way to Buy a Car℠." AutoNation USA denied such allegations and on February 5, 1996, filed suit in the U.S. District Court for the Southern District of Florida seeking a declaratory judgment that its use and registration of such marks do not violate any of the rights of CarMax. In October 1996, CarMax filed a counterclaim against AutoNation USA seeking damages and an order enjoining AutoNation USA from using certain marks, including the marks AutoNation USA and "The Better Way to Buy a Car." In November 1998, following a jury trial, the court entered a judgement in favor of AutoNation USA and against CarMax with respect to the marks in question. In December 1998, CarMax filed a notice of appeal of the trial court's decision with the U.S. Court of Appeals for the Eleventh Circuit. The Company is confident the appellate court will affirm the lower court's decision.

The Company is also a party to various other general corporate legal proceedings which have arisen in the ordinary course of business. While the results of these matters, as well as the matter described above, cannot be predicted with certainty, the Company believes that losses, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position. However, unfavorable resolution could affect the consolidated results of operations or cash flows for the quarterly periods in which they are resolved.

LEASE COMMITMENTS The Company and its subsidiaries lease real property, equipment and software under various operating leases with terms from one to 25 years. The Company has also entered into various airport concession and permit agreements which generally provide for payment of a percentage of revenue from vehicle rentals with a guaranteed minimum lease obligation.

Expenses under real property, equipment and software leases and airport concession and permit agreements (excluding amounts charged through to customers) for the years ended December 31 are as follows:

	1998	1997	1996
Real property	$ 97.5	$ 59.5	$ 47.2
Equipment and software	29.8	42.5	23.8
Airport concession and permit fees:			
Minimum fixed obligations	79.3	86.3	89.6
Additional amounts, based on revenue from vehicle rentals	96.4	110.0	94.5
Total	$ 303.0	$ 298.3	$ 255.1

Future minimum lease obligations under noncancelable real property, equipment and software leases and airport agreements with initial terms in excess of one year at December 31, 1998 are as follows:

1999	$ 181.2
2000	134.9
2001	110.6
2002	78.6
2003	56.4
Thereafter	218.9
	$ 780.6

In connection with the development of the AutoNation USA megastores, the Company is the lessee under a $500.0 million operating lease facility established to acquire and develop properties used in its business. The Company has guaranteed the residual value of the properties under this facility which guarantee totaled approximately $418.6 million at December 31, 1998.

OTHER MATTERS In the normal course of business, the Company is required to post performance and surety bonds, letters of credit, and/or cash deposits as financial guarantees of the Company's performance. To date, the Company has satisfied financial responsibility requirements for regulatory agencies by making cash deposits, obtaining surety bonds or by obtaining bank letters of credit. At December 31, 1998, surety bonds and letters of credit totaling $279.1 million expire through 2012.

Note 10 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is based on the combined weighted average number of common shares and common share equivalents outstanding which include, where appropriate, the assumed exercise or conversion of warrants and options. In computing diluted earnings (loss) per share, the Company has utilized the treasury stock method.

The computation of weighted average common and common equivalent shares used in the calculation of basic and diluted earnings (loss) per share is as follows for the years ended December 31:

	1998	1997	1996
Weighted average shares outstanding used in calculating basic earnings per share	455.1	403.1	320.9
Gross common equivalent shares	62.5	63.6	—
Weighted average treasury shares purchased	(13.6)	(24.3)	—
Effect of using weighted average common equivalent shares outstanding	(33.1)	(11.5)	—
Weighted average common and common equivalent shares used in calculating diluted earnings per share	470.9	430.9	320.9

At December 31, 1998 and 1997, the Company had approximately 4.8 million and 5.4 million stock options outstanding, respectively, which have been excluded from the computation of diluted earnings per share since they are anti-dilutive. For the year ended December 31, 1996, weighted average common equivalent shares of approximately 34.6 million shares have been excluded from the computation of diluted earnings per share since they are anti-dilutive.

Note 11 Restructuring and Other Charges

During the year ended December 31, 1997, the Company recorded pre-tax charges of approximately $244.1 million. These charges consisted of $150.0 million associated with combining the Company's franchised automotive dealerships and used vehicle megastore operations into one automotive retail division and $94.1 million associated with integrating the Company's automotive rental operations.

Approximately $85.0 million of the $150.0 million automotive retail charge appears as restructuring and other charges in the Company's 1997 Consolidated Statement of Operations and consists of: $42.5 million for consolidation of information systems; $25.3 million related primarily to relocating certain operations; and $17.2 million of severance and other costs. The remaining $65.0 million of the $150.0 million automotive retail charge relates to inventory consolidation and is included in cost of automotive retail sales in the Company's 1997 Consolidated Statement of Operations. During the year ended December 31, 1998, the Company reduced its estimated restructuring reserves for information systems and increased its estimated reserves for the relocation of certain operations by approximately $21.0 million. The decrease in the information systems reserve is a result of the Company's decision to eliminate or delay the conversion of certain systems. The increase in the relocation reserve is due to the Company's decision to close its reconditioning centers and relocate the reconditioning operations to the Company's AutoNation USA megastores. Through December 31, 1998, the Company has spent approximately $30.3 million related to restructuring activities and has recorded $30.6 million of these restructuring charges against certain assets. As of December 31, 1998, approximately $24.1 million remained in accrued liabilities related to these charges. The Company believes the activities associated with these charges will be substantially completed during 1999.

The primary components of the $94.1 million automotive rental charge in 1997 are as follows: $32.0 million related to elimination of redundant information systems; $18.0 million related to fleet consolidation; and $44.1 million related to closure or sale of duplicate rental facilities and merger and other non-recurring expenses. Through December 31, 1998, the Company has spent approximately $45.5 million related to restructuring activities and has recorded $26.6 million of these restructuring charges against certain assets. As of December 31, 1998, approximately $22.0 million remained in accrued liabilities related to these charges. The Company believes the activities associated with these charges will be substantially completed during 1999.

During the year ended December 31, 1996, the Company recorded pre-tax charges of approximately $86.7 million related primarily to the integration of the operations of Alamo Rent-A-Car, Inc. into those of the Company. Also included in these charges are merger expenses associated with an acquisition accounted for under the pooling of interests method of accounting. Approximately $29.5 million of such expenses appear as restructuring and other charges in the Company's Consolidated Statement of Operations for the year ended December 31, 1996 with the remainder of approximately $57.2 million included in cost of automotive rental operations and selling, general and administrative expenses. These costs primarily include asset write-offs, severance benefits, accounting and legal merger costs and changes in various estimated reserve requirements. The activities associated with these charges were substantially completed during 1997.

Note 12 Discontinued Operations

As a result of the Company's decision to sell its remaining interest in RSG, the net assets and operating results of the Company's solid waste services segment have been classified as discontinued operations for all periods presented in the accompanying Consolidated Financial Statements. The minority shareholders' interest in the equity of RSG as of December 31, 1998 and the net earnings of RSG for the period subsequent to the July 1998 initial public offering have been included as a reduction of the net assets and income from discontinued operations, respectively.

In October 1997, the Company sold its electronic security services division for approximately $610.0 million resulting in an after tax gain of approximately $230.0 million. In 1998, the Company finalized the sale resulting in an additional after tax gain of approximately $11.6 million. The operating results and gain on disposition of the electronic security services segment have been classified as discontinued operations in the accompanying Consolidated Financial Statements.

Notes to Consolidated Financial Statements

A summary of the net assets of discontinued operations for the Company's solid waste services segment is as follows as of December 31:

	1998	1997
Current assets	$ 784.0	$ 175.9
Non-current assets	2,028.1	1,172.1
Total assets	2,812.1	1,348.0
Current liabilities	783.8	158.0
Non-current liabilities	729.2	173.1
Total liabilities	1,513.0	331.1
Minority interest	468.9	—
Net assets of discontinued operations	$ 830.2	$ 1,016.9

A summary of the results of operations of the Company's solid waste services and electronic security services segments is as follows for the years ended December 31:

	1998	1997			1996		
	Solid Waste	Solid Waste	Electronic Security	Total	Solid Waste	Electronic Security	Total
Revenue	$ 1,369.1	$ 1,127.7	$ 83.8	$ 1,211.5	$ 953.3	$ 85.3	$ 1,038.6
Expenses:							
Cost of operations	949.0	809.1	38.4	847.5	703.6	37.3	740.9
Selling, general and administrative	120.8	107.1	30.7	137.8	126.9	33.5	160.4
Restructuring and other charges	—	—	—	—	8.8	—	8.8
Operating income	299.3	211.5	14.7	226.2	114.0	14.5	128.5
Interest expense	(7.4)	(5.7)	—	(5.7)	(10.9)	(.5)	(11.4)
Interest and other income	.6	6.7	—	6.7	13.9	.5	14.4
Income before income taxes	292.5	212.5	14.7	227.2	117.0	14.5	131.5
Provision for income taxes	105.3	76.9	5.2	82.1	49.5	6.1	55.6
Net income before minority interest	187.2	135.6	9.5	145.1	67.5	8.4	75.9
Minority interest	33.9	—	—	—	—	—	—
Net income	$ 153.3	$ 135.6	$ 9.5	$ 145.1	$ 67.5	$ 8.4	$ 75.9

Note 13 Derivative Financial Instruments

The Company is exposed to market risks arising from changes in interest rates. Due to its limited foreign operations, the Company does not have material market risk exposures relative to changes in foreign exchange rates.

CREDIT EXPOSURE The Company is exposed to credit related losses in the event of non-performance by counterparties to certain derivative financial instruments. The Company monitors the creditworthiness of the counterparties and presently does not expect default by any of the counterparties. The Company does not obtain collateral in connection with its derivative financial instruments.

The credit exposure that results from interest rate contracts is represented by the fair value of contracts with a positive fair value as of the reporting date. See Note 14, Fair Value of Financial Instruments, for the fair value of derivatives. The Company's credit exposure on its interest rate derivatives was not material at December 31, 1998 or 1997.

INTEREST RATE RISK MANAGEMENT The Company uses interest rate swap agreements to manage the impact of interest rate changes on the Company's variable rate debt. The amounts exchanged by the counterparties to interest rate swap agreements are based upon the notional amounts and other terms, generally related to interest rates, of the derivatives. While notional amounts of interest rate swaps form part of the basis for the amounts exchanged by the counterparties, the notional amounts are not themselves exchanged and, therefore, do not represent a measure of the Company's exposure as an end user of derivative financial instruments. At December 31, 1998 and 1997, notional principal amounts related to interest rate swaps (variable to fixed rate) were $2.55 billion and $2.25 billion, respectively. The swap portfolio maturities are as follows at December 31, 1998: $650.0 million in 1999; $1.0 billion in 2000; $250.0 million in 2001; $150.0 million in 2002; and $500.0 million in 2003. At December 31, 1998, the weighted average fixed rate payment on variable to fixed rate swaps was 5.87 percent. Variable rates received are indexed to the Commercial Paper Nonfinancial Rate ($2.45 billion notional principal amount) and LIBOR ($.10 billion notional principal amount).

In 1998, the Company entered into interest rate derivative transactions with certain financial institutions to manage the impact of interest rate changes on securitized installment loan receivables. These derivative transactions consist of a series of interest rate caps and floors with an aggregate notional amount of $737.1 million contractually maturing in 2004 which effectuate a variable to fixed rate swap at a weighted average rate of 5.18 percent at December 31, 1998. Variable rates on the underlying portfolio are indexed to the Commercial Paper Nonfinancial Rate.

Note 14 Fair Value of Financial Instruments

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.

Notes to Consolidated Financial Statements

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

- Cash and cash equivalents, trade and manufacturer receivables, other current assets, accounts payable, accrued liabilities, other current liabilities and variable rate debt: The amounts reported in the accompanying Consolidated Balance Sheets approximate fair value.
- Automotive finance installment loans receivable and retained interests in securitized receivables: The fair value of installment loans receivable and retained interests in securitized receivables are estimated based upon the discounted value of the future cash flows expected to be received. Significant assumptions used to estimate the fair value at December 31, 1998 are as follows: discount rate – 8.13 percent; default rate – 1.0 percent per year; and prepayment rate – 1.5 percent per month.
- Medium-term notes payable: The fair value of medium-term notes payable is estimated based on the quoted market prices for the same or similar issues.
- Other fixed rate debt: The fair value of other fixed rate debt is based upon the discounted expected cash flows at rates then offered to the Company for debt of similar terms.
- Interest rate swaps, caps and floors: The fair value of interest rate swaps, caps and floors is determined from dealer quotations and represents the discounted future cash flows through maturity or expiration using current rates, and is effectively the amount the Company would pay or receive to terminate the agreements.

The following table sets forth the carrying amounts and fair values of the Company's financial instruments, except for those noted above for which carrying amounts approximate fair value, as of December 31:

	1998		1997	
ASSETS (LIABILITIES)	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Installment loans receivable	$ 95.6	$ 99.2	$ 36.8	$ 36.5
Retained interests in securitized receivables:				
Principal	44.2	44.6	—	—
Interest-only strips	38.2	38.2	—	—
Servicing assets	3.1	3.1	—	—
Medium-term notes payable	(799.6)	(813.6)	(902.8)	(917.7)
Other fixed rate debt	(37.0)	(37.5)	(38.3)	(38.3)
Interest rate swaps	—	(47.0)	—	(8.0)
Interest rate caps	—	8.9	—	—
Interest rate floors	—	(7.1)	—	—

Note 15 Business and Credit Concentrations

AUTOMOTIVE RETAIL INDUSTRY The Company owns and operates franchised automotive dealerships and used vehicle megastores in the United States.

Automotive dealerships operate pursuant to franchise agreements with vehicle manufacturers. Franchise agreements generally provide the manufacturers with considerable influence over the operations of the dealership and generally provide for termination of the franchise agreement for a variety of causes. The success of any franchised automotive dealership is dependent, to a large extent, on the financial condition, management, marketing, production and distribution capabilities of the vehicle manufacturers of which the Company holds franchises. At December 31, 1998 and 1997, the Company had receivables from manufacturers of $86.1 million and $39.6 million, respectively.

The Company purchases substantially all of its new vehicles from various manufacturers at the prevailing prices charged by the manufacturers to all franchised dealers. The Company's sales volume could be adversely impacted by the manufacturers' inability to supply the dealerships with an adequate supply of vehicles.

Concentrations of credit risk with respect to non-manufacturer trade receivables related to the Company's automotive retail operations are limited due to the wide variety of customers and markets in which the Company's products are sold as well as their dispersion across many different geographic areas in the United States. Consequently, at December 31, 1998, the Company does not consider itself to have any significant non-manufacturer concentrations of credit risk in the automotive retail segment.

AUTOMOTIVE RENTAL INDUSTRY The Company owns and operates vehicle rental facilities primarily in the United States. The automotive rental industry in which the Company operates is highly seasonal.

The Company enters into vehicle repurchase programs with one principal vehicle manufacturer, as well as other vehicle manufacturers. At December 31, 1998 and 1997, the Company had vehicle receivables from manufacturers of $372.1 million and $326.8 million, respectively. During model year 1998, the Company purchased approximately 57 percent of its vehicle fleet under repurchase programs with one vehicle manufacturer.

Concentrations of credit risk with respect to non-vehicle manufacturer receivables related to the Company's automotive rental operations are limited due to the wide variety of customers and markets in which services are provided as well as their dispersion across many different geographic areas primarily in the United States. Consequently, at December 31, 1998, the Company does not consider itself to have any significant non-vehicle manufacturer receivable concentrations of credit risk in the automotive rental segment.

Note 16 Operations by Industry Segment

The Company operates subsidiaries in the automotive retail and automotive rental industries. The Company's reportable segments are strategic business units that offer different products and services. The Company evaluates the performance of its segments based on revenue and operating income. The Company's automotive retail business consists primarily of the sale of new and used vehicles and related automotive services and products. The Company's automotive rental business primarily rents vehicles on a daily or weekly basis through National Car Rental System, Inc., Alamo Rent-A-Car, Inc. and CarTemps USA. There is no material intersegment revenue. Interest expense related to vehicle inventory and revenue earning vehicle financing is included in cost of automotive retail sales and cost of automotive rental operations, respectively, in the Company's Consolidated Statements of Operations.

The following table presents financial information regarding the Company's different industry segments as of and for the years ended December 31:

	1998					
	AUTOMOTIVE RETAIL	AUTOMOTIVE RENTAL	TOTAL REPORTABLE SEGMENTS	CORPORATE	NET ASSETS – DISCONTINUED OPERATIONS	CONSOLIDATED
Domestic revenue	$ 12,664.6	$ 3,015.6	$ 15,680.2	$ —	$ —	$ 15,680.2
Foreign revenue	—	438.0	438.0	—	—	438.0
Total revenue	$ 12,664.6	$ 3,453.6	$ 16,118.2	$ —	$ —	$ 16,118.2
Operating income (loss)	$ 395.8	$ 193.7	$ 589.5	$ (54.3)	$ —	$ 535.2
Vehicle interest expense	106.9	321.3	428.2	—	—	428.2
Depreciation and amortization	72.3	971.9	1,044.2	7.4	—	1,051.6
Capital expenditures	201.8	193.6	395.4	42.5	—	437.9
Total assets	6,285.8	6,282.1	12,567.9	527.7	830.2	13,925.8
Total foreign non-current assets	—	63.6	63.6	—	—	63.6

	1997					
	AUTOMOTIVE RETAIL	AUTOMOTIVE RENTAL	TOTAL REPORTABLE SEGMENTS	CORPORATE	NET ASSETS – DISCONTINUED OPERATIONS	CONSOLIDATED
Domestic revenue	$ 6,122.8	$ 2,767.0	$ 8,889.8	$ —	$ —	$ 8,889.8
Foreign revenue	—	288.1	288.1	—	—	288.1
Total revenue	$ 6,122.8	$ 3,055.1	$ 9,177.9	$ —	$ —	$ 9,177.9
Operating income (loss)	$ (68.4)	$ 86.6	$ 18.2	$ (30.1)	$ —	$ (11.9)
Vehicle interest expense	55.3	258.0	313.3	—	—	313.3
Depreciation and amortization	32.6	878.6	911.2	6.3	—	917.5
Non-cash restructuring and other charges	115.4	70.6	186.0	—	—	186.0
Capital expenditures	168.9	84.5	253.4	41.1	—	294.5
Total assets	3,078.8	5,899.1	8,977.9	201.4	1,016.9	10,196.2
Total foreign non-current assets	—	52.6	52.6	—	—	52.6

	1996					
	AUTOMOTIVE RETAIL	AUTOMOTIVE RENTAL	TOTAL REPORTABLE SEGMENTS	CORPORATE	NET ASSETS – DISCONTINUED OPERATIONS	CONSOLIDATED
Domestic revenue	$ 2,933.7	$ 2,500.5	$ 5,434.2	$ —	$ —	$ 5,434.2
Foreign revenue	—	198.9	198.9	—	—	198.9
Total revenue	$ 2,933.7	$ 2,699.4	$ 5,633.1	$ —	$ —	$ 5,633.1
Operating income (loss)	$ 33.3	$ (28.4)	$ 4.9	$ (27.7)	$ —	$ (22.8)
Vehicle interest expense	20.4	233.6	254.0	—	—	254.0
Depreciation and amortization	9.3	789.3	798.6	2.0	—	800.6
Non-cash restructuring and other charges	—	75.7	75.7	11.0	—	86.7
Capital expenditures	57.6	45.1	102.7	3.2	—	105.9
Total assets	995.6	4,691.7	5,687.3	83.1	797.2	6,567.6
Total foreign non-current assets	—	27.7	27.7	—	—	27.7

Revenue from the Company's automotive retail segment was derived from the sale of the following major products and services for the years ended December 31:

	1998	1997	1996
New vehicles	$ 6,792.1	$ 3,599.7	$ 1,909.6
Used vehicles	4,129.6	1,883.6	658.3
Parts, service and other	1,742.9	639.5	365.8
	$ 12,664.6	$ 6,122.8	$ 2,933.7

Note 17 Quarterly Financial Information (Unaudited)

The Company's automotive retail operations generally experience higher volumes of vehicle sales in the second and third quarters of each year in part due to consumer buying trends and the introduction of new vehicle models.

The Company's automotive rental operations and particularly the leisure travel segment is highly seasonal. In these operations, the third quarter which includes the peak summer travel months has historically been the strongest quarter of the year. During the peak season the Company increases its rental fleet and workforce to accommodate increased rental activity. As a result, any occurrence that disrupts travel patterns during the summer period could have a material adverse effect. The first and fourth quarters for the Company's automotive rental operations are generally the weakest, when there is limited leisure travel and a greater potential for adverse weather conditions. Many of the operating expenses such as rent, general insurance and administrative personnel are fixed and cannot be reduced during periods of decreased rental demand.

The fourth quarters of 1998 and 1997 include after tax gains of approximately $11.6 million and $230.0 million, respectively, from the sale of the Company's electronic security services division, as described in Note 12, Discontinued Operations.

Notes to Consolidated Financial Statements

The second and fourth quarters of 1997 include restructuring and other pre-tax charges of approximately $94.1 million and $150.0 million, respectively, as described in Note 11, Restructuring and Other Charges. The second quarter of 1997 also contained a pre-tax gain on the sale of ADT Limited common shares of approximately $102.3 million as described in Note 1, Summary of Significant Accounting Policies, Investments.

The following is an analysis of certain items in the Consolidated Statements of Operations by quarter for 1998 and 1997.

		FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenue	1998	$ 3,119.1	$ 4,037.4	$ 4,513.6	$ 4,448.1
	1997	1,679.0	2,230.2	2,633.7	2,635.0
Operating income (loss)	1998	$ 61.3	$ 136.3	$ 225.5	$ 112.1
	1997	6.7	(37.4)	131.4	(112.6)
Income (loss) from continuing operations	1998	$ 36.8	$ 80.0	$ 146.9	$ 70.9
	1997	7.4	40.6	84.8	(68.2)
Basic earnings (loss) per share from continuing operations	1998	$ .08	$ .18	$ .32	$ .15
	1997	.02	.10	.20	(.16)
Diluted earnings (loss) per share from continuing operations	1998	$ .08	$ .17	$ .31	$ .15
	1997	.02	.10	.20	(.16)
Net income	1998	$ 77.1	$ 127.4	$ 179.7	$ 115.3
	1997	38.7	74.5	125.3	201.2

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of AutoNation, Inc. (a Delaware corporation, formerly Republic Industries, Inc.) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AutoNation, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Fort Lauderdale, Florida
March 3, 1999

AutoNation, Inc. Franchised Automotive Dealerships and Megastores

As of March 31, 1999

Franchised Automotive Dealerships

Alabama

Birmingham Hoover Toyota

Mobile Treadwell Ford, Treadwell Honda

Pell City Miller – Sutherlin Chevrolet-Pontiac-Chrysler-Plymouth-Dodge-Jeep

Arizona

Mesa Brown & Brown Chevrolet, Brown & Brown Nissan

Phoenix Bell Dodge, Lou Grubb Chevrolet, Pitre Chrysler-Plymouth-Jeep, Pitre Isuzu-Subaru

Scottsdale Lou Grubb Ford, Pitre Buick-Pontiac-GMC, Pitre Chrysler-Plymouth-Jeep, Pitre Isuzu-Subaru-Hyundai

Tempe Brown & Brown Nissan, Tempe Toyota

Tucson Dobbs Honda

California

Anaheim Anaheim Mazda-Pontiac-Buick

Bellflower Don-A-Vee Jeep-Kia

Beverly Hills Beverly Hills Ford, Infiniti of Beverly Hills

Buena Park House of Imports, Inc. (Mercedes-Benz), Lew Webb's Toyota of Buena Park

Cerritos Buick Mart, Toyota of Cerritos, Volvo of Cerritos

Corona Corona Chevrolet-Olds, Corona-Volkswagen-Subaru-Isuzu

Costa Mesa Costa Mesa Honda, Costa Mesa Infiniti

Cupertino Anderson Chevrolet-Chrysler-Plymouth

El Monte Gunderson Chevrolet, Gunderson Nissan

Fremont Autowest Dodge-Chrysler-Plymouth-Isuzu, Autowest Honda Fremont

Garden Grove Ford of Garden Grove

Hayward Hayward Dodge-Hyundai, Hayward Nissan

Irvine Lew Webb's Irvine Nissan, Lew Webb's Irvine Toyota, Volvo Irvine

Long Beach Beach City Chevrolet

Los Gatos Anderson Chevrolet

Manhattan Beach Champion Chevrolet-Oldsmobile, Manhattan Ford, Manhattan Toyota

Menlo Park Anderson Cadillac-Oldsmobile, Anderson Chevrolet

Newport Beach Newport Auto Center (Rolls Royce-Porsche-Audi-Chevrolet)

Palo Alto Anderson Honda-Isuzu

Placentia Don-A-Vee of Placentia (Jeep-Kia-Chrysler-Plymouth)

Redlands Redlands Ford

Redondo Beach Land Rover South Bay

Roseville Autowest Dodge-Chrysler-Plymouth-Jeep, Autowest Honda Roseville

San Jose Smythe European (Mercedes-Benz-Volvo)

Santa Clara Stevens Creek Acura

Santa Monica Infiniti of Santa Monica

Torrance Peyton Cramer Acura-Isuzu, Peyton Cramer Ford, Peyton Cramer Infiniti, Peyton Cramer Jaguar, Peyton Cramer Lincoln-Mercury-Volkswagen, South Bay Autohaus (Mercedes-Benz), South Bay Volvo, Torrance Nissan

Valencia Magic Ford, Magic Lincoln-Mercury

Colorado

Aurora John Elway Lincoln-Mercury in Aurora

Boulder John Elway Ford Boulder

Denver John Elway Chevrolet, John Elway Collision Center, John Elway Dodge Southwest, John Elway Ford Downtown

Englewood John Elway Chrysler-Plymouth on Broadway, John Elway Nissan Arapahoe, John Elway Subaru South, John Elway Toyota

Federal Heights John Elway Nissan 104th

Golden John Elway Chrysler-Plymouth-Jeep West, John Elway Lamborghini, John Elway Pontiac-Buick-GMC West, John Elway Subaru West

Littleton John Elway Dodge on Broadway

Lone Tree John Elway Pontiac-Buick-GMC South

Westminster John Elway Honda, John Elway Oldsmobile-Mazda-Hyundai North

Wheatridge John Elway Ford West

Florida

Belle Glade Steve Moore Chevrolet-Cadillac-Buick-Oldsmobile-Pontiac

Bradenton Bill Graham Ford

Brooksville Jim Quinlan Ford-Lincoln-Mercury

Casselberry Royal Jeep-Chrysler-Plymouth

Clearwater Carlisle Dodge, Carlisle Lincoln-Mercury, Jim Quinlan Chevrolet, Jim Quinlan Nissan, Lexus of Clearwater, Lokey Honda-Isuzu, Sunset Pontiac-GMC Truck South

Coconut Creek Maroone Chrysler-Plymouth-Jeep

Delray Beach Steve Moore Chevrolet Delray, Wallace Dodge, Wallace Ford, Wallace Nissan

Ft. Lauderdale Ft. Lauderdale Nissan, Inc., Maroone Chevrolet – Ft. Lauderdale, Maroone Ford, Star Motors (Mercedes-Benz)

Greenacres Steve Moore Chevrolet

Hollywood Hollywood Honda, Hollywood Kia, Maroone Nissan

Jacksonville King's Crown Ford, Mike Shad Chrysler-Plymouth-Jeep, Mike Shad Ford, Sunrise Nissan of Jacksonville

Kendall Kendall Toyota, Kendall Kia, Lexus of Kendall

Lake Park Wallace Lincoln-Mercury

Longwood Courtesy Buick, Courtesy Pontiac-GMC, Courtesy's Magic Suzuki-Isuzu, Don Mealey Acura

Maitland Contemporary Cars (Mercedes-Benz-Porsche)

Margate Mullinax Ford South

Miami Anthony Abraham Chevrolet – Miami, Inc., Central Hyundai-Kia, L.P. Evans Mercedes-Benz, L.P. Evans Motors (Nissan), Maroone Dodge-Oldsmobile, Miami Honda, Sunshine Ford

Orange Park Sunrise Nissan of Orange Park

Orlando Courtesy Acura-Suzuki – South, Don Mealey Chevrolet-Oldsmobile, Don Mealey Infiniti, Don Mealey Mitsubishi, World Chevrolet

Panama City Cook-Whitehead Ford

Pembroke Pines Maroone Chevrolet, Maroone Oldsmobile-Isuzu

Pinellas Park Sutherlin Toyota

Pompano Maroone Dodge Pompano

Port Richey Coastal Cadillac, Sunset Pontiac-GMC Truck North

St. Petersburg Carlisle Ford

Sanford Don Mealey Cadillac-Oldsmobile-Saab, Don Mealey's Seminole Ford

Stuart Wallace Stuart Lincoln-Mercury-Mitsubishi

Tallahassee Tallahassee Mitsubishi, Tallahassee Motors (Ford)

Tampa Abraham Chevrolet, Lexus of Tampa Bay

Georgia

Lithia Springs Sutherlin Chrysler-Plymouth-Jeep, Sutherlin Honda, Sutherlin Nissan of Lithia Springs

Marietta Marietta Ford, Sutherlin Nissan of Marietta

Roswell Northpoint Chevrolet, Northpoint Mitsubishi

Tucker Hub Ford

Union City Gene Evans Ford, Steve Rayman Pontiac-Buick-GMC

Illinois

Des Plaines Dodge World of Des Plaines

Elmhurst Elmhurst Dodge, Elmhurst Kia

Libertyville Libertyville Toyota

Schaumburg Woodfield Ford

Maryland

Baltimore Fox Chevrolet, Fox Hyundai-Lincoln-Mercury-Kia, Fox Mitsubishi

Laurel Fox Buick-Pontiac-GMC-Isuzu, Fox Chevrolet of Laurel

Timonium Fox Chevrolet of Timonium

Michigan

Taylor Taylor Jeep

Minnesota

White Bear Lake Tousley Ford

Nevada

Henderson Chaisson BMW, Desert Valley GMC-Pontiac-Buick

Las Vegas Chaisson Motor Cars (BMW-Rolls Royce-Volkswagen-Audi-Land Rover), Desert Buick-GMC, Desert Dodge, Desert Lincoln-Mercury, Las Vegas Honda, Nissan West, Toyota West

New Jersey

Flemington Flemington Ford-Lincoln-Mercury-Nissan, Flemington Chrysler-Plymouth-Dodge-Jeep-Mazda, Flemington Circle Buick-GMC-Chevrolet-Pontiac, Flemington Infiniti, Flemington Isuzu-Subaru, Flemington Porsche-Audi-Volkswagen-BMW

Princeton Land Rover Princeton, Princeton Nassau Ford-Lincoln-Mercury-Audi

New York

Avon Avon Ford

Churchville Churchville Ford

East Rochester Bob Hastings Ford

Rochester Cristo Ford, Koerner Ford, Vanderstyne Ford

Victor Rochester Auto Collection Ford

Webster Baytowne Lincoln-Mercury, Empire Ford

Williamsville Al Maroone Ford

North Carolina

Charlotte Superior Nissan

Ohio

Amherst Ed Mullinax Ford

Brunswick Mullinax Lincoln-Mercury

Cincinnati Bob Townsend Ford

Dayton Eastgate Ford

Mayfield Mullinax Lincoln-Mercury-Jeep

North Canton Mullinax Ford North Canton

Westlake John Lance Ford

Wickliffe Mullinax Ford East

Oklahoma

Oklahoma City Lynn Hickey Dodge

South Carolina

Charleston Northside Nissan, West Ashley Toyota

Tennessee

Knoxville West Side Honda

Memphis Courtesy Honda, Covington Pike Honda, Dobbs Brothers Mazda-Mitsubishi, Dobbs Brothers Pontiac-GMC, Dobbs Ford

Texas

Amarillo Midway Chevrolet, Plains Chevrolet, Quality Nissan, Westgate Chevrolet

Arlington Bledsoe Dodge

Austin Hendrix GMC Truck, Red McCombs Chevrolet, Red McCombs Pontiac-GMC-Hyundai-Jeep, Red McCombs Toyota

Corpus Christi Padre Ford-Mazda, Port City Imports (Volvo-Honda-Hyundai), Port City Pontiac-GMC

Dallas Bankston Lincoln-Mercury-Saab, Bankston Nissan of Dallas, Bledsoe Dodge

Duncanville Bledsoe Dodge

Fort Worth Charlie Hillard Ford-Buick-Mazda

Frisco Bankston Ford of Frisco

Houston Champion Ford, Inc., Charlie Thomas Acura, Charlie Thomas Chevrolet-Mitsubishi, Charlie Thomas Chrysler-Plymouth-Jeep-Isuzu-Hyundai, Charlie Thomas Ford, Charlie Thomas Intercontinental BMW, Mike Hall Chevrolet, Texan Lincoln-Mercury, Inc.

Humble Charlie Thomas Mazda

Irving Bankston Nissan

Katy Texan Ford

Lewisville Bankston Nissan

Midland Jack Sherman Chevrolet-Mazda

Washington

Bellevue BMW of Bellevue

Spokane Appleway Chevrolet, Appleway Mazda, Appleway Mitsubishi, Appleway Subaru-Volkswagen-Audi, Appleway Toyota

AutoNation USA Megastores

Arizona

Chandler

North Phoenix

Tucson

California

Dublin

Irvine

Long Beach

Los Angeles

Oxnard

Rancho Cucamonga

Florida

Clearwater/St. Petersburg

Coconut Creek

Jacksonville

Pembroke Pines

Sanford/Orlando

South Dade/Perrine

Tampa

West Palm Beach

Georgia

Alpharetta

Douglasville

Morrow

Stone Mountain

Illinois

Downers Grove

Indiana

Fishers

Indianapolis

Iowa

Davenport

Michigan

Canton

Flint

Sterling Heights

Nevada

Henderson

North Carolina

Fayetteville

Greensboro

Ohio

Beavercreek

Cincinnati

Forest Park

Texas

Dallas

Grand Prairie

Houston

North Houston

Irving

Lewisville

Mesquite

San Antonio

South Houston/Almeda

Stafford

Virginia

Virginia Beach

SHAREHOLDER INFORMATION

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110 S.E. 6th Street
Fort Lauderdale, FL 33301
Telephone: (954) 769-6000

Independent Certified Public Accountants
Arthur Andersen LLP
100 N.E. 3rd Avenue
Fort Lauderdale, FL 33301

Shareholder Relations and Inquiries
Investor Relations
AutoNation, Inc.
110 S.E. 6th Street
Fort Lauderdale, FL 33301

Common Stock Transfer Agent and Registrar
First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303
(800) 519-3111

Common Stock Information

Since April 6, 1999, the Company's Common Stock has traded on the New York Stock Exchange ("NYSE") under the symbol "AN." From June 20, 1997 through April 5, 1999, the Company's Common Stock traded on the NYSE under the symbol "RII." Prior to that date, the Common Stock was listed on the Nasdaq Stock Market–National Market ("Nasdaq") and traded under the symbol "RWIN."

The following table sets forth, for the periods indicated, the high and low prices per share of the Common Stock as reported by the NYSE or by Nasdaq, whichever is applicable.

	HIGH		LOW	
1997				
First Quarter	$	44 3/8	$	29 5/8
Second Quarter	$	34	$	19 7/8
Third Quarter	$	33 1/8	$	21 7/8
Fourth Quarter	$	36	$	19
1998				
First Quarter	$	29	$	19 3/16
Second Quarter	$	30	$	22 15/16
Third Quarter	$	27	$	13 3/4
Fourth Quarter	$	18 3/8	$	10

At March 24, 1999, there were approximately 453,764,032 shares of Common Stock outstanding, held by approximately 5,300 holders of record.

Availability of Form 10-K

Shareholders may obtain, at no charge, a copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K by writing to Investor Relations at the Corporate Office.

Notice of Annual Meeting

The Annual Meeting of Shareholders of AutoNation, Inc. will be held at 1:30 p.m., May 25, 1999, at The Broward Center for the Performing Arts, Fort Lauderdale, Florida.