GRILL CONCEPTS INC
Form 10-K
May 23, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 26, 2004

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ________________.

Commission File No. 0-23226

GRILL CONCEPTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3319172
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Include Area Code: (310) 820-5559

Securities Registered Under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities Registered Under Section 12(g) of the Exchange Act:

Common Stock, $.00004 par value
(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price on the NASDAQ Small-Cap Market, as of the close of business June 30, 2004 was approximately $7,240,000.

Number of shares outstanding of the registrant's common stock, $.00004 par value, as of April 11, 2005: 5,650,146 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities

Exchange Act of 1934. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the section entitled "Certain Factors Affecting Future Operating Results" beginning on page 38 of this Form 10-K.

ITEM 1. BUSINESS

Except as expressly indicated or unless the context otherwise requires, as used herein, the "Company", "we", "our", or "us", means Grill Concepts, Inc., a Delaware corporation and its subsidiaries.

GENERAL

Grill Concepts, Inc. and its subsidiaries (the "Company") develop and operate casual dining restaurants under the name "Daily Grill" and fine dining restaurants under the name "The Grill on the Alley." In addition, we own and operate, or have management or licensing agreements with respect to, other restaurant properties.

The Company was incorporated under the laws of the State of Delaware in November of 1985. Since our acquisition of Grill Concepts, Inc., a California corporation ("GCI"), in March of 1995, we have focused principally on the expansion of the "Daily Grill" and "The Grill on the Alley" restaurant formats of GCI.

At December 26, 2004, we owned and operated fifteen restaurants and managed or licensed eight additional restaurants. Eleven Daily Grill restaurants and four The Grill on the Alley restaurants are owned and operated, six Daily Grill restaurants are managed and we license two Daily Grill restaurants. With the exception of three The Grill on the Alley restaurants, and two Daily Grill restaurants that are operated by partnerships, all of the Daily Grill and The Grill on the Alley restaurants, which were owned and operated at December 26, 2004, were solely owned and operated by us.

In 2001 we entered into a strategic alliance with Starwood Hotels and Resorts Worldwide, Inc. to jointly develop restaurant properties in Starwood hotels. Management believes that the opening of restaurants in hotel properties in strategic markets will help further establish brand name recognition for the opening of additional restaurants in those markets.

During 2004, we continued to pursue a strategic growth plan whereby the Company plans to open, and/or convert, and operate, and/or manage, Daily Grill and The Grill on the Alley restaurants in hotel properties, and non-hotel based restaurants, in strategic markets throughout the United States.

During 2004 we opened two restaurants consisting of (1) a 100% owned Daily Grill, not covered by the Starwood alliance, opened in January 2004 in the Hyatt Bethesda Hotel in Bethesda, Maryland and (2) a managed Daily Grill restaurant, not subject to the Starwood alliance, opened in November 2004 in the Hilton Hotel in Long Beach, California.

In March 2005, we opened a 100% owned Daily Grill in an office park in Santa Monica, California.

The following table sets forth unaudited restaurant count information for all restaurants.

	2004	2003

Number of restaurants:		
Daily Grill restaurants:		
Company Restaurants:		
Beginning of year	10	9
Restaurant opening	1	1
Restaurant closings	-	-
End of year	11	10
Managed or Licensed Restaurants:		
Beginning of year	7	6
Restaurant openings	1	1
End of year	8	7
Total Daily Grill restaurants:		
Beginning of year	17	15
Restaurant openings	2	2
Restaurants closed or sold	-	-
End of year	19	17
Grill restaurants:		
Company Restaurants:		
Beginning of year	4	4
Restaurant openings	-	-
End of year	4	4
Total Grill restaurants:		
Beginning of year	4	4
Restaurant openings	-	-
End of year	4	4
Other restaurants:		
Company Restaurants:		
Beginning of year	-	-
Restaurants closed or sold	-	-
End of year	-	-
Managed or Licensed Restaurants:		
Beginning of year	1	1
Restaurant closings	(1)	-
End of year	-	1
Total Other restaurants:		
Beginning of year	1	1
Restaurants closed or sold	(1)	-
End of year	-	1
Total restaurants:		
Beginning of year	22	20
Restaurant openings	2	2
Restaurants closed or sold	(1)	-

End of year	23	22
	====	====

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The following table sets forth unaudited per restaurant sales information, comparable restaurant sales information for restaurants open twelve months in both periods, and total sales information during 2004 and 2003 by restaurant concept for owned restaurants ("Company Restaurants"):

	2004	2003
Weighted average weekly sales per restaurant:		
Daily Grill restaurants:		
Company Restaurants	$ 57,757	$ 58,052
Grill restaurants:		
Company Restaurants	$ 77,545	$ 75,971
Change in comparable restaurant sales:		
Daily Grill restaurants		
Company Restaurants	4.6%	4.9%
Grill restaurants		
Company Restaurants	2.1%	8.1%
Total sales:		
Daily Grill	$33,809,000	$30,056,000
Grill	16,129,000	15,802,000
Total consolidated sales	$49,938,000	$45,858,000

We also earn management and license fee revenue based on a percentage of gross sales at restaurants under management and under licensing arrangements. Our management and license fee revenue typically is earned at a rate of five to eight percent of reported gross sales at these restaurants. The gross sales of managed and licensed restaurants are not included in our statements of operations. However, we consider the disclosure of these gross sales to be a key indicator of brand strength and important to understanding how changes in gross sales at the managed and licensed restaurants impact our revenue.

Sales at non-Company owned Grill Concepts-branded restaurants, categorized as, managed and licensed restaurants were as follows:

	2004	2003
Gross Sales		
Managed Daily Grills	$16,382,000	$13,256,000
Licensed Daily Grills	8,003,000	8,773,000
	$24,385,000	$22,029,000
Management and license fees	$1,282,000	$ 1,037,000
Percent of gross sales	5.3%	4.7%

RESTAURANT CONCEPTS

- DAILY GRILL RESTAURANTS

Background. At December 26, 2004, we, through our subsidiaries, GCI and

Grill Concepts Management, Inc., owned and operated, managed or licensed eleven Daily Grill restaurants in Southern California, four Daily Grill restaurants in the Washington, D.C./Virginia market, one Daily Grill restaurant in Skokie, Illinois, one Daily Grill restaurant in San Francisco, California, one Daily Grill restaurant in Houston, Texas and one Daily Grill in Portland, Oregon. Daily Grill restaurants are patterned after "The Grill on the Alley" in Beverly Hills. See "-- The Grill on the Alley." The Grill on the Alley was founded by Robert Spivak, Michael Weinstock and Richard Shapiro (the founders of GCI) in the early 1980's to offer classic American foods in the tradition of the classic American dinner house. After successfully operating The Grill on the Alley for a number of years, in 1988, Messrs. Spivak, Weinstock and Shapiro decided to expand on that theme by opening the first Daily Grill restaurant. Daily Grill, in an effort to offer the same qualities that made The Grill on the Alley successful, but at more value oriented prices, adopted six operating principles that characterize each Daily Grill restaurant: high quality food, excellent service, good value, consistency, appealing atmosphere and cleanliness. GCI emphasized those principles in an effort to create a loyal patron who will be a "regular" at its restaurants.

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Restaurant Sites. Current and planned Daily Grill restaurants can be characterized as either owned, in part or in whole, managed or licensed and as either hotel based or based in shopping malls and other commercial properties. At December 26, 2004, nineteen Daily Grill restaurants were in operation, eight of which were 100% owned by us and located in shopping malls and other commercial properties, one of which is 100% owned by us and located in a hotel, one of which was 50% owned and located in Universal CityWalk, California, one of which was 50.1% owned by us and located in an office park, six of which were managed by us and located in hotels and two of which were licensed restaurants.

Daily Grill locations which are opened, or are scheduled to open in the following months and years, are owned, managed or licensed as indicated and, where indicated, are located in the referenced hotels:

Location	Opened or Scheduled Opening	Ownership Interest, Licensed or Managed
Brentwood, California	September 1988	100%
Los Angeles, California	April 1990	100%
Newport Beach, California	April 1991	100%
Studio City, California	August 1993	100%
Palm Desert, California	January 1994	100%
Irvine, California	September 1996	100%
Los Angeles International Airport	January 1997	Licensed
Washington, D.C.	March 1997	100%
Tysons Corner, Virginia	October 1998	100%
Burbank, California (Hilton Hotel)	January 1999	Managed
Washington, D.C. (Georgetown Inn)	April 1999	Managed
Universal CityWalk, California	May 1999	50%
Skokie, Illinois (DoubleTree Hotel)	September 2000	Licensed
San Francisco, California (Handlery Union Square Hotel)	February 2002	Managed
Houston, Texas (Westin Galleria)	July 2002	Managed
El Segundo (South Bay), California	January 2003	50.1%
Portland, Oregon (Portland Westin)	September 2003	Managed
Bethesda, Maryland (Hyatt Hotel)	January 2004	100%
Long Beach, California (Hilton Hotel)	November 2004	Managed
Santa Monica, California	March 2005	100%

Downtown Los Angeles, California	2nd Quarter 2005	58.4%

Each 100% owned Daily Grill restaurant is located in leased facilities. Site selection is viewed as critical to the success of our restaurants and, accordingly, significant effort is exerted to assure that each site selected is appropriate. For non-hotel based restaurants, the site selection process focuses on local demographics and household income levels, as well as specific site characteristics such as visibility, accessibility, parking availability and traffic volume. Each site must have sufficient traffic such that management believes the site can support at least twelve strong meal periods a week (i.e., five lunches and seven dinners). Preferred Daily Grill sites, which characterize the existing 100% owned restaurants, are high-end, mid-size retail shopping malls in large residential areas with significant daytime office populations and some entertainment facilities. Historically, Daily Grill restaurants have been viewed as desirable tenants drawing traffic to the high profile malls where we locate and, therefore, have received significant tenant improvement allowances.

Hotel based Daily Grill restaurants may be newly constructed facilities or remodeled facilities on the premises of, or adjacent to, a hotel. Such facilities may be leased, operated pursuant to a partnership, a joint venture, a license arrangement, or a management agreement. As with non-hotel based restaurants, site selection is viewed as critical and, accordingly, significant effort is exerted to assure that each site selected is appropriate. The site selection process for hotel-based restaurants is the responsibility of Hotel Restaurant Properties, Inc. ("HRP"), which identifies suitable locations and negotiates leases, license or management agreements for those properties. See "-- Hotel Property Agreement" and " Certain Relationships and Related Transactions".

Existing non-hotel based Daily Grill restaurants range in size from 3,750 to 7,000 square feet of which approximately 30% is devoted to kitchen and service areas and seat between 100 and 250 persons. Our costs for existing non-hotel based restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have averaged $325 per foot per restaurant, less tenant improvement allowances.

Existing hotel based Daily Grill restaurants range in size from 5,000 to 8,000 square feet of which approximately 30% is devoted to kitchen and service areas and seat between 140 and 252 persons. Management anticipates that additional hotel based Daily Grill restaurants will require minimal capital investment on our part. However, each hotel restaurant arrangement will be negotiated separately and our capital investment may vary widely. Our portion of opening costs of existing hotel restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from $64,000 to $513,000 per restaurant.

Menu and Food Preparation. Each Daily Grill restaurant offers a similar extensive menu featuring over 100 items. The menu was designed to be reminiscent of the selection available at American-style grill restaurants of the 1930's and 1940's. Daily Grill offers such "signature" items as Cobb salad, Caesar salad, meatloaf with mashed potatoes, chicken pot pie, chicken burgers, hamburgers, rice pudding and fresh fruit cobbler. The emphasis at the Daily Grill is on freshly prepared American food served in generous portions.

Entrees range in price, subject to regional differences, from $8.95 for a hamburger to $23.95 for a char-broiled New York steak with all the trimmings. The average lunch check is $17.00 per person and the average dinner check is $26.00 per person, including beverage. Daily Grill restaurants also offer a children's menu with reduced portions of selected items at reduced prices. All of the existing Daily Grill restaurants offer a full range of beverages, including beer, wine and full bar service. During the year ended December 26, 2004, food and non-alcoholic beverage sales constituted approximately 85% of the total restaurant revenues for the Daily Grill restaurants, with alcoholic beverages accounting for the remaining 15%.

Proprietary recipes have been developed for substantially all of the items offered on the Daily Grill menu. The same recipes are used at each location and all chefs undergo extensive training in order to assure consistency and quality in the preparation of food. Virtually all of the menu items offered at the Daily Grill are cooked from scratch utilizing fresh food ingredients. Our management believes that our standards for ingredients and the preparation of menu items are among the most stringent in the industry.

Each Daily Grill restaurant has up to seven cooks on duty during regular lunch and dinner hours to provide prompt, specialized service. Restaurant staff members utilize a "point-of-sale" computer system to monitor the movement of food items to assure prompt and proper service of guests and for fiscal control purposes.

Atmosphere and Service. Most Daily Grill restaurants are open for lunch and dinner seven days a week and for Sunday brunch. Each Daily Grill location is designed to provide the sense and feel of comfort. In the tradition of an old-time American-style grill, the setting is very open with a mix of booths and tables. Several of the restaurants have counters for singles to feel comfortable. A number of the Daily Grill restaurants have private dining rooms for banquets or additional seating. Each restaurant emphasizes the quality and freshness of Daily Grill food dishes in addition to the cleanliness of operations. The dining area is well-lit and is characterized by a "high energy level". Reservations are accepted but not required.

Attention to detail and quality of decor is carried through to the professional service. All Daily Grill employees are trained to treat each person who visits the restaurant as a "guest" and not merely a customer. Each server is responsible for assuring that his or her guest is satisfied. In keeping with the traditions of the past, each Daily Grill employee is taught that at the Daily Grill "the guest is always right." The Daily Grill's policy is to accommodate all reasonable guest requests, ranging from substitutions of menu items to take-out orders.

In order to assure that our philosophy of guest service is adhered to, all Daily Grill employees from the kitchen staff to the serving staff undergo extensive training making each employee knowledgeable not only in our procedures and policies but in every aspect of Daily Grill operations. Our policy of promoting from within and providing access to senior management for all employees has produced a work force which works in a cooperative team approach and has resulted in an employee turnover rate of just over 66% per year for all employees, considerably below the industry average which management believes to be approximately 125%.

We believe that the familiarity and feeling of comfort, which accompanies dining in a familiar setting, with familiar food and quality service by familiar servers, produces satisfied customers who become "regulars." Management believes that at the Daily Grills which have been open for over a year repeat business is significantly greater than the industry average, with many guests becoming "regulars" in the tradition of the neighborhood restaurant.

THE GRILL ON THE ALLEY

Background. At December 26, 2004, we, through our subsidiary, GCI, owned and operated four The Grill on the Alley restaurants ("Grill"), one in Beverly Hills, California, one in San Jose, California, one in Chicago, Illinois and one in Hollywood, California, named The Grill on Hollywood.

The original Grill is a fine dining Beverly Hills restaurant, which opened in 1984 and served as the model for the Daily Grill restaurants. The Grill is set in the traditional style of the old-time grills of New York and San Francisco, with black-and-white marbled floors, polished wooden booths and deep green upholstery. In 1995, the Grill was inducted into Nation's Restaurant News' Fine Dining Hall of Fame and was described by W Magazine as "home of the quintessential Beverly Hills power lunch." The Grill offers five-star American cuisine and uncompromising service in a comfortable, dignified atmosphere.

In April of 1996, we acquired the original Grill from a partnership, the managing partner of which was controlled by our then principal shareholders and directors.

Restaurant Sites. At December 26, 2004, we operated four Grill restaurants, two of which are non-hotel based facilities and two of which are hotel-based facilities.

Grill locations opened in the following months and years, are owned or managed as indicated and, where indicated, in the referenced hotels:

Location	Opened	Ownership Interest or Managed
Beverly Hills, California	January 1984	100.00%
San Jose, California (Fairmont Hotel)	May 1998	50.05%
Chicago, Illinois (Westin Hotel)	June 2000	60.00%
Hollywood, California	November 2001	51.00%

Our Grill restaurants are located in leased facilities. As with the Daily Grill restaurants, site selection is viewed as critical to success and, accordingly, significant effort is exerted to assure that each site selected is appropriate. For non-hotel based Grill restaurants, the site selection process focuses on local demographics and household income levels, as well as specific site characteristics such as visibility, accessibility, parking availability and traffic volume. Because of the upscale nature of Grill restaurants, convenience for business patrons is considered a key site selection criterion.

Hotel based Grill restaurants may be newly constructed facilities or remodeled facilities on the premises of, or adjacent to, a hotel. Such facilities may be leased by us, operated pursuant to a partnership, a joint venture arrangement, or a management agreement. As with freestanding (non hotel based) restaurants, site selection is viewed as critical to success and, accordingly, significant effort is exerted to assure that each site selected is appropriate.

The Beverly Hills based Grill restaurant is approximately 4,300 square feet of which approximately 35% is devoted to kitchen and service areas and seats 120 persons. The Hollywood based Grill restaurant is approximately 5,600 square feet of which approximately 36% is devoted to kitchen and service areas and seats 200 persons.

The San Jose based Grill restaurant is approximately 8,000 square feet of which approximately 38% is devoted to kitchen and service areas and seats 280 persons. The Chicago based Grill restaurant is approximately 8,500 square feet, of which approximately 35% is devoted to kitchen and service areas, and seats more than 300 guests.

Because of the unique nature of Grill restaurants, the size, seating capacity and opening costs of future sites cannot be reasonably estimated. Management anticipates that additional hotel based Grill restaurants will require minimal capital investment on our part. However, each hotel restaurant arrangement will be negotiated separately and our capital investment may vary widely. Total project costs of the existing hotel based restaurants, including leasehold improvements, furniture, fixtures and equipment and pre-opening expenses, have ranged from $2.1 million to $3.1 million.

Menu and Food Preparation. Each Grill restaurant offers a similar extensive menu featuring over 100 items. The menu was designed to be reminiscent of the selection available at fine American-style grill restaurants of the 1930's and 1940's, featuring steaks and seafood and freshly prepared salads and vegetables served in generous portions.

Entrees range in price from $13.25 for a cheeseburger to $36.75 for a prime porterhouse steak. The average lunch check is $29.00 per person and the average dinner check is $59.00 per person, including beverage. All of the existing Grill restaurants offer a full range of beverages, including beer, wine and full bar service. During the year ended December 26, 2004, food and non-alcoholic beverage sales constituted approximately 71% of the total restaurant revenues for Grill restaurants, with alcoholic beverages accounting for the remaining 29%.

Proprietary recipes have been developed for substantially all of the items offered on the Grill menu. The same recipes are used at each location and all chefs undergo extensive training in order to assure consistency and quality in the preparation of food. Virtually all of the menu items offered at the Grill are cooked from scratch utilizing fresh food ingredients. Our management believes that our standards for ingredients and the preparation of menu items are among the most stringent in the industry.

Each Grill has up to 8 cooks on duty during regular lunch and dinner hours to provide prompt, specialized service. Restaurant staff members utilize a "point-of-sale" computer system to monitor the movement of food items to assure prompt and proper service of guests and for fiscal control purposes.

Atmosphere and Service. Each Grill restaurant is presently open for lunch six days a week and dinner seven days a week. Each Grill location is designed to provide the sense and feel of comfort and elegance. In the tradition of an old-time American-style grill, the setting is an open kitchen adjacent to tables and booths. The open kitchen setting emphasizes the quality and freshness of food dishes in addition to the cleanliness of operations. The dining area is well-lit and is characterized by a "high energy level". Reservations are accepted but are not required.

Attention to detail and quality of decor is carried through to the professional service. All Grill employees are trained to treat each person who visits the restaurant as a "guest" and not merely a customer. Each server is responsible for assuring that his or her guest is satisfied. In keeping with the traditions of the past, each Grill employee is taught that "the guest is always right." The Grill's policy is to accommodate all reasonable guest requests, ranging from substitutions of menu items to take-out orders.

In order to assure that our philosophy of guest service is adhered to, all Grill employees from the kitchen staff to the serving staff undergo extensive training making each employee knowledgeable not only in our procedures and policies but in every aspect of Grill operations. Our policy of promoting from within and providing access to senior management for all employees has produced a work force which works in a cooperative team approach.

We believe that the familiarity and feeling of comfort which accompanies dining in a familiar setting, with familiar food and quality service by familiar servers, produces satisfied customers who become "regulars." Management believes that at the original Grill repeat business is significantly greater than the industry average, with many guests becoming "regulars" in the tradition of the neighborhood restaurant.

SALE OF PIZZERIA UNO RESTAURANTS

In April 2002, with the sale of our Cherry Hill, New Jersey Pizzeria Uno Restaurant for $325,000, we completed our planned divestiture of our interests in Pizzeria Uno Restaurants. Previously, we operated as many as three franchised Pizzeria Uno Restaurants. During 1998, we determined that the continued ownership and operation of the Pizza Restaurants did not fit with our strategic growth plan. Based on that determination, in July 2000, we closed our Pizzeria Uno restaurant in Media, Pennsylvania and, in July 2001, we sold our Pizzeria Uno restaurant in South Plainfield, New Jersey for $700,000.

OTHER RESTAURANT ACTIVITIES

In addition to owning and operating Daily Grills and The Grills, we, at December 26, 2004, also provided management services for Daily Grill restaurants at the Burbank Hilton, the Georgetown Inn, the Handlery Hotel, the Westin Galleria, the Portland Westin and the Long Beach Hilton and had granted licenses to operate a Daily Grill at LAX and a Daily Grill at the DoubleTree Hotel in Skokie, Illinois. Under the terms of our management agreements, we are responsible for all aspects of the restaurant's operation for which we earn a fee, however, we have no ownership in the restaurant. We are liable for all debts and obligations that we incur on behalf of the managed outlets including payroll and related costs of the restaurant staff who are our employees. All such costs are included as expenses in our statements of operations and we also record revenue for those costs that are reimbursed by the restaurants.

HOTEL PROPERTY AGREEMENT

In order to facilitate our efforts to open restaurants on a large scale basis in hotel properties, in August of 1998, we entered into the Hotel Property Agreement with Hotel Restaurant Properties, Inc. ("HRP") pursuant to which HRP has agreed to assist us in locating suitable hotel locations for the opening of our restaurants. HRP is considered a related party as one of its owners is a family member of a director and preferred stock holder. In May 11, 1999 the HRP agreement was amended under the same terms and conditions except that it is now 100% owned by the family member. HRP is responsible for identifying suitable hotel locations in which a Grill or Daily Grill can be operated ("Managed Outlets") and negotiating and entering into leases or management agreements for those properties. We will, in turn, enter into management agreements with HRP or the hotel owners, as appropriate. We may advance certain pre-opening costs and certain required advances ("Manager Loans") and will manage and supervise the day-to-day operations of each Managed Outlet. From the gross management fee, we are entitled to receive a base overhead fee equal to $1,667 per month per Managed Outlet. The remaining fee income, less any expenses and after repayments required on Manager Loans from each Managed Outlet, are allocated 75% to us and 25% to HRP.

In July 2001, in conjunction with an investment in the Company by Starwood

Hotels, the Hotel Property Agreement was amended to limit, for so long as we are subject to the exclusivity provisions of a Property Development Agreement with Starwood, the amounts payable to HRP to $400,000 annually plus 12.5% of the amounts otherwise payable to HRP with respect to the Burbank, Georgetown and San Jose Hilton restaurants.

The operating agreement between HRP and GCI contains a clause whereby, HRP has the right to cause GCI to purchase HRP (the put option) at any time there is a change in control or after May 2004 subject to certain conditions and at the same time, GCI has the right to purchase HRP (the call option) after May 2004 subject to certain conditions. The purchase is governed by the following terms:

The Agreed Purchase Price ("APP") (principally paid in stock) under the put or call option will be 25% multiplied by 10 (Multiple) times the Operating Income of HRP (Gross Receipts for the prior twelve months less Operating Expenses which are averaged over a five year period), with certain allowed exclusions from Operating Income minus the principal balance of any outstanding loans (with certain allowed exclusions) to HRP. Under the Put Option the Multiple may change if 87.5% multiplied by the Closing Price of the Company's Common Stock divided by EBITDA per share is less than 10. If the Company sells assets or stock to certain third parties introduced to GCI by HRP which causes a Change in Control, then purchase price will be the greater of: (A) $3,000,000 or (B) the APP not to exceed $4,500,000.

RESTAURANT MANAGEMENT SERVICES

Restaurant management services include overseeing the design, development, construction, equipping, furnishing and operation of the restaurant. Once the restaurant is open to the public, the manager is responsible for rendering and performing all services in connection with the operation of the restaurant. Those services include employing, training and supervising personnel, purchasing and maintaining adequate inventory, etc.

In May 1998, pursuant to the Hotel Property Agreement with HRP (see below), we began providing management services for a restaurant in the Burbank Hilton Hotel. The restaurant was converted from its former concept to a Daily Grill in January 1999. Pursuant to our management agreement with the hotel, we invested $500,000 for conversion of the restaurant to a Daily Grill and are responsible for management and supervision of the restaurant. We, with HRP, are entitled to a management fee equal to 8.5% of the gross receipts of the restaurant. Additionally, we, with HRP, are entitled to 30% of the annual profits of the restaurant in excess of a base amount increased annually by the CPI.

In March 1999, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Georgetown Inn. Pursuant to our management agreement with the hotel, we were not required to invest in the restaurant but we are responsible for management and supervision of the restaurant. We, with HRP, are entitled to a management fee equal to 8% of the gross receipts of the restaurant. Additionally, we, with HRP, are entitled to 30% of the annual profits of the restaurant.

In February 2002, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Handlery Hotel in San Francisco. Pursuant to our management agreement with the hotel, we contributed $331,000 to the restaurant which was expensed through reimbursed costs in 2002 and 2003. We, with HRP, are entitled to a management fee equal to 6% of gross receipts of the restaurant. Additionally, we, with HRP, are entitled to 25% of the net income of the restaurant.

In July 2002, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Westin Galleria in Houston, Texas. Pursuant to our management agreement with the hotel, we advanced the restaurant $64,000 which was repaid out of net income available for distribution in May 2003. We, with HRP, are entitled to a management fee equal to 5% of gross receipts of the restaurant. Additionally, we, with HRP, are entitled to 35% of the annual profits of the restaurant after working capital requirements are satisfied.

In September 2003, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Portland Westin in Portland, Oregon. We were not required to invest in the restaurant. We, with HRP, are entitled to a management fee of 5% of gross receipts of the restaurant and 35% of annual profit after working capital requirements are satisfied. Due to the slow start at this restaurant we have not received any of the management fees earned and therefore have reserved for them 100%.

In November 2004, pursuant to the Hotel Property Agreement, we began providing management services for a Daily Grill restaurant at the Long Beach Hilton in Long Beach, California. We were not required to invest in the restaurant. We, with HRP, are entitled to a management fee of 6% of gross receipts of the restaurant guaranteed by the owner to be no less than $150,000 per year subject to certain cancellation rights after two years. We, with HRP, are also entitled to an incentive fee of 35% of the annual profits of the restaurant.

RESTAURANT LICENSING

Under restaurant licensing agreements, we earn a licensing fee in exchange for use of our brand, as well as, the proprietary menu.

LAX Daily Grill. Since January 1997, CA One Services, Inc. has operated a Daily Grill restaurant (the "LAX Daily Grill") in the International Terminal of the Los Angeles International Airport. The LAX Daily Grill was originally operated as a joint venture between us and CA One Services, Inc., and since April 1998 has been operated by CA One Services under a license agreement.

Pursuant to the terms of the License Agreement, we are entitled to receive license fees in an amount equal to 2.5% of the first $5 million of annual revenues from the restaurant and 4% of annual revenues in excess of $5 million.

San Jose City Bar and Grill. In conjunction with our entry into the hotel restaurant market and pursuant to the Hotel Property Agreement, in May 1998, we began providing management services at the City Bar & Grill at the San Jose Hilton. In September 2002 the agreement relating to our management of the City Bar and Grill was converted to a license agreement under which we, with HRP, were entitled to receive license fees equal to the greater of $2,500 per month or 1.5% on sales. In 2004 the agreement was terminated.

Skokie Daily Grill. In September 2000, pursuant to the Hotel Property Agreement, a licensed Daily Grill restaurant was opened in the DoubleTree Hotel in Skokie, Illinois. Under the terms of the license, the hotel operator paid all costs to build and open the restaurant and we, with HRP, are entitled to a license fee equal to the greater of $65,000 increased by 4% per year or 2% of sales per year.

BUSINESS EXPANSION

Our expansion plans focus on the addition of Daily Grill restaurants with selected expansion of the Grill restaurant concept also planned.

Management continually reviews possible expansion into new markets and within existing markets. Such reviews entail careful analysis of potential locations to assure that the demographic make-up and general setting of new restaurants is consistent with the patterns which have proven successful at the existing Daily Grills and Grills. While the general appearance and operations of future Daily Grills and Grill restaurants are expected to conform generally to those of existing facilities, we intend to monitor the results of any modifications to our existing restaurants and to incorporate any successful modifications into future restaurants. All future restaurants are expected to feature full bar service.

Our future expansion efforts are expected to concentrate on (1) expansion into new markets through a combination of Company owned restaurants and the establishment of hotel based restaurants pursuant to the Hotel Property Agreement, and (2) expansion within existing markets through the opening of non-hotel based restaurants. With the assistance of HRP, we expect to establish name recognition and market presence through the opening of Daily Grill and Grill restaurants in fine hotel properties in strategic markets throughout the United States. Upon establishing name recognition and a market presence in a market, we intend to construct and operate clusters of restaurants within those markets. Management intends to limit the construction and operation of Grill restaurants to one restaurant per market while constructing multiple Daily Grill restaurants within each market. The exact number of Daily Grill restaurants to be constructed within any market will vary depending upon population, demographics and other factors.

At December 26, 2004, we operated non-hotel based Daily Grill and Grill restaurants in Southern California, principally the greater-Los Angeles market, and metropolitan Washington, D.C. In March 2005, we opened a non-hotel based Daily Grill in Santa Monica, California and we plan to open a non-hotel based Daily Grill in downtown Los Angles, California in the second quarter of 2005. Management is presently evaluating the opening of additional non-hotel based Daily Grill and Grill restaurants in existing markets and in other major metropolitan areas. Existing markets will be evaluated for expansion in order to establish market presence and economies of scale. As of March 2005, negotiations are under way for several sites, however no definitive site had been identified for future construction of restaurants. Management anticipates that the cost to open additional Daily Grill and Grill restaurants will average $325 per square foot per restaurant, less tenant improvement allowances, with each restaurant expected to be approximately 6,000 to 7,000 square feet in size. Actual costs may vary significantly depending upon the tenant improvements, market conditions, rental rates, labor costs and other economic factors prevailing in each market in which we pursue expansion.

At December 26, 2004, hotel based Daily Grill restaurants were operated under management or licensing agreements in Southern California, Washington, D.C., Skokie, Illinois, San Francisco, California, Houston, Texas, and Portland, Oregon and hotel based Grill restaurants were operated in San Jose, California and Chicago, Illinois. We, and HRP, are presently evaluating the opening of additional hotel based Daily Grill restaurants in existing markets and in other major metropolitan areas. Each hotel restaurant arrangement will be negotiated separately and the size of the restaurants, ownership and operating arrangements and capital investment on our part may vary widely. We opened a hotel-based company owned Daily Grill restaurant in Bethesda, Maryland in January 2004 and a hotel-based managed restaurant in Long Beach, California in November 2004.

STARWOOD DEVELOPMENT AGREEMENT

On July 27, 2001, in conjunction with the purchase by Starwood Hotels and Resorts of 666,667 shares of our common stock and 666,667 $2.00 warrants for

$1,000,000, we and Starwood entered into a Development Agreement under which we and Starwood agreed to jointly develop our restaurant properties in Starwood hotels.

Under the Starwood Development Agreement, either we, or Starwood, may propose to develop a Daily Grill, Grill or City Bar and Grill restaurant in a Starwood hotel property. If the parties agree in principal to the development of a restaurant, the parties will attempt to negotiate either a management agreement or a license agreement with respect to the operation of the restaurant.

So long as Starwood continues to meet certain development thresholds set forth in the Development Agreement, we are prohibited from developing, managing, operating or licensing our restaurants in any hotel owned, managed or franchised by a person or entity, other than Starwood, with more than 50 locations operated under a single brand. Existing hotel based restaurants are excluded from the exclusive right of Starwood. The development thresholds required to be satisfied to maintain Starwood's exclusive development rights require, generally, (1) the signing of an average of one management agreement or license agreement with respect to Daily Grill restaurants annually over the life of the Development Agreement, (2) the signing of one management agreement or license agreement in any two year period with respect to Grill restaurants, and (3) the signing of an aggregate average of three management agreements or license agreements with respect to all of our restaurants annually over the life of the Development Agreement. Satisfaction of the thresholds set forth in the Development Agreement are determined on each anniversary of the Development Agreement. With respect to satisfaction of the specific thresholds applying to Daily Grill restaurants and Grill restaurants, the failure to satisfy the development thresholds with respect to those individual brands will terminate the exclusivity provisions relative to such brand but will not affect the exclusivity rights as to the other brand or in general.

Under the Development Agreement, we are obligated to issue to Starwood warrants to acquire a number of shares of our common stock equal to four percent of the outstanding shares upon the attainment of certain development milestones. Such warrants are issuable upon execution of management agreements and/or license agreements relating to the development and operation, and the commencement of operation, of an aggregate of five, ten, fifteen and twenty of our branded restaurants. If the market price of our common stock on the date the warrants are to be issued is greater than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the greater of (1) 75% of the market price as of the date such warrant becomes issuable, or (2) the market price on the date of the Development Agreement. If the market price of our common stock on the date the warrants are to be issued is less than the market price on the date of the Development Agreement, the warrants will be exercisable at a price equal to the market price as of the date such warrants become issuable. The warrants will be exercisable for a period of five years.

In addition to the warrants described above, if and when the aggregate number of restaurants operated under the Development Agreement exceeds 35% of the total Daily Grill, Grill and City Grill-branded restaurants, we will be obligated to issue to Starwood a warrant to purchase a number of shares of our common stock equal to 0.75% of the outstanding shares on that date exercisable for a period of five years at a price equal to the market price at that date. On each anniversary of that date on which the restaurants operated under the Development Agreement continues to exceed the 35% threshold, for so long as the Development Agreement remains effective, we shall issue to Starwood additional warrants to purchase 0.75% of the outstanding shares on that date at an exercise price equal to the market price on that date.

Following the events of September 11, 2001, Starwood substantially curtailed new development activities and only two management agreements have, as yet, been entered into under the Development Agreement. Certain portions of the exclusivity agreement have terminated due to the lack of performance on Starwood's part.

RESTAURANT MANAGEMENT

We strive to maintain quality and consistency in our restaurants through the careful hiring, training and supervision of personnel and the adherence to standards relating to food and beverage preparation, maintenance of facilities and conduct of personnel. We believe that our concept and high sales volume enable us to attract quality, experienced restaurant management and hourly personnel. We have experienced a relatively low turnover at every level at its Daily Grill and Grill restaurants. See "-- Daily Grill Restaurants" above.

Each Daily Grill and Grill restaurant, including both free standing and hotel-based restaurants, is managed by one general manager and up to four managers or assistant managers. Each restaurant also has one head chef and one or two sous chefs, depending on volume. On average, general managers have approximately seven years experience in the restaurant industry and three years with us. The general manager has primary responsibility for the operation of the restaurant and reports directly to an Area Director who in turn reports to our Vice President of Operations. In addition to ensuring that food is prepared properly, the head chef is responsible for product quality, food costs and kitchen labor costs. Each restaurant has approximately 77 employees. Restaurant operations are standardized, and a comprehensive management manual exists to ensure operational quality and consistency.

We maintain financial and accounting controls for each Daily Grill and Grill restaurant through the use of a "point-of-sale" computer system integrated with centralized accounting and management information systems. Inventory, expenses, labor costs, and cash are carefully monitored with appropriate control systems. With the current systems, revenue and cost reports, including food and labor costs, are produced every night reflecting that day's business. The restaurant general manager, as well as corporate management, receives these daily reports to ensure that problems can be identified and resolved in a timely manner. All employees receive appropriate training relating to cost, revenue and cash control. Financial management and accounting policies and procedures are developed and maintained by our Corporate Controller, Director of Information Systems, and Chief Financial Officer.

All managers participate in a comprehensive six-week training program during which they are prepared for overall management of the dining room. The program includes topics such as food quality and preparation, customer service, food and beverage service, safety policies and employee relations. In addition, we have developed training courses for assistant managers and chefs. We typically have a number of employees involved in management training, so as to provide qualified management personnel for new restaurants. Our senior management meets bi-weekly with each restaurant management team to discuss business issues, new ideas and revisit the manager's manual. Overall performance at each location is also monitored with shoppers' reports, guest comment cards and third party quality control reviews.

Servers at each restaurant participate in approximately ten days of training during which the employee works under close supervision, experiencing all aspects of the operations both in the kitchen and in the dining room. The extensive training is designed to improve quality and customer satisfaction. Experienced servers are given responsibility for training new employees and are rewarded with additional hourly pay plus other incentives. Management believes that such practice fosters a cooperative team approach which contributes to a lower turnover rate among employees. Representatives of corporate management regularly visit the restaurants to ensure that our philosophy, strategy and standards of quality are being adhered to in all aspects of restaurant operations.

PURCHASING

We have developed proprietary recipes for substantially all the items served at our Daily Grill and Grill restaurants. In order to assure quality and consistency at each of the Daily Grill and Grill restaurants, ingredients approved for the recipes are ordered on a unit basis by each restaurant's head chef from a supplier designated by our Vice President-Purchasing. Because of the emphasis on cooking from scratch, virtually all food items are purchased "fresh" rather than frozen or pre-cooked, with the exception being bread, which is ordered from a central supplier which prepares the bread according to a proprietary recipe and delivers daily to assure freshness. In order to reduce food preparation time and labor costs while maintaining consistency, we work with outside suppliers to produce a limited number of selected proprietary items such as salad dressings, soups and seasoning combinations.

We utilize our point-of-sale computer system to monitor inventory levels and sales, then order food ingredients daily based on such levels. We employ contract purchasing in order to lock in food prices and reduce short-term exposure to price increases. Our Vice President-Purchasing establishes general purchasing policies and is responsible for controlling the price and quality of all ingredients. The Senior Vice President - Culinary in conjunction with our team of chefs, constantly monitors the quality, freshness and cost of all food ingredients. All essential food and beverage products are available, or upon short notice can be made available, from alternative qualified suppliers.

ADVERTISING AND MARKETING

Our marketing philosophy is to provide our guests with an exceptional and enjoyable dining experience that creates loyalty and frequent visits. Our marketing and promotional efforts have been fueled historically by our quality reputation, word of mouth, and positive local reviews. The Grill on the Alley and The Daily Grill have been featured in articles and reviews in numerous local as well as national publications. We supplement our reputation with a program of marketing and public relations activities designed to keep the Daily Grill and Grill name before the public. Such activities include media advertising, direct mail promotions, a birthday club, as well as holiday and special interest events. We also support and participate in local charity campaigns. These activities are managed by a full time Director of Marketing. A toll free phone-in guest survey is utilized to gather guest feelings on their dining experience. During 2004, expenditures for advertising and promotion were approximately 0.9% of total revenues.

COMPETITION

The Daily Grill restaurants compete within the mid-price, full-service casual dining segment. Daily Grill competitors include national and regional chains, such as Cheesecake Factory and Houston's, as well as local owner-operated restaurants. Grill restaurants compete within the fine dining segment. Grill competitors include a limited number of national fine dining chains as well as selected local owner-operated fine dining establishments. Competition for our hotel-based restaurants is primarily limited to restaurants within the immediate proximity of the hotels.

The restaurant business is highly competitive with respect to price, service, restaurant location and food quality and is affected by changes in consumer tastes, economic conditions and population and traffic patterns. We believe we compete favorably with respect to these factors. We believe that our ability to compete effectively will continue to depend in large measure on our ability to offer a diverse selection of high quality, fresh food products with an attractive price/value relationship served in a friendly atmosphere.

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EMPLOYEES

We, and our subsidiaries, employ approximately 1,408 people, 35 of whom are corporate personnel and 124 of whom are restaurant managers, assistant managers and chefs. The remaining employees are restaurant personnel. Of our employees, approximately 40% are full-time employees, with the remainder being part-time employees.

Management believes that its employee relations are good at the present time. An anonymous employee survey is taken each year and the results are disseminated to keep corporate and restaurant management aware of the level of employee satisfaction.

With the exception of the Chicago Grill on the Alley, none of our employees are represented by labor unions or are subject to collective bargaining or other similar agreements. The current union contract expires in August 2005. Management believes that its employee relations are good at the present time.

TRADEMARKS AND SERVICE MARKS

We regard our trademarks and service marks as having significant value and as being important to our marketing efforts. We have registered our "Daily Grill" mark and logo and our "Satisfaction Served Daily," "Think Daily," "Daily Grind" and other marks with the United States Patent and Trademark Office as service marks for restaurant service, and have secured California state registration of such marks. Our policy is to pursue registration of our marks and to oppose strenuously any infringement.

GOVERNMENT REGULATION

We are subject to various federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, health and safety, and fire agencies in the state or municipality in which the restaurants are located. Difficulties or failures in obtaining or renewing the required licenses or approvals could result in temporary or permanent closure of our restaurants.

Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities for a license or permit to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the daily operation of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

We may be subject in certain states to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment which served alcoholic beverages to such person. In addition to potential liability under "dram-shop" statutes, a number of states recognize a common-law negligence action against persons or establishments which serve alcoholic beverages where injuries are sustained by a third party as a result of the conduct of an intoxicated person. We presently carry liquor liability coverage as part of our existing comprehensive general liability insurance.

Various federal and state labor laws govern our relationship with our employees, including such matters as minimum wage requirements, overtime and other working conditions. Significant additional government-imposed increases in minimum wages, paid leaves of absence and mandated health benefits, or increased tax reporting requirements for employees who receive gratuities, could be detrimental to the economic viability of our restaurants. Management is not aware of any environmental regulations that have had a material effect on us to date.

ITEM 2. PROPERTIES

With the exception of certain properties that may be operated pursuant to management arrangements or partnership or joint venture arrangements, all of our restaurants are located in space leased from unaffiliated third parties. The leases have initial terms ranging from 10 to 25 years, with varying renewal options on all but one of such leases. Most of the leases provide for a base rent plus payment of real estate taxes, insurance and other expenses, plus additional percentage rents based on revenues of the restaurant. See "Business."

The Grill restaurant in San Jose is located in space leased from a hotel management company that may be deemed to be controlled by one of our directors, Lewis Wolff.

Our executive offices are located in 5,000 square feet of office space located in Los Angeles, California. Such space is leased from an unaffiliated party pursuant to a lease expiring in May 2007.

Management believes that our existing restaurant and executive office space is adequate to support current operations. We intend to lease, from time to time, such additional office space and restaurant sites as management deems necessary to support our future growth plans.

ITEM 3. LEGAL PROCEEDINGS

Restaurants such as those we operate are subject to litigation in the ordinary course of business, most of the related costs we expect to be covered by our general liability insurance. However, punitive damages awards are not covered by general liability insurance. Punitive damages are routinely claimed in litigation actions against us. There can be no assurance that punitive damages will not be given with respect to any actions that may arise in the future.

In June 2004, one of our former hourly restaurant employees filed a class action lawsuit against us in the Superior Court of California of Orange County. We requested and were granted a motion to move the suit from Orange County to Los Angeles County. The lawsuit was then filed in the Superior Court of California of Los Angeles County in December 2004. The plaintiff has alleged violations of California labor laws with respect to providing meal and rest breaks. The lawsuit sought unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. We believe that all of our employees were provided with the opportunity to take all required meal and rest breaks. The Company filed a motion to dismiss several of the claims, which is scheduled to be argued in court in May 2005. Concurrently, discovery is continuing in these matters and we intend to vigorously defend our position in all of these matters although the outcome cannot be ascertained at this time.

In November 2004, a sexual harassment case was filed against the Company in Superior Court of California of Los Angeles. We filed a motion to dismiss and the case was dismissed with the plaintiff having the right to re-file. The plaintiff re-filed the case. We filed a second motion to dismiss in March 2005 as we believe the suit is unfounded.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders through the solicitation of proxies, or otherwise, during the fourth quarter of our fiscal year ended December 26, 2004.

PART II

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

Our common stock is currently traded in the over-the-counter market and is quoted on the Nasdaq Small-Cap Market ("Nasdaq") under the symbol "GRIL". The following table sets forth the high and low bid price per share for our common stock for each quarterly period during the last two fiscal years:

		High	Low
2003 -	First Quarter	1.620	0.830
	Second Quarter	2.850	1.050
	Third Quarter	2.950	2.010
	Fourth Quarter	2.900	1.940
2004 -	First Quarter	3.650	2.460
	Second Quarter	3.440	1.800
	Third Quarter	2.960	1.550
	Fourth Quarter	2.530	1.450

The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions.

At April 11, 2005, the closing bid price of our Common Stock was $2.75.

As of April 11, 2005, there were approximately 1,200 holders of record of our Common Stock.

We have never declared or paid any cash dividend on our Common Stock and do not expect to declare or pay any such dividend in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected historical consolidated financial data derived from our consolidated financial statements. The financial results for fiscal years 2003, 2002, 2001 and 2000 have been restated. See footnote 1 to the consolidated financial statements for the impact of the restatement on the 2003 and 2002 results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the impact of the restatement on 2001 and 2000. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere herein.

	Fiscal Year Ended December			
	2004	2003	2002	2001
		Restated	Restated	Restated
		(In thousands except per share		
Statement of Operations Data:				
Sales	$ 49,938	$ 45,858	$ 41,826	$ 45,022
Reimbursed managed outlet operating expenses	12,439	9,728	7,270	3,594
Management and license fees	1,282	1,037	901	771
Total revenues	63,659	56,623	49,997	49,387
Operating expenses:				
Cost of sales	14,465	13,274	11,927	12,915
Restaurant operating expenses	30,552	28,050	25,649	27,100
Managed outlet operating expenses	12,439	9,772	7,557	3,594
General and administration	4,472	3,696	3,426	3,381
Depreciation and amortization	2,005	1,816	1,868	1,838
Pre-opening costs	167	182	69	199
Gain on sale of assets	(2)	(11)	(71)	(225
Unusual charges	-	-	-	-
Total	64,098	56,779	50,425	48,802
Income (loss) from operations	(439)	(156)	(428)	585
Interest expense, net	(272)	(331)	(364)	(564
Income (loss) before taxes and minority interest	(711)	(487)	(792)	21
Provision for income taxes	(65)	(89)	(37)	(65
Minority interest	814	704	422	110
Net income (loss)	38	128	(407)	66
Preferred dividends accrued	(50)	(50)	(50)	(50)
Net income (loss) applicable to common stock	$ (12)	$ 78	$ (457)	$ 16
Net income (loss) per share applicable to common stock:				
Basic	$ 0.00	$ 0.01	$ (0.08)	$ 0.0
Diluted	$ 0.00	$ 0.01	$ (0.08)	$ 0.0

Weighted average shares outstanding				
Basic	5,608,541	5,537,071	5,537,071	4,776,
Diluted	5,608,541	5,640,842	5,537,071	4,776,

	Fiscal Year Ended December			
	2004	2003	2002	2001
		Restated	Restated	Restated
	(In thousands except per share			
Balance Sheet Data:				
Working capital surplus (deficit)	$ 209	$ 378	$ (1,045)	$ (628)
Total assets	19,749	17,047	16,579	17,321
Long-term debt, less current portion	977	1,254	1,743	2,371
Stockholders' equity	3,830	3,744	3,616	4,023

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

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the section entitled "Certain Factors Affecting Future Operating Results" beginning on page 38 of this Form 10-K.

GENERAL

Grill Concepts develops, owns and operates casual dining restaurants under the name "Daily Grill" and fine dining restaurants under the name "The Grill on the Alley." Additionally, we manage or license other restaurant properties.

Our revenues are derived from sales at company-owned restaurants, management and license fees from restaurants managed or licensed by us and reimbursements of operating expenses of managed outlets.

During the fiscal year ended December 26, 2004, we owned and operated, for the full fiscal year, thirteen restaurants (ten Daily Grill and four Grill restaurants), including two Daily Grill and three Grill restaurants owned in partnership with third parties. During fiscal 2004, we also operated one fully owned Daily Grill that opened in January.

Also during fiscal 2004, we managed or licensed, for the full fiscal year, six Daily Grill restaurants. During fiscal 2004, we commenced management of one Daily Grill that opened in November and terminated our license relating to the San Jose City Bar and Grill.

During the fiscal year ended December 28, 2003, we owned and operated, for the full fiscal year, thirteen restaurants (nine Daily Grill and four Grill restaurants), including one Daily Grill and three Grill restaurants owned in partnership. During 2003, we also operated one Daily Grill that opened in

January and is owned in partnership.

Also during fiscal 2003, we managed or licensed, for the full fiscal year, seven restaurants (six Daily Grill and one City Bar and Grill restaurant). During fiscal 2003, we commenced management of one Daily Grill that opened in September.

Sales revenues are derived from sales of food, beer, wine, liquor and non-alcoholic beverages. Approximately 73% of combined 2004 sales were food and 27% were beverage. Sales revenues from restaurant operations are primarily influenced by the number of restaurants in operation at any time, the timing of the opening of such restaurants and the sales volumes of each restaurant.

Management and license fee revenues are derived from individually negotiated arrangements by which we manage restaurants on behalf of third parties or license to third parties the right to operate Daily Grill restaurants. Management and license fees are primarily influenced by the number of management and license arrangements in place, the negotiated management or license fee and the revenues of the managed or licensed restaurants. Management and license fees typically range from five to eight percent of gross sales of the subject restaurants.

Revenues derived from reimbursement of operating expenses of managed outlets relate to contractual undertakings relating to managed restaurants wherein we assume responsibility for some or all operating expenses of managed restaurants and the restaurant owner undertakes to reimburse all of those expenses. Pursuant to the guidance of EITF 01-14 and EITF 99-19, we are considered to be the primary obligor with respect to the reimbursed expenses and, as such, report the reimbursed expenses as revenues with the expenses being reported as "Reimbursed Costs" under operating expenses.

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Expenses are comprised primarily of cost of food and beverages, restaurant operating expenses, including payroll, rent and occupancy costs and reimbursed costs. Our largest expenses are payroll and the cost of food and beverages, which is primarily a function of the price of the various ingredients utilized in preparing the menu items offered at our restaurants. Restaurant operating expenses consist primarily of wages paid to part-time and full-time employees, rent, utilities, insurance and taxes. Reimbursed costs are costs incurred on behalf of managed restaurants that are reimbursable by the managed restaurant. We typically analyze these costs as a percentage of restaurant sales, not total revenues.

In addition to restaurant operating expenses, we pay certain general and administrative expenses that relate primarily to operation of our corporate offices. Corporate office general and administrative expenses consist primarily of salaries of officers, management personnel and clerical personnel, rent, legal and accounting costs, travel, insurance and office expenses.

RESTATEMENT OF FINANCIAL STATEMENTS

The Company began a review of its lease accounting policies following announcements in February 2005 that the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants regarding lease accounting issues. As a result of our review, the Company has revised its accounting for leases in 2004 and restated its historical financial statements as of December 28, 2003 and for each of the two years in the period then ended, as well as the historical financial data as of and for the fiscal years 2001 and 2000 and the 2003 and 2004 quarterly financial data, to correct for these errors in its lease accounting. The Company has also corrected the accounting for complimentary meals and promotional activities as part of this restatement process.

Historically, the Company recognized straight-line rents and amortized lessor lease incentives using the initial non-cancelable term of the lease commencing on the date rent payments began. Under generally accepted accounting principles, the Company should have recognized rent expense (net of the related lessor lease incentive amortization) on a straight-line basis over the term of the lease as defined in SFAS No. 13 which begins on the later of when the Company had access to the site or the lease is executed. The impact of correctly calculating rent expense and lessor lease incentive amortization was to increase restaurant operating expenses and decrease general and administrative expenses by $117,000 and $1,000, respectively, for fiscal year 2003, to decrease restaurant operating expenses and general and administrative expenses by $61,000 and $4,000, respectively, for fiscal year 2002, to decrease restaurant operating expenses and general and administrative expenses by $135,000 and $18,000, respectively, for fiscal year 2001, and to increase restaurant operating expenses and decrease general and administrative expenses by $32,000 and $80,000, respectively, for fiscal year 2000. The Company also increased other current assets by $1,116,000 and $228,000 in fiscal years 2003 and 2002, respectively, to recognize a receivable for tenant improvement allowances to be received, increased fixed assets by $272,000 in fiscal year 2002 to recognize additional construction in progress and increased long-term liabilities by $2,862,000, $2,129,000, $1,694,000 and $1,849,000 for deferred rent and lease incentives, to properly reflect the correct lease accounting in each of the fiscal years 2003, 2002, 2001 and 2000, respectively.

In closing the 2004 books and records, the Company also reviewed the estimated useful lives that it was using to amortize its leasehold improvements. In the case of six restaurants, it was found that the incorrect lives had been used. The Company has revised the amortization period to reflect the shorter of their estimated useful lives or the initial lease term. The impact of the change is to increase depreciation and amortization expense by $70,000, $69,000, $76,000 and $15,000 in fiscal years 2003, 2002, 2001, 2000, respectively.

A portion of the above adjustments was recorded on the books of the LLC's in which we have a majority ownership or we consolidate under FIN 46R. As discussed in the footnotes to the consolidated financial statements the Company allocates results to the minority interests based on the underlying economics of the investment. The impact of the above adjustments increased/(decreased) the amount of loss allocated to the minority interests by $256,000, $6,000 and ($16,000) in fiscal years 2003, 2002 and 2001, respectively, and increased the amount of income allocated to the minority interests by $22,000 in fiscal year 2000.

During fourth quarter of 2004, the Company eliminated amounts that had previously been recorded as restaurant sales revenue arising from complimentary meals and promotional activities. The Company's previous method of recording these activities as restaurant sales revenue at the full retail price of each item with a corresponding increase in operating expense is not in accordance with generally accepted accounting principles. Historically the amounts associated with complimentary meals and promotional activities have been recorded as restaurant revenues, with an offsetting amount in restaurant operations and corporate general and administrative expenses. As revised, the Company has eliminated the complimentary portion of meals and promotional activities from revenues and operating expenses. As a result of these adjustments, revenue and expenses were decreased by $1.7 million, $1.5 million, $1.5 million and $1.4 million in fiscal years 2003, 2002, 2001 and 2000, respectively. These adjustments have no impact on previously reported net income.

The individual per share impact of each adjustment noted above was not considered material. The overall impact on earnings per share is shown below in the tables that follow.

The above revisions impacted the balance sheets, statements of operations and statements of cash flows for each of the fiscal years 2000 to 2003. The impact of all the above is as follows:

The following table reflects the effects of the restatement on the Consolidated Balance Sheet:

	DECEMBER 28, 2003 As previously reported	Restated
Prepaid expenses and other current assets	$ 612,000	$ 1,728,000
Total current assets	3,931,000	5,047,000
Furniture, equipment and improvements, net	11,061,000	10,988,000
Total Assets	16,005,000	17,047,000
Other Long Term Liabilities	2,734,000	5,596,000
Total Liabilities	8,657,000	11,519,000
Minority Interest	2,058,000	1,784,000
Accumulated Deficit	(8,311,000)	(9,857,000)
Total Stockholders Equity	5,290,000	3,744,000
Total Liabilities & Equity	16,005,000	17,047,000

	DECEMBER 29, 2002 As previously reported	Restated
Prepaid expenses and other current assets	$ 532,000	$ 760,000
Total current assets	3,285,000	3,513,000
Furniture, equipment and improvements, net	11,088,000	11,356,000
Total Assets	16,083,000	16,579,000
Other Long Term Liabilities	1,739,000	3,868,000
Total Liabilities	8,040,000	10,169,000
Minority Interest	2,811,000	2,794,000
Accumulated Deficit	(8,369,000)	(9,985,000)
Total Stockholders Equity	5,232,000	3,616,000
Total Liabilities & Equity	16,083,000	16,579,000

	DECEMBER 30, 2001 As previously reported	Restated
Furniture, equipment and improvements, net	$ 11,687,000	$ 11,752,000
Total Assets	17,256,000	17,321,000
Other Long Term Liabilities	1,864,000	3,558,000
Total Liabilities	9,259,000	10,953,000
Minority Interest	2,356,000	2,345,000
Accumulated Deficit	(7,960,000)	(9,578,000)
Total Stockholders Equity	5,641,000	4,023,000
Total Liabilities & Equity	17,256,000	17,321,000

	DECEMBER 28, 2000 As previously reported	Restated
Furniture, equipment and improvements, net	$ 12,230,000	$ 12,372,000

Total Assets	15,927,000	16,069,000
Other Long Term Liabilities	1,960,000	3,809,000
Total Liabilities	10,940,000	12,789,000
Minority Interest	1,441,000	1,414,000
Accumulated Deficit	(7,964,000)	(9,644,000)
Total Stockholders Equity	3,546,000	1,866,000
Total Liabilities & Equity	15,927,000	16,069,000

The following table reflects the effects of the restatement on the Consolidated Statement of Operations:

	December 28, 2003		December 29, 2002	
	As previously reported	Restated	As previously reported	Re
Sales	$ 47,578,000	$ 45,858,000	$ 43,336,000	$ 41,
Total Revenues	58,343,000	56,623,000	51,507,000	49,
Restaurant operating expenses	29,535,000	28,050,000	27,082,000	25,
General & administrative	3,815,000	3,696,000	3,568,000	3,
Depreciation & amortization	1,746,000	1,816,000	1,799,000	1,
Total operating expenses	58,313,000(1)	56,779,000	51,931,000(1)	50,
Income (loss) from operations	30,000	(156,000)	(424,000)	(4
Loss before taxes & minority interest	(301,000)	(487,000)	(788,000)	(7
Loss before minority interest	(390,000)	(576,000)	(825,000)	(8
Minority interest	448,000	704,000	416,000	4
Net income (loss)	58,000	128,000	(409,000)	(4
Net income (loss) applicable to common stock	8,000	78,000	(459,000)	(4
Net income (loss) per share applicable to common stock:				
Basic Net Income (loss)	$ 0.00	$ 0.01	$ (0.08)	$
Diluted Net Income (loss)	$ 0.00	$ 0.01	$ (0.08)	$

	December 30, 2001		December 31, 2000	
	As previously reported	Restated	As previously reported	Re
Sales	$ 46,541,000	$ 45,022,000	$ 46,809,000	$ 45,
Total Revenues	50,906,000	49,387,000	51,276,000	49,
Restaurant operating expenses	28,624,000	27,100,000	28,460,000	27,
General & administrative	3,530,000	3,381,000	3,357,000	3,
Depreciation & amortization	1,762,000	1,838,000	1,640,000	1,
Total operating expenses	50,399,000(1)	48,802,000	50,975,000(1)	49,
Income from operations	507,000	585,000	301,000	
Income (loss) before taxes & minority interest	(57,000)	21,000	(279,000)	(2
Loss before minority interest	(122,000)	(44,000)	(293,000)	(2
Minority interest	126,000	110,000	(37,000)	(
Net income (loss)	4,000	66,000	(330,000)	(3
Net income (loss) applicable to common stock	(46,000)	16,000	(380,000)	(3

Net income (loss) per share applicable to common stock:							
Basic Net Income	$	(0.01)	$	0.00	$	(0.09)	$
Diluted Net Income	$	(0.01)	$	0.00	$	(0.09)	$

(1) Includes cost of sales amounts that were not included in the "Total operating expenses" subtotal in prior financial statements.

RESULTS OF OPERATIONS

The following table sets forth certain items as a percentage of total revenues from our Statements of Operations during 2004, 2003 and 2002. As noted above, we typically analyze our operating expenses as a percentage of sales revenues, not total revenues.

	Fiscal Year Ended December		
	2004	2003	2002
		Restated	Restated
Sales revenues	78.5%	81.0%	83.7%
Cost reimbursements	19.5	17.2	14.5
Management and licensing fees	2.0	1.8	1.8
Total revenues	100.0	100.0	100.0
Cost of sales	22.7	23.4	23.9
Restaurant operating expense	48.0	49.5	51.3
Reimbursed costs	19.5	17.4	15.1
General and administrative expense	7.0	6.5	6.9
Depreciation and amortization	3.2	3.2	3.7
Pre-opening costs	0.3	0.3	0.1
Gain on sale of assets	(0.0)	(0.0)	(0.1)
Total operating expenses	100.7	100.3	100.9
Operating income (loss)	(0.7)	(0.3)	(0.9)
Interest expense, net	(0.4)	(0.6)	(0.7)
Loss before income tax	(1.1)	(0.9)	(1.6)
Provision for taxes	(0.1)	(0.2)	(0.1)
Minority interest	1.3	1.3	0.8
Net income (loss)	0.1%	0.2%	(0.9)%

FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

Revenues. Revenues for 2004 increased 12.4% to $63.7 million from $56.6 million in 2003. Sales revenues increased 8.9% to $49.9 million in 2004 from $45.9 million in 2003. Reimbursed managed outlet operating expenses increased 27.9% to $12.4 million from $9.7 million in 2003. Management and license fee revenues increased to $1.3 million in 2004 from $1.0 million in 2003. The restaurant sales information excludes revenue related to reimbursed operating expenses and management and license fees.

Sales for Daily Grill restaurants increased by 12.5% from $30.1 million in 2003 to $33.8 million in 2004. The increase in sales revenues for the Daily Grill restaurants from 2003 to 2004 was primarily attributable to an increase in same store sales of 4.6% ($1.3 million) for restaurants open for 12 months in both 2004 and 2003 and opening of the Bethesda Daily Grill ($2.9 million) and a decrease at our South Bay Daily Grill ($400,000). Weighted average weekly sales at the Daily Grill restaurants decreased 1.1% from $58,052 in 2003 to $57,757 in 2004.

Sales for Grill restaurants increased by 2.1% from $15.8 million in 2003 to $16.1 million in 2004. The increase in sales revenues for the Grill restaurants from 2003 to 2004 was attributable to the improved check averages partially offset by decreased guest counts. Weighted average weekly sales at the Grill restaurants increased 2.1% from $75,971 in 2003 to $77,545 in 2004.

Selected price increases may be implemented from time to time in the future, consistent with the casual dining industry and how the economy fares. Future revenue growth is expected to be driven principally by a combination of expansion into new markets and the opening of additional restaurants and establishment of market share in those new markets as well as increases in guest count at existing restaurants and selected price increases. When entering new markets where we have not yet established a market presence, sales levels are expected to be lower than in existing markets where we have a concentration of restaurants and high customer awareness. Although our experience in developing markets indicates that the opening of multiple restaurants within a particular market results in increased market share, decreases in comparable restaurant sales could result.

Cost reimbursements increased in 2004 primarily due to the full year operation of Portland Daily Grill, the opening of Long Beach Daily Grill and improved sales at other managed restaurants.

Management and license fee revenues during 2004 were attributable to (1) hotel restaurant management services which accounted for $1,073,000 of management fees, and (2) licensing fees from the LAX Daily Grill, Skokie, Illinois Daily Grill and the San Jose City Bar and Grill which totaled $209,000. The increase in management fees during 2004 was attributable to (1) management of the Portland Daily Grill open a full year compared to 15 weeks in 2003, (2) a 26.6% increase in sales at the San Francisco Daily Grill and (3) sales increase of over 6% at the Georgetown Daily Grill, Burbank Daily Grill and Houston Daily Grill. We have reserved 100% of the Portland management due to slower than expected sales. We terminated the licensed operation of the San Jose City Bar and Grill in 2004.

Operating Expenses and Operating Results. Total operating expenses, including cost of sales, restaurant operating expenses, reimbursed costs, general and administrative expense, depreciation and amortization, and pre-opening costs, increased 12.9% to $64.1 million in 2004 from $56.8 million in 2003.

Cost of Sales. Cost of sales consists exclusively of the cost of food and beverages sold. Cost of sales increased by 9.0% ($1.2 million) and increased slightly as a percentage of sales to 29.0% in 2004 compared to 28.9% in 2003. The increase in cost of sales reflects the opening of new restaurants and higher revenues, generally. The slight increase in cost of sales as a percentage of sales reflects fluctuation in food costs.

Restaurant Operating Expenses. Restaurant operating expenses consist of wages and benefits of restaurant personnel and all other operating expenses. The operating expenses include, but are not limited to, supplies, advertising, occupancy, maintenance and utilities. Restaurant operating expenses increased 8.9% to $30.6 million in 2004 from $28.1 million in 2003. As a percentage of sales, restaurant operating expenses represented 61.2% in both 2004 and 2003. The opening during 2004 of the Bethesda Daily Grill accounted for $1.9 million of the increase. For comparable restaurants the expenses as a percentage of sales improved slightly to 60.3% from 60.5% in 2003.

Reimbursed Costs. Reimbursed costs increased 27.3% from $9.8 million in 2003 to $12.4 million in 2004. These expenses represent the operating costs for which we are the primary obligor of the restaurants we do not consolidate. The increase is primarily due to the full year operations of the Portland Daily Grill, the opening of the Long Beach Daily Grill and improved sales at other restaurants.

General and Administrative. General and administrative expenses rose to $4.5 million in 2004 compared to $3.7 million in 2003. General and administrative expenses represented 7.0% of total revenues in 2004 as compared to 6.5% of total revenues in 2003. The increase was the result of higher payroll and related benefits related to building staff for our growth ($367,000), increased professional services ($248,000), increased travel due to new locations ($76,000), and reserve for uncollected management fees ($109,000).

Depreciation and Amortization. Depreciation and amortization expense was $2.0 million during 2004 and $1.8 million in 2003. The increase was due primarily to the addition of the Bethesda Daily Grill.

Pre-opening costs. Pre-opening costs totaled $167,000 in 2004 as compared with $182,000 in 2003. These pre-opening costs were attributable to the opening in January 2003 of the South Bay Daily Grill and the opening of the Bethesda Daily Grill in January 2004.

Interest Expense. Interest expense, net, totaled $272,000 during 2004 as compared to $331,000 in 2003. The decrease in interest expense was primarily attributable to reduced debt levels as a result of the maturing of loans.

Provision for income taxes. The income tax provision for 2004 and 2003 are due mainly to state taxes as the company has a federal net operating loss to carry forward. The tax rates in 2004 and 2003 were comprised of the federal and state statutory rates, less any permanent items and tax credits based on the annual estimated effective tax rates for the respective years.

Minority Interest. We reported a minority interest in the loss of our majority owned subsidiaries of $814,000 during 2004, consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $154,000, a minority interest in the loss of The Grill on Hollywood, LLC of $357,000, a minority interest in the loss of The Daily Grill at Continental Park, LLC of $483,000, a minority interest in the loss of the 612 Flower Daily Grill LLC of $3,000 and a partnership loss in the Universal CityWalk Daily Grill of $125,000. During 2003 we reported a minority interest in the loss of our majority owned subsidiaries of $704,000, consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $141,000, a minority interest in the loss of The Grill on Hollywood, LLC of $366,000 and a minority interest allocation from The Daily Grill at Continental Park of $334,000 and partnership loss in the Universal CityWalk Daily Grill of $145,000. The Company allocates profits and losses to the minority interest in its partially owned subsidiaries based on the underlying economics of the investment. These may or may not reflect the Company's ownership percentage and can be inconsistent with the allocation provisions specified in the joint venture agreements. Where there is a disparity among the ownership percentages, the terms of the agreements and the underlying economics, the Company utilizes a hypothetical liquidation model to allocate profits and losses. Under this model, all of the venture's assets and liabilities as reflected in the balance sheet are assumed to be realized at their GAAP carrying values. The hypothetical liquidating proceeds are calculated at the end of each period and applied to the capital accounts as would occur under a true liquidation scenario. The change in this balance from period to period represents the investors' share of the income or loss.

Net Income. We reported a net income of $38,000 in 2004 as compared to a net income of $128,000 in 2003.

FISCAL YEAR 2003 COMPARED TO FISCAL YEAR 2002

Revenues. Revenues for 2003 increased 13.3% to $56.6 million from $50.0 million in 2002. Sales revenues increased 9.6% to $45.9 million in 2003 from $41.8 million in 2002. Reimbursed managed outlet operating expenses increased 33.8% to $9.7 million from $7.3 million in 2002. Management and license fee revenues increased to $1.0 million in 2003 from $0.9 million in 2002. The restaurant sales information excludes revenue related to reimbursed operating expenses and management and license fees.

Sales for Daily Grill restaurants increased by 10.7% from $27.2 million in 2002 to $30.1 million in 2003. The increase in sales revenues for the Daily Grill restaurants from 2002 to 2003 was primarily attributable to a increase in same store sales of 5.3% ($1.3 million) for restaurants open for 12 months in both 2003 and 2002 and opening of the South Bay Daily Grill ($2.6 million), offset by the closure of the Encino Daily Grill ($0.5 million) and the Cherry Hill Pizzeria Uno ($0.5 million). Weighted average weekly sales at the Daily Grill restaurants increased 8.1% from $53,701 in 2002 to $58,052 in 2003. Comparable restaurant sales and weighted average weekly sales at the Daily Grill restaurants in 2003 were favorably affected approximately equally by increased guest counts and improved average checks.

Sales for Grill restaurants increased by 8.1% from $14.6 million in 2002 to $15.8 million in 2003. The increase in sales revenues for the Grill restaurants from 2002 to 2003 was attributable to the improved check averages and increased guest counts. Weighted average weekly sales at the Grill restaurants increased from $70,252 in 2002 to $75,971 in 2003.

Reimbursed costs which represent employee and other operating expenses of managed restaurants for which we are reimbursed by the restaurants increased in 2003 primarily due to the opening of Portland Daily Grill and the full year of operations for San Francisco Daily Grill and Houston Daily Grill, which were open for a partial year in 2002.

Management and license fee revenues during 2003 were attributable to (1) hotel restaurant management services which accounted for $834,000 of management fees, and (2) licensing fees from the LAX Daily Grill, Skokie, Illinois Daily Grill and the San Jose City Bar and Grill which totaled $203,000. The increase in management fees during 2003 was attributable to (1) management of the San Francisco Daily Grill open a full year compared to 44 weeks in 2002, (2) management of the Houston Daily Grill for the full year compared to 25 weeks in 2002 and (3) management of the Portland Daily Grill for 15 weeks in 2003.

Operating Expenses and Operating Results. Total operating expenses, including cost of sales, restaurant operating expenses, managed outlet operating expenses, general and administrative expense, depreciation and amortization, and pre-opening costs, increased 12.6% to $56.8 million in 2003 from $50.4 million in 2002.

Cost of Sales. Cost of sales consists exclusively of the cost of food and beverages sold. While sales revenues increased by 9.6% ($4.0 million) in 2003 as compared to 2002, cost of sales increased by 11.3% ($1.3 million) and increased as a percentage of sales from 28.5% in 2002 to 28.9% in 2003. The increase in cost of sales as a percentage of restaurant sales was attributable to higher beef costs during the second half of the year.

Restaurant Operating Expenses. Restaurant operating expenses consist of wages and benefits of restaurant personnel and all other operating expenses. The operating expenses include, but are not limited to, supplies, advertising, occupancy, maintenance and utilities. Restaurant operating expenses increased 9.4% to $28.1 million in 2003 from $25.7 million in 2002. As a percentage of restaurant sales, restaurant operating expenses represented 61.3% in 2003 compared to 61.3% in 2002. The dollar increase in restaurant operating expenses followed the sales increase and was negatively impacted by increases in marketing, stock option compensation expense, workers' compensation and general insurance. The decrease in operating expenses as a percentage of sales resulted from improved labor management.

Reimbursed Costs. Reimbursed costs expenses increased 29.3% from $7.6 million in 2002 to $9.8 million in 2003. These expenses represent the operating costs for which we are the primary obligor of the restaurants we do not consolidate. The increase is primarily due to the opening of the Portland Daily Grill and the full year of operations for San Francisco Daily Grill and Houston Daily Grill, which were open for a partial year in 2002.

General and Administrative. General and administrative expenses rose slightly to $3.7 million in 2003 compared to $3.4 million in 2002. General and administrative expenses represented 6.5% of total revenues in 2003 as compared to 6.9% of total revenues in 2002. While these expenses in total were nearly equal, there were increases in payroll and related benefits, stock option compensation expense, professional services and rent, partially offset by decreases in recruitment costs and office expenses.

Depreciation and Amortization. Depreciation and amortization expense was $1.8 million during 2003 and $1.9 million during 2002.

Pre-opening Costs. Pre-opening costs totaled $182,000 in 2003 as compared with $69,000 in 2002. These pre-opening costs were attributable to the opening in January 2003 of the South Bay Daily Grill and the opening of the Bethesda Daily Grill in January 2004.

Interest Expense. Interest expense, net, totaled $331,000 during 2003 as compared to $364,000 in 2002. The decrease in interest expense was primarily attributable to the maturing of the loans.

Provision for income taxes. The income tax provision for 2003 and 2002 are due mainly to state taxes as the company has a federal net operating loss to carry forward. The tax rates in 2003 and 2002 were comprised of the federal and state statutory rates, less any permanent items and tax credits based on the annual estimated effective tax rates for the respective years.

Minority Interest. We reported a minority interest in the loss of our majority owned subsidiaries of $704,000 during 2003, consisting of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $141,000, a minority interest in the loss of The Grill on Hollywood, LLC of $366,000, a minority interest in the loss of The Daily Grill at Continental Park, LLC of $334,000 and a partnership loss in the Universal CityWalk Daily Grill of $145,000. We reported a minority interest in the loss of our majority owned subsidiaries of $422,000 for the year ended December 29, 2002 comprised of a minority interest in the earnings of San Jose Grill on the Alley, LLC of $111,000, a minority interest in the loss of The Grill on Hollywood, LLC of $307,000 and a minority interest allocation from The Daily Grill at Continental Park of $3,000 and a partnership loss in the Universal CityWalk Daily Grill of $229,000.

Net Income/(Loss). We reported net income of $128,000 in 2003 as compared to a net loss of $407,000 for 2002.

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LIQUIDITY AND CAPITAL RESOURCES

CASH POSITION AND SHORT-TERM LIQUIDITY. At December 26, 2004, we had a working capital surplus of $209,000 and a cash balance of $1.4 million as compared to a working capital surplus of $378,000 and a cash balance of $1.5 million at December 28, 2003. In 2004 we generated cash from operations of $4.1 million which included tenant improvement allowances of $2.1 million, purchased fixed assets of $2.9 million increased restricted cash of $0.8 million and repaid debt of $0.5 million. During 2003 we generated cash from operations of $1.8 million used cash to purchase fixed assets of $1.4 million and repay debt of $0.7 million.

Our need for capital resources historically has resulted from, and for the foreseeable future is expected to relate primarily to, the construction and opening of new restaurants. Funds necessary to operate restaurants under management agreements are usually funded by cash generated by the restaurants. Sales from these outlets are deposited into an agency account belonging to the owner and we pay the outlet operating expenses, including our fee, from this agency account. Historically, we have funded our day-to-day operations through operating cash flows that have ranged from a $803,000 to $4.1 million over the past three fiscal years. Growth has been funded through a combination of bank borrowing, loans from stockholders/officers, the sale of debentures and stock, loans and tenant allowances from certain of our landlords, and, beginning in 1999, through joint venture arrangements.

FINANCING FACILITIES. At December 26, 2004, the Company had $45,000 owing under equipment leasing financing transactions, an obligation to a member of Chicago - The Grill on the Alley, LLC of $1.0 million for a guaranteed return of its invested capital, loans from stockholders/ officers/directors of $0.2 million, equipment loans of $0.2 million, and loans/advances from a landlord of $0.1 million.

On August 1, 2000, we received a $400,000 loan from private individuals. The loan bears interest at 9% and is payable in monthly installments over four years. In connection with the loan, we issued 40,000 warrants. In June 2001 the lender became a member of our Board of Directors and the loan was reclassified as related party debt. The loan had been paid in full at December 26, 2004.

In June 2004, we finalized an agreement with respect to the establishment of a new bank credit facility to replace our facility that expired in October 2004. Under the terms of the new bank credit facility, we have been provided with financing in the form of a revolving line of credit in the amount of $500,000, an irrevocable standby letter of credit in the amount of $700,000, increased to $860,000 in January 2005, and equipment financing in the amount of $500,000. The facility has a one-year term, is secured by assets and is subject to certain standard borrowing covenants. We have not utilized any funds from the current or prior lines of credit dating back to 2001 except for $45,000 of equipment leasing in 2004; therefore, there should be no negative impact if the current facility is not extended. Interest is at the bank's variable reference rate. Although we were in default of a covenant at year-end, the bank has granted us a waiver.

We held preliminary talks with the bank to renew its existing credit lines for another year. Given the expected capital expenditures of approximately $600,000 (net of $3.5 million in both landlord reimbursements and joint venture contributions) for the new restaurants planned for 2005 and refurbishments on existing restaurants, management believes we will be able to meet our expected obligations from our existing cash flow from operations if it is unable to secure bank financing.

OPERATING LEASES. During 2004, we, and our subsidiaries, were obligated under eighteen leases covering the premises in which our Daily Grill and Grill Restaurants are located as well as leases on our executive offices. Such restaurant leases and the executive office lease contain minimum rent provisions which provided for the payment of minimum aggregate annual rental payments of approximately $3.7 million in 2004 and percentage rent obligations, above and beyond minimum rent, of $0.7 million. Our minimum rent obligations for 2005 are $3.3 million.

CONTRACTUAL OBLIGATIONS. Our only material contractual obligations requiring determinable future payments on our part are various notes payable and our leases relating to our executive offices and restaurants, each of which is described above.

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The following table details our contractual obligations as of December 26, 2004:

	Payments due by period				
	Total	2005	2006 - 2007	2008 - 2009	Th
Long-term debt	$ 1,467,000	$ 490,000	$ 386,000	$ 465,000	$
Capital lease obligations	-	-	-	-	
Operating lease commitments	25,062,000	3,282,000	6,103,000	4,753,000	1
Other contractual purchase Obligations	-	-	-	-	
Other long-term liabilities	-	-	-	-	
Total	$26,529,000	$ 3,772,000	$6,489,000	$5,218,000	$1

COMMITMENTS RELATING TO MANAGED RESTAURANTS AND LLCS. Funds necessary to operate restaurants under management agreements are usually funded by cash generated by the restaurant. Sales from these outlets are deposited directly into an agency account belonging to the owner and we pay the outlet operating expenses, including our fee, from this agency account. We began management in February 2002, of the San Francisco Daily Grill in the Handlery Hotel in Union Square. Cost of opening the Handlery Hotel Daily Grill in San Francisco was $2.8 million, of which we contributed approximately $331,000, with the balance being paid by the hotel owners.

We began management of a hotel-based Daily Grill in the Westin Galleria in Houston, Texas on July 10, 2002. Under the terms of the Management Agreement, we advanced $64,000 to the restaurant for initial working capital which has since been repaid in full.

We began management in September 2003, of the Portland Daily Grill in the Portland Westin Hotel in Portland, Oregon. Under the terms of the Management Agreement, we had no cash obligations for initial advances or construction costs.

We began management in November 2004, of the Long Beach Daily Grill in the Hilton Hotel in Long Beach, California. Under the terms of the Management Agreement, we had no cash obligations for initial advances or construction costs.

Under certain of our operating and management agreements we have an obligation to potentially make additional cash advances and/or contributions and may not realize any substantial returns for some time. The agreements and arrangements under which we may be required to make cash advances or contributions, guarantee obligations or defer receipt of cash are:

CITYWALK. The CityWalk management agreement requires that each member loan, interest free, to the joint venture 50 percent of any operating deficit forecast for the next quarter, such loans to be repaid out of the first cash available from operations. Each time funds were necessary, we have agreed with our partner, to consider the advances additional capital contributions rather than loans. As of December 26, 2004, we had made additional capital contributions to the CityWalk Partnership of $201,000.

SAN FRANCISCO DAILY GRILL. The management agreement for the San Francisco Daily Grill stipulates that if in any month there is insufficient working capital to pay operating expenses, excluding payments to us or the owner, we will provide one-half of the required working capital. Such advances are to be repaid prior to deferred payments to us or the owner. No working capital advances have been necessary.

PORTLAND DAILY GRILL. The management agreement for the Portland Daily Grill stipulates that the Owner shall provide working capital of no less than $50,000 or more than $150,000. If during any month there is insufficient working capital to pay for operating expenses the Owner agreed to advance the required working capital until the balance of the Owner Working Capital Advance equals $150,000. Thereafter if additional working capital is necessary we as the manager will be required to loan it. Any advances we make will earn interest at a rate of 12% per annum and will be repaid as second priority behind owner's working capital advance but before owner's return of capital. At December 26, 2004 the owner had advanced $150,000.

CHICAGO - THE GRILL ON THE ALLEY. The Operating Agreement and the Senior Promissory Note for Chicago - The Grill on the Alley, LLC stipulates that the non-manager member shall receive a preferred return of eight percent on its capital contribution and a payment on its converted capital prior to any distribution of cash. We have guaranteed the repayment of the Senior Promissory Note as well as the contributed capital for Chicago - The Grill on the Alley.

THE GRILL ON HOLLYWOOD. The Operating Agreement for The Grill on Hollywood, LLC stipulates that 90% of distributable cash shall go to the non-managing member until its preferred return, unrecovered contribution and any additional contribution have been returned. As of December 26, 2004 no cash has been distributed.

SAN JOSE GRILL. The Operating Agreement for San Jose Grill, LLC stipulates that distributable cash shall be paid first 10% to the manager and 90% to the members in proportion to their ownership percentage until initial capital is recovered, then as a preferred return on the capital contributions to both members in proportion to their ownership percentage, then to the managing member and non-managing member in proportion to their ownership percentage until the additional capital contribution is recovered, and finally 16 2/3% to the manager and the balance to the members in proportion to their ownership percentages.

Our San Jose Grill, Chicago - Grill on the Alley, Grill on Hollywood and South Bay Daily Grill restaurants are each owned by limited liability companies (the "LLCs") for which we serve as manager and own a controlling interest. Each of the LLCs has minority interest owners, some of whom have participating rights in the joint venture such as the ability to approve operating and capital budgets and the borrowing of money. In connection with the financing of each of the LLCs, the minority members may have certain rights to priority distributions of capital until they have received a return of their initial investments ("Return of Member Capital") as well as rights to receive defined preferred returns on their invested capital ("Preferred Return").

Our Universal CityWalk Daily Grill is owned by a partnership for which we serve as manager. Our partner has certain rights to priority distribution of capital from the CityWalk partnership until they have received their initial investments ("Return of Member Capital").

The following tables set forth a summary for each of the LLCs and the partnership of (1) the initial capital contributions of the Company and the minority LLC members or partner (the "Members"), (2) additional capital contributions, (3) the distributions of capital to the Members and/or us during the year ended December 26, 2004, (4) the unreturned balance of the capital contributions of the Members and/or us at December 26, 2004, (5) the Preferred Return rate to Members and/or us, (6) the accrued but unpaid preferred returns due to the Members and/or us at December 26, 2004, (7) the management incentive fees, if any, payable to us, and (8) a summary of theont-family:inherit;font-size:10pt;">Table of

The following table sets forth the current membership of each of our Board's committees:

Name	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Finance Committee	Technology Committee
Rick L. Burdick		ü	Chair		
Tomago Collins	ü		ü		
David B. Edelson	ü			ü	
Karen C. Francis					ü
Robert R. Grusky	Chair				
Kaveh Khosrowshahi				ü	ü
Michael Larson*		Chair		ü	
G. Mike Mikan		ü	ü	Chair	
Alison H. Rosenthal					Chair

* Lead Independent Director

Audit Committee

The Audit Committee primarily assists our Board in fulfilling its oversight responsibilities by reviewing our financial reporting and audit processes and our systems of internal control over financial reporting and disclosure controls.

Among the Committee's core responsibilities are the following: (i) overseeing the integrity of our consolidated financial statements, for which management is responsible, and reviewing and approving the scope of the annual audit; (ii) selecting, retaining, compensating, overseeing, and evaluating our independent registered public accounting firm; (iii) reviewing the Company's critical accounting policies; (iv) reviewing the Company's quarterly and annual financial statements prior to the filing of such statements with the SEC; (v) preparing the Audit Committee report for inclusion in our proxy statement; and (vi) reviewing with management significant financial risks or exposures and assessing the steps management has taken to minimize, monitor, and control such risks or exposures. For a complete description of our Audit Committee's responsibilities, please refer to the Audit Committee's charter.

Our Board has determined that each Audit Committee member has the requisite independence and other qualifications for audit committee membership under SEC rules, NYSE listing standards, the Audit Committee's charter, and the independence standards set forth in the Guidelines (as discussed below under "Director Independence"). Our Board has also determined that each of Mr. Grusky and Mr. Edelson is an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). See "Directors" above for a description of the business experience of each of Mr. Grusky and Mr. Edelson.

The Audit Committee held four meetings and took one action by unanimous written consent during 2017. The Audit Committee Report for 2017, which contains a description of the Audit Committee's responsibilities and its recommendation with respect to our audited consolidated financial statements for the year ended December 31, 2017, is set forth below under "Audit Committee Report."

Compensation Committee

The Compensation Committee primarily assists our Board in fulfilling its compensation oversight responsibilities by, among other things: (i) reviewing our director compensation program and suggesting changes in director compensation to the Board, if appropriate; (ii) reviewing and approving the compensation of our CEO and other senior executive officers and setting annual and long-term performance goals for these individuals; (iii) reviewing and approving the compensation of all of our corporate officers; (iv) reviewing the Company's program for management development and succession planning; (v) reviewing and approving performance-based compensation of executive officers, including incentive awards and stock-based awards; and (vi) administering our equity compensation plans.

Pursuant to the Compensation Committee's charter, the Compensation Committee may form subcommittees and may delegate to such subcommittees any or all power and authority of the Compensation Committee as the Compensation Committee deems appropriate, provided that no subcommittee may consist of fewer than two members, and provided further that the Compensation Committee may not delegate to a subcommittee any power or authority required by any applicable laws, regulations, or listing standards to be exercised by the Compensation Committee as a whole.

The Compensation Committee reviews executive compensation at its meetings throughout the year and sets executive compensation. The Compensation Committee also reviews director compensation annually and recommends to the full Board the compensation for non-employee directors. Our CEO reviews the performance of other named executive officers and makes recommendations, if any, to the Compensation Committee with respect to compensation adjustments for such officers. However, the Compensation Committee determines in its sole discretion whether to make any adjustments to the compensation paid to such executive officers.

Since 2013, the Compensation Committee has engaged Pearl Meyer ("PM"), an independent compensation consulting firm, to provide research and analysis and to make recommendations as to the form and amount of executive and director compensation. The Compensation Committee sought input from PM on executive and director compensation matters for 2017, including the design and competitive positioning of our executive and director compensation programs, our peer group, appropriate compensation levels, and evolving compensation trends. While the Compensation Committee considered input from PM, the Compensation Committee's decisions reflect many factors and considerations.

PM does not provide any other services to the Company or its subsidiaries. The Compensation Committee assessed the independence of PM pursuant to SEC and NYSE rules and concluded that no conflict of interest exists that would prevent PM from serving as an independent consultant to the Compensation Committee. The Compensation Committee reviews the appointment of its independent compensation consulting firm annually. As part of the review process, the Compensation Committee considers the independence of the firm in accordance with applicable SEC and NYSE rules.

For more information on the responsibilities and activities of the Compensation Committee, including the Committee's processes for determining executive compensation, see "Executive Compensation" below, as well as the Compensation Committee's charter.

Our Board has determined that each Compensation Committee member has the requisite independence for Compensation Committee membership under NYSE listing standards and the independence standards set forth in the Guidelines. Our Board has also determined that each Compensation Committee member qualifies as a "non-employee director" within the meaning of Rule 16b-3 under the Exchange Act and as an "outside director" under Section 162(m) of the Code. The Compensation Committee held six meetings and took two actions by unanimous written consent during 2017.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee assists our Board in fulfilling its oversight responsibilities by performing the following duties: (i) reviewing annually, or more frequently as appropriate, the corporate governance principles and practices set forth in the Guidelines, in comparison to the governance standards identified by leading governance authorities and our evolving needs, and making recommendations to the Board with respect to any appropriate amendment to the Guidelines; (ii) considering and advising the Board with respect to other corporate governance issues; (iii) periodically reviewing our codes of ethics and conduct for directors, officers, and employees; (iv) leading annual evaluations of Board and Board committee performance; (v) assessing periodically our Board's needs in terms of skills and qualifications and recommending to our Board candidates for nomination and election to our Board; (vi) reviewing Board candidates recommended by our stockholders; and (vii) recommending to our Board assignments to committees.

Our Board has determined that each Corporate Governance and Nominating Committee member is independent under NYSE listing standards and the independence standards set forth in the Guidelines. In 2017, the Corporate Governance and Nominating Committee held three meetings and took one action by unanimous written consent.

The Corporate Governance and Nominating Committee has a policy with regard to the consideration of director candidates recommended by stockholders. For information regarding this policy, refer to "Stockholder Communications - Stockholder Director Recommendations" below.

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Finance Committee

The duties and responsibilities of the Finance Committee include reviewing and, where appropriate, making recommendations to the Board with respect to: (i) the Company's capital structure and any material changes thereto, including potential issuances of debt or equity securities; (ii) the Company's capital allocation strategy, processes and plans, including the Company's cost of capital; (iii) share repurchase programs and debt repurchases; (iv) financial risk management strategies and policies, including hedging and the use of derivatives; and (v) the Company's short-term investment policy.

Our Board has determined that each Finance Committee member is independent under NYSE listing standards and the independence standards set forth in the Guidelines. In 2017, the Finance Committee held four meetings and took no actions by unanimous written consent.

Technology Committee

On April 19, 2017, our Board established a Technology Committee. The duties and responsibilities of the Technology Committee include reviewing and, where appropriate, making recommendations to the Board with respect to: (i) the financial, strategic, and operational benefits of proposed technology-related projects, (ii) our technology strategies, including our existing capabilities, infrastructure, and systems, (iii) the quality and effectiveness of our technology security systems, and (iv) existing trends in information technology and new technologies, applications, and systems.

Our Board has determined that each Technology Committee member is independent under NYSE listing standards and the independence standards set forth in the Guidelines. The Technology Committee held two meetings and took no actions by unanimous written consent during 2017.

Director Independence

Under our Guidelines, our Board must consist of a substantial majority of directors who qualify as independent directors under the listing standards of the NYSE. To be considered independent:

- our Board must affirmatively determine that a director has no material relationship with the Company (either directly or as a partner, stockholder, or officer of an organization that has a relationship with the Company); and
- a director must not have a disqualifying relationship, as set forth in the NYSE listing standards.

To assist the Board in determining whether a director is independent, our Board has established director independence standards, which are part of our Guidelines available at investors.autonation.com. Under our director independence standards, none of our non-employee director nominees has a material relationship with the Company that impairs his or her independence, and our Board has affirmatively determined that all of our director nominees, except Mr. Jackson, our Chairman, Chief Executive Officer and President, are "independent" under our director independence standards and the listing standards of the NYSE.

In addition to our independence standards, the directors who serve on our Audit Committee each satisfy standards established by the SEC providing that to qualify as "independent" for the purposes of membership on that committee, members of audit committees may not:

- accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries other than their director compensation, or
- be an affiliated person of the Company or any of its subsidiaries.

In accordance with the listing standards of the NYSE, in affirmatively determining the independence of each director who serves on our Compensation Committee, our Board also considered all factors specifically relevant to determining whether each such director has a relationship to the Company which is material to his or her ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to:

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- the source of compensation of each such director, including any consulting, advisory, or other compensatory fee paid by the Company to him or her, and
- whether he or she is affiliated with the Company, a subsidiary of the Company, or an affiliate of a subsidiary of the Company.

Director Selection Process

The Corporate Governance and Nominating Committee is responsible for identifying, evaluating, and recommending candidates to the Board for nomination and election to the Board. The Committee is also responsible for assessing the appropriate balance of skills and characteristics required of our Board members. The Committee considers candidates suggested by its members and other Board members, as well as management and stockholders.

In accordance with the Guidelines, candidates, including candidates recommended by stockholders, are selected on the basis of, among other things, broad experience, financial expertise, wisdom, integrity, ability to make independent analytical inquiries, understanding of our business environment, the candidate's ownership interest in the Company, and willingness and ability to devote adequate time to Board duties, all in the context of assessing the needs of our Board at that point in time and with the objective of ensuring diversity in the background, experience, and viewpoints of our Board members. The Guidelines provide that the number of directors should permit diversity of experience without hindering effective discussion, diminishing individual accountability, or exceeding a number that can function efficiently as a body.

The Board periodically reviews the size of the Board to determine the size that will be most effective for the Company. In addition, the Board completes an annual self-evaluation, which includes a self-assessment questionnaire for each Board member. The self-assessment questionnaire addresses topics such as the structure of the Board, the skills and backgrounds of the current directors, the size of the Board, and the Board's committee structure. Each of the Audit, Compensation, Corporate Governance and Nominating, Finance, and Technology committees also completes an annual self-evaluation, which includes a self-assessment questionnaire tailored specifically for such committee.

Candidates recommended by our stockholders are considered on the same basis as if such candidates were recommended by one of our Board members or other persons. See "Stockholder Communications - Stockholder Director Recommendations" below.

Certain Relationships and Related Party Transactions

Our Board has adopted a written policy which requires that transactions with related parties must be entered into in good faith on fair and reasonable terms that are no less favorable to us than those that would be available in a comparable transaction in arm's-length dealings with an unrelated third party. Our Board, by a vote of the disinterested directors, must approve all related party transactions valued over $500,000, while our Audit Committee must approve all related party transactions valued between $100,000 and $500,000 and review with management all other related party transactions. Under SEC rules, a related party is defined as any director, executive officer, nominee for director, or greater than 5% stockholder of the Company, and their immediate family members. Since the beginning of 2017, the Company has not participated in any related party transaction in which any related party had or will have a direct or indirect material interest.

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Board Compensation

Our non-employee director compensation program is designed to:

- ensure alignment with long-term stockholder interests;
- ensure we can attract and retain outstanding directors who meet the criteria outlined under “Director Selection Process” above; and
- recognize the time commitments necessary to oversee the Company.

Summary

For 2017, our non-employee director compensation program consisted of the following:

- annual Board retainer of $50,000 for each non-employee director;
- annual retainer of $25,000 for the Lead Independent Director;
- annual committee retainers of $20,000 for the Chair of the Audit Committee and $10,000 for the Chair of each of the Compensation, Corporate Governance and Nominating, Finance, and Technology Committees;
- annual award of restricted stock units based on a fixed dollar value of $250,000 as described further below; and
- expense reimbursement in connection with Board and committee meeting attendance.

On January 3, 2017, each of our non-employee directors received a grant of 5,073 (calculated by dividing $250,000 by the closing price of our common stock on the grant date and rounding down to the nearest whole number) vested restricted stock units (“RSUs”) under the AutoNation, Inc. 2014 Non-Employee Director Equity Plan (as amended, the “2014 Director Plan”), which was approved by our stockholders at our 2014 Annual Meeting of Stockholders. The RSUs will settle in shares of the Company’s common stock on the first trading day of February in the third year following the date of grant, except to the extent a recipient elected to defer settlement of the RSUs beyond such date in accordance with the terms of the award and the 2014 Director Plan. Settlement of the RSUs will be accelerated in certain circumstances as provided in the terms of the award and the 2014 Director Plan, including in the event the recipient ceases to serve as a non-employee director of the Company. If the Company pays a dividend with respect to its common stock, each RSU award will be credited with a number of additional RSUs equal to (i) the aggregate amount or value of the dividends paid with respect to the number of shares subject to the award on the dividend record date divided by (ii) the fair market value per share on the payment date for such dividend. Any such additional RSUs will be subject to the same terms and conditions of the award, and the shares subject to such additional RSUs will be distributed only upon the distribution of the underlying shares with respect to which the dividend equivalents were granted. In January 2017, in connection with the adoption and approval of the AutoNation, Inc. 2017 Employee Equity and Incentive Plan, our Board approved an amendment to the 2014 Director Plan to reduce the number of shares available for issuance from 1,000,000 to 600,000.

Our non-employee directors became eligible to defer all or a portion of their annual and committee retainers under the AutoNation, Inc. Deferred Compensation Plan (the “DCP”) beginning in January 2011. Please refer to “Executive Compensation - Compensation Tables - Non-Qualified Deferred Compensation in Fiscal 2017” for additional information regarding the DCP.

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2017 Director Compensation

The following table sets forth the compensation earned during 2017 by each non-employee director who served in 2017.

2017 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)		Stock Awards ($)(1)	Total ($)
Rick L. Burdick	60,000	(2)	249,997	309,997
Tomago Collins	50,000		249,997	299,997
David B. Edelson	50,000	(2)	249,997	299,997
Karen C. Francis	50,000	(2)	249,997	299,997
Robert R. Grusky	70,000	(2)	249,997	319,997
Kaveh Khosrowshahi	50,000		249,997	299,997
Michael Larson	85,000		249,997	334,997
G. Mike Mikan	60,000		249,997	309,997
Alison H. Rosenthal	60,000	(2)	249,997	309,997

(1) The amounts reported in this column reflect the grant date fair value of awards computed in accordance with FASB ASC Topic 718. On January 3, 2017, each non-employee director received a grant of 5,073 vested RSUs under the 2014 Director Plan. The grant date fair value of each RSU granted on January 3, 2017 was $49.28, the closing price per share of our common stock on such date.

(2) Amount deferred under the DCP.

Outstanding Equity Awards

The following table sets forth information regarding the number of RSUs and the number of options held by each non-employee director who served in 2017, as of December 31, 2017:

Name	Aggregate Number of RSUs Held as of 12/31/2017	Aggregate Number of Options Held as of 12/31/2017
Rick L. Burdick	14,332	80,000
Tomago Collins	14,332	—
David B. Edelson	16,832	142,000
Karen C. Francis	5,073	—
Robert R. Grusky	16,832	105,000
Kaveh Khosrowshahi	9,332	—
Michael Larson	14,332	110,000
G. Mike Mikan	16,832	15,000
Alison H. Rosenthal	16,832	55,000

2018 Director Compensation

On January 2, 2018, each of our non-employee directors received a grant of 4,764 (calculated by dividing $250,000 by the closing price of our common stock on the grant date and rounding down to the nearest whole number) vested RSUs under the 2014 Director Plan pursuant to our non-employee director annual equity award program.

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Director Stock Ownership Guidelines

On March 17, 2014, our Board amended our director stock ownership guidelines to increase the ownership expectation from $100,000 to $750,000 in shares of our common stock. Each non-employee director is expected to satisfy the new guidelines by the later of March 17, 2019 or five years after his or her initial appointment to the Board. The following table sets forth information regarding the number of shares (including vested RSUs) held as of February 21, 2018 by each non-employee director nominated to stand for election.

Name	Number of Shares Held	Fair Market Value of Shares Held ($)(1)	Progress Towards Stock Ownership Guidelines(2)
Rick L. Burdick	38,586	1,996,440	Achieved
Tomago Collins	19,096	988,027	Achieved
David B. Edelson	28,946	1,497,666	Achieved
Robert R. Grusky	32,677	1,690,708	Achieved
Kaveh Khosrowshahi	14,096	729,327	Achieved
Michael Larson	27,096	1,401,947	Achieved
G. Mike Mikan	28,596	1,479,557	Achieved
Alison H. Rosenthal	24,096	1,246,727	Achieved

(1) The fair market value of the shares is based on the closing price of our common stock on February 21, 2018 ($51.74).

(2) In the event that a director meets the threshold and subsequently the fair market value of such director’s holdings falls below the threshold solely due to a decline in our stock price, such director shall be deemed to remain in compliance with the guidelines so long as such director does not sell or transfer any shares at any time the fair market value of his or her holdings is at or below the threshold.

Stockholder Communications

Communications with the Company and the Board

Stockholders and interested parties may communicate with the Company through its Investor Relations Department by writing to Investor Relations, AutoNation, Inc., 200 SW 1st Ave, Fort Lauderdale, FL 33301.

Stockholders and interested parties interested in communicating with our Board, any Board committee, any individual director, any group of directors (such as our independent directors), or our Lead Independent Director should send written correspondence to Board of Directors c/o Corporate Secretary, AutoNation, Inc., 200 SW 1st Ave, Fort Lauderdale, FL 33301. Additional information is available on our corporate website at investors.autonation.com.

Stockholder Director Recommendations

The Corporate Governance and Nominating Committee has established a policy pursuant to which it considers director candidates recommended by our stockholders. All director candidates recommended by our stockholders are considered for selection to the Board on the same basis as if such candidates were recommended by one or more of our directors or other persons. To recommend a director candidate for consideration by our Corporate Governance and Nominating Committee, a stockholder must submit the recommendation in writing to our Corporate Secretary not later than 120 calendar days prior to the anniversary date of our proxy statement distributed to our stockholders in connection with our previous year’s annual meeting of stockholders, and the recommendation must provide the following information: (i) the name of the stockholder making the recommendation; (ii) the name of the candidate; (iii) the candidate’s resume or a listing of his or her qualifications to be a director; (iv) the proposed candidate’s written consent to being named as a nominee and to serving as one of our directors if elected; and (v) a description of all relationships, arrangements, or understandings, if any, between the proposed candidate and the recommending stockholder and between the proposed candidate and us so that the candidate’s independence may be assessed. The stockholder or the director candidate also must provide any additional information requested by our Corporate Governance and Nominating Committee to assist the Committee in appropriately evaluating the candidate.

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Stockholder Proposals and Nominations for the 2019 Annual Meeting

Proposals for Inclusion in our Proxy Materials

Under SEC rules, if a stockholder wishes to submit a proposal for inclusion in our Proxy Statement for the 2019 Annual Meeting of Stockholders, the proposal must be received by our Corporate Secretary not later than November 6, 2018. All proposals must comply with Rule 14a-8 under the Exchange Act.

Nominations for Inclusion in our Proxy Materials (Proxy Access)

Under our proxy access bylaw, a stockholder (or a group of up to 20 stockholders) owning three percent or more of our common stock continuously for at least three years may nominate and include in our proxy statement candidates for up to 20% of our Board (rounded down, but not less than two). Nominations must comply with the requirements and conditions of our proxy access bylaw, including delivering proper notice to us not earlier than October 7, 2018 nor later than November 6, 2018. Detailed information for submitting proxy access nominations will be provided upon written request to the Corporate Secretary of AutoNation, Inc., 200 SW 1st Ave, Fort Lauderdale, FL 33301.

Other Proposals and Nominations

Any stockholder who wishes to make a nomination or introduce an item of business, other than as described above, must comply with the procedures set forth in our bylaws, including delivering proper notice to us not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's Annual Meeting, which means not earlier than December 20, 2018 nor later than January 19, 2019. Detailed information for submitting stockholder proposals or nominations, other than for inclusion in our proxy statement, will be provided upon written request to the Corporate Secretary of AutoNation, Inc., 200 SW 1st Ave, Fort Lauderdale, FL 33301.

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STOCK OWNERSHIP

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information as of February 21, 2018 regarding beneficial owners of more than five percent of the outstanding shares of our common stock.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned		Percent of Class(1)	
William H. Gates III One Microsoft Way, Redmond, WA 98052	20,329,879	(2)	22.1	%
ESL Investments, Inc. and related entities(3) 1170 Kane Concourse, Suite 200, Bay Harbor, FL 33154	15,375,718	(4)	16.7	%
Capital Research Global Investors 333 South Hope Street, Los Angeles, CA 90071	6,000,000	(5)	6.5	%
Blackrock, Inc. 55 East 52nd Street, New York, NY 10055	5,669,376	(6)	6.2	%
The Vanguard Group 100 Vanguard Blvd., Malvern, PA 19355	5,052,525	(7)	5.5	%
Artisan Partners Limited Partnership and related entities(8) 875 East Wisconsin Avenue, Suite 800, Milwaukee, WI 53202	5,029,319	(9)	5.5	%

(1) Based on 91,824,778 shares outstanding at February 21, 2018.

(2) Based on a Schedule 13D/A filed with the SEC on November 6, 2017, the number of shares beneficially owned by Mr. Gates as of February 21, 2018 includes 18,431,162 shares held by Cascade Investment, L.L.C. (“Cascade”) and 1,898,717 shares held by the Bill & Melinda Gates Foundation Trust (the “Trust”). All shares of our common stock held by Cascade may be deemed to be beneficially owned by Mr. Gates as the sole member of Cascade, and all shares of our common stock beneficially owned by the Trust may be deemed to be beneficially owned by Mr. Gates as a co-trustee of the Trust. Mr. Gates has sole voting power with respect to 18,431,162 shares and shared voting power with respect to 1,898,717 shares. The address of Cascade is 2365 Carillon Point, Kirkland, WA 98033, and the address of the Trust is 500 Fifth Avenue North, Seattle, WA 98119.

(3) Includes ESL Partners, L.P. (“Partners”), RBS Partners, L.P. (“RBS”), ESL Investments, Inc. (“Investments”), The Lampert Foundation (the “Foundation”), and Edward S. Lampert. Partners, RBS, Investments, the Foundation, and Mr. Lampert are collectively referred to as the “ESL Entities.”

(4) Based on a Schedule 13D/A filed with the SEC on December 11, 2017 and a Form 4 filed with SEC on January 26, 2018, the total number of AutoNation shares beneficially owned by the ESL Entities consists of 3,672,316 shares held by Partners, 212,821 shares held by the Foundation, and 11,490,581 shares held by Mr. Lampert. Each of Partners, RBS, and Investments has sole voting and dispositive power with respect to 3,672,316 shares and shared dispositive power with respect to 11,490,581 shares; the Foundation has sole voting and dispositive power with respect to 212,821 shares; and Mr. Lampert has sole voting power with respect to 15,375,718 shares, sole dispositive power with respect to 3,885,137 shares, and shared dispositive power with respect to 11,490,581 shares.

(5) Based on a Schedule 13G/A filed with the SEC on February 13, 2017, Capital Research Global Investors has sole voting and dispositive power with respect to 6,000,000 shares.

(6) Based on a Schedule 13G filed with the SEC on February 1, 2018, Blackrock, Inc. has sole voting power with respect to 5,144,715 shares and sole dispositive power with respect to 5,669,376 shares.

(7) Based on a Schedule 13G/A filed with the SEC on February 12, 2018, The Vanguard Group has sole voting power with respect to 43,473 shares, shared voting power with respect to 10,259 shares, sole dispositive power with respect to 5,000,688 shares, and shared dispositive power with respect to 51,837 shares.

(8) Includes Artisan Partners Limited Partnership (“APLP”), Artisan Investments GP LLC (“Artisan Investments”), Artisan Partners Holdings LP (“Artisan Holdings”), and Artisan Partners Asset Management Inc. (“APAM”). APLP, Artisan Investments, Artisan Holdings, and APAM are collectively referred to as the “Artisan Entities.”

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(9) Based on a Schedule 13G filed with the SEC on February 7, 2018, each of the Artisan Entities has shared voting power with respect to 4,731,398 shares and shared dispositive power with respect to 5,029,319 shares.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth certain information as of February 21, 2018 regarding the amount of our common stock beneficially owned by (1) each of our directors and Board nominees, (2) each of our 2017 named executive officers, and (3) our directors and executive officers as a group. Beneficial ownership includes shares that may be acquired within 60 days of February 21, 2018 through the exercise of outstanding stock options (including, in the case of Messrs. Jackson and Cannon, who are retirement eligible under our equity compensation plans, currently unvested stock options that would accelerate in the event of their retirement, and, in the case of each non-employee director, currently unvested stock options that would accelerate in the event of termination of Board service and vested restricted stock units), as well as shares of restricted stock. Unless otherwise indicated and subject to applicable community property laws, each person listed in the table has sole voting and investment power with respect to the securities listed.

Name of Beneficial Owner	Number of Shares of Common Stock Owned		Number of Shares Acquirable Within 60 days		Shares of Common Stock Beneficially Owned Number	Percent(1)
Mike Jackson	114,463		1,394,963	(2)	1,509,426	1.6 %
Rick L. Burdick	19,490		99,096	(3)	118,586	*
Tomago Collins	—		19,096	(4)	19,096	*
David B. Edelson	7,350		163,596	(5)	170,946	*
Karen C. Francis	500		9,837	(4)	10,337	*
Robert R. Grusky	13,081		104,596	(6)	117,677	*
Kaveh Khosrowshahi	—		14,096	(4)	14,096	*
Michael Larson	13,000		124,096	(7)	137,096	*
G. Mike Mikan	9,500		34,096	(3)	43,596	*
Alison H. Rosenthal	2,500		76,596	(5)	79,096	*
Jacqueline A. Travisano	—		—		—	*
Cheryl Miller	6,999	(8)	150,295		157,294	*
Thomas M. Conophy	4,658	(9)	—		4,658	*
Donna Parlapiano	11,469	(10)	53,788		65,257	*
Marc Cannon	15,930	(11)	76,957		92,887	*
William R. Berman(12)	—		—		—	*
Jonathan P. Ferrando(13)	33,000		257,975		290,975	*
All directors and executive officers as a group (17 persons)	234,644		2,413,190		2,647,834	2.8 %

*Less than 1%.

(1) Based on 91,824,778 shares outstanding at February 21, 2018.

(2) Includes 829,427 shares that may be acquired upon exercise of vested options, and 565,536 shares underlying unvested options since Mr. Jackson is eligible for retirement treatment under the Company's equity compensation plans. All options held by Mr. Jackson are owned by a trust of which he is the sole trustee and beneficiary. Mr. Jackson disclaims beneficial ownership of 236,391 shares underlying unvested options, which options he has agreed to transfer in the future pursuant to a transaction that will be exempt from Section 16 of the Exchange Act pursuant to Rule 16a-12 promulgated thereunder.

(3) Includes 19,096 vested restricted stock units.

(4) Represents vested restricted stock units.

(5) Includes 21,596 vested restricted stock units.

(6) Includes 19,596 vested restricted stock units.

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(7) Includes 14,096 vested restricted stock units.
(8) Includes 903 unvested shares of restricted stock.
(9) Includes 3,750 unvested shares of restricted stock.
(10) Includes 7,929 unvested shares of restricted stock.
(11) Includes 5,548 unvested shares of restricted stock.
(12) Mr. Berman resigned from his position as President and Chief Operating Officer of the Company effective as of May 15, 2017 and separated from the Company on June 30, 2017. We have no information regarding his common stock ownership as of February 21, 2018. Accordingly, information regarding number of shares of common stock owned is presented as of his separation date.
(13) Mr. Ferrando resigned from his position as Executive Vice President - General Counsel, Corporate Development and Human Resources of the Company effective as of March 31, 2017. We have no information regarding his common stock ownership as of February 21, 2018. Accordingly, information regarding number of shares of common stock owned is presented as of his separation date.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our directors, certain of our officers, and persons who beneficially own more than 10% of our stock file with the SEC initial reports of ownership and reports of changes in ownership of our stock and our other equity securities. Based solely on a review of the copies of such reports furnished to us during the year ended December 31, 2017, and written representations that no reports on Form 5 were required, our directors, executive officers, and greater than 10% beneficial owners complied with all such applicable filing requirements, except that one Form 4 for one transaction was filed late for Ms. Parlapiano, two Forms 4 for two transactions were filed late for Christopher Cade, and one timely-filed Form 3 for Mr. Iserman was amended to include shares previously omitted, in each case due to an administrative error that was not the fault of the reporting persons.

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EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

The following statement made by our Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate such statement by reference.

The Compensation Committee of the Company has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Compensation Committee:
Michael Larson, Chair
Rick L. Burdick
G. Mike Mikan

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

Our compensation programs are administered by the Compensation Committee (referred to as the "Committee" in this section) of the Board. The Committee primarily assists our Board in fulfilling its compensation oversight responsibilities by, among other things:

- reviewing our director compensation program and suggesting changes in director compensation to the Board, if appropriate;
- reviewing and approving the compensation of our CEO and other senior executive officers and setting annual and long-term performance goals for these individuals;
- reviewing and approving the compensation of all of our corporate officers;
- reviewing the Company's program for management development and succession planning;
- reviewing and approving performance-based compensation of executive officers, including incentive awards and stock-based awards; and
- administering our equity compensation plans.

Since May 14, 2015, the Committee has consisted of Messrs. Larson (Chair), Burdick, and Mikan.

This section discusses the Company's compensation policies and programs as it relates to the following "named executive officers" whose compensation information is presented in the tables that follow:

Mike Jackson	Chairman of the Board, Chief Executive Officer and President
Cheryl Miller	Executive Vice President and Chief Financial Officer
Thomas M. Conophy	Executive Vice President and Chief Technology Officer
Donna Parlapiano	Executive Vice President, Franchise Operations, Mergers & Acquisitions, and Corporate Real Estate
Marc Cannon	Executive Vice President - Chief Marketing Officer, Communications and Public Policy
William R. Berman	Former President and Chief Operating Officer
Jonathan P. Ferrando	Former Executive Vice President - General Counsel, Corporate Development and Human Resources

Mr. Berman resigned from his position as President and Chief Operating Officer of the Company effective as of May 15, 2017 and separated from the Company on June 30, 2017. Mr. Ferrando resigned from his position as Executive Vice President - General Counsel, Corporate Development and Human Resources of the Company effective as of March 31, 2017. See "Potential Payments Upon Termination or Change in Control - Named Executive Officer Departures" for a description of the separation agreements we entered into with Mr. Ferrando and Mr. Berman in connection with their separations of employment.

Compensation Philosophy and Objectives

The Committee's fundamental philosophy is to closely link executive compensation with the achievement of performance goals, which are reviewed by our Board, and to create an owner-oriented culture. The Committee's objectives in administering our compensation program for executive officers are to ensure that we are able to attract and retain highly-skilled executives and to provide a compensation program that incentivizes management to optimize business performance, deploy capital productively, and increase long-term stockholder value. The Committee also believes that overall compensation should be fair for the services rendered and that the compensation structure should be transparent, which is why the key components of executive compensation are limited to a base salary, an annual performance incentive award based solely on the achievement of a pre-established performance goal, and long-term incentive awards in the form of stock-based awards. The Committee strives to ensure executive compensation aligns management with the Company's annual and long-term plans and strategy.

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Setting Compensation Levels of Executive Officers

The Committee reviews executive compensation at its meetings throughout the year and sets executive compensation based primarily on our financial and operating performance and on executive management's performance in executing the Company's business strategy, optimizing the Company's business performance and productivity of its business operations, and increasing long-term stockholder value. The Committee also considers the scope of an executive's duties and responsibilities and individual executive performance. Our CEO reviews the performance of other named executive officers and makes recommendations, if any, to the Committee with respect to compensation adjustments for such officers. However, the Committee determines in its sole discretion whether to make any adjustments to the compensation paid to such executive officers.

For 2017, as in prior years, a significant portion of each named executive officer's total compensation was allocated to compensation in the form of an annual performance-based incentive award and stock-based awards in order to provide incentives to create and maintain long-term stockholder value. The Committee also reviewed and considered total compensation in setting each element of compensation for our named executive officers.

The Role of the Compensation Consultant. Since 2013, the Committee has engaged PM, an independent compensation consulting firm, to provide research and analysis and to make recommendations as to the form and level of executive compensation. The Committee sought input from PM on executive compensation matters for 2017, including the design and competitive positioning of our executive compensation program, our peer group, appropriate compensation levels, and evolving compensation trends. See "Board of Directors and Corporate Governance - Board Committees - Compensation Committee" above for more information regarding the Committee's engagement of PM.

The Role of Peer Companies and Benchmarking. As part of its review of executive compensation for 2017, the Committee reviewed the executive compensation arrangements at peer group companies. Our peer group includes comparable specialty retail companies based on specific financial measures, including, but not limited to, revenue, total assets, market capitalization, and net income. For purposes of 2017 executive compensation decisions, there were no changes to our peer group as compared to 2016. For 2017, our peer group consisted of the following companies:

AutoZone, Inc.	GameStop Corp.	Nordstrom, Inc.
Bed Bath & Beyond Inc.	The Gap, Inc.	Ross Stores, Inc.
Best Buy Co., Inc.	Genuine Parts Company	Staples, Inc.
CarMax, Inc.	Kohl's Corporation	Tiffany & Co.
Dollar General Corporation	L Brands, Inc.	The TJX Companies, Inc.
Dollar Tree, Inc.	Macy's Inc.	

The Committee reviewed the executive compensation benchmark data, including a report prepared by PM containing its findings, data, and recommendations, in order to evaluate and confirm whether our executive compensation was within a reasonably competitive range and to set executive compensation for 2017. The Committee, however, did not set executive compensation at a specific target percentile within the peer group. The Committee focuses on providing compensation that is fair for the services rendered and reflects an executive's experience, performance, and scope of responsibilities, closely linking executive compensation with the achievement of Company performance goals, and creating an owner-oriented culture, where the interests of our executive officers are aligned with the long-term interests of our stockholders.

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2017 Financial Performance Highlights

At our 2011, 2014, and 2017 Annual Meetings of Stockholders, our executive compensation program was approved by our stockholders, on an advisory basis, by more than 96%, 98%, and 98% of the votes cast, respectively. The Committee believes that this level of approval is indicative of our stockholders' strong support of our compensation philosophy and goals, and the Committee has continued to closely link executive compensation with the achievement of performance goals. Since 2011, AutoNation's earnings per share from continuing operations and total revenue have grown 130% and 56%, respectively.

2017 Employee Equity and Incentive Plan

In January 2017, the Board, upon the recommendation of the Committee, discontinued the AutoNation, Inc. 2008 Employee Equity and Incentive Plan (the "2008 Plan") and approved the AutoNation, Inc. 2017 Employee Equity and Incentive Plan (the "2017 Plan"), in each case subject to stockholder approval of the 2017 Plan. The 2017 Plan was adopted to advance the interests of the Company by providing eligible individuals of the Company and its affiliates with an opportunity to acquire or increase a proprietary interest in the Company, and to receive performance-based cash and equity incentive compensation, in order to create a stronger incentive to expend maximum effort for the growth and success of the Company and its subsidiaries, and to encourage such eligible individuals to remain in the employ of the Company or its affiliates. Our stockholders approved the 2017 Plan at the 2017 Annual Meeting held on April 19, 2017 with approximately 98% of the votes cast voting for approval of the 2017 Plan. The 2017 Plan also replaced the AutoNation, Inc. Senior Executive Incentive Bonus Plan (the "Executive Incentive Plan").

2017 Executive Compensation Elements

The key elements of our executive compensation program for the year ended December 31, 2017 were:

- base salary;
- annual incentive award; and
- long-term incentive compensation in the form of restricted stock units ("RSUs").

Executive officers are also entitled to limited perquisites and other benefits as outlined below under "Perquisites and Other Benefits." The following is a summary of the considerations underlying each component of compensation paid to our named executive officers for 2017.

Base Salary

We provide our named executive officers and other officers with a base salary to compensate them for services rendered during the fiscal year. The Committee reviews and, as appropriate, adjusts the base salaries for our named executive officers. The factors that the Committee considers in setting salaries include the scope of job responsibilities, individual contributions to our success, company-wide performance, and market compensation.

For 2017, the Committee, advised by PM and based on a review of the factors set forth above, adjusted the annual base salaries for Mses. Miller and Parlapiano. Effective as of February 16, 2017, the annual base salary for each of Ms. Miller and Ms. Parlapiano was $650,000.

Annual Incentive Awards

2017 Incentive Awards

A core component of our compensation program is the AutoNation Operating Performance incentive plan (the "AOP"), the annual incentive compensation program in which incentive award-eligible, corporate-level employees participate. The AOP is designed to incentivize management to continually improve our operating performance and to use capital to maximize returns. In January 2017, the Committee established a performance goal under the AOP for 2017 based upon a specified level of adjusted operating income per basic share (set at a higher level than the Company's actual performance in the prior year), taking into consideration our 2016 financial results, planned capital investments, anticipated corporate transactions, macroeconomic factors, payout opportunities, and pay-for-performance alignment. In prior years, the Committee used two performance measures, one of which was the same adjusted operating income per basic share performance measure used for 2017 (weighted at 75% in prior years). For 2017, the Committee shifted to a single performance measure for the 2017 Incentive Awards in connection with the shift to performance-based restricted stock units discussed below under "Long-Term Incentive Awards."

The following table sets forth the 2017 threshold, target, and maximum payout levels established under the AOP based on the adjusted operating income per basic share performance metric:

2017 Incentive Awards

	Performance	Payout
Threshold	$7.15	50%
Target	$7.94	100%
Maximum	$9.53	200%

In calculating the level of our performance under the AOP, certain adjustments are made to operating income to ensure that operating performance is measured to incentivize management appropriately (for example, floorplan interest expense is charged against operating income to ensure management manages this expense; on a U.S. generally accepted accounting principles basis, floorplan interest expense is not included in operating income). Operating income per basic share is also adjusted for acquisitions and to reflect a capital charge for the repurchase of shares of our common stock. The capital charge is designed to encourage more productive uses of capital and to discourage less productive uses of capital.

In order to permit the annual cash incentive awards payable to our senior officers to be tax-deductible by the Company under Section 162(m) of the Code, at the same time that the Committee established a performance goal under the AOP, the Committee established an incentive compensation program for 2017 under our stockholder-approved 2017 Plan, using the same performance goal established under the AOP, for each person then serving as an executive officer of the Company, including Messrs. Jackson, Conophy, Cannon, Berman, and Ferrando and Mses. Miller and Parlapiano. The participants under the 2017 Plan for 2017 incentive award-purposes did not participate in the AOP. One hundred percent of the target incentive award for each participant in the AOP and the 2017 Plan was based upon achievement of the predetermined performance goal. Incentive awards under the AOP and the 2017 Plan were payable on a sliding scale based on the Company's actual achievement relative to the predetermined goal, with the possibility that awards earned may exceed or be less than the targeted payout level. The Committee had absolute "negative discretion" to eliminate or reduce the amount of any award under the AOP and the 2017 Plan.

In 2016, as part of its retention efforts with respect to Mr. Jackson, the Committee established a three-year deferred incentive compensation program for Mr. Jackson (referred to as the "Deferred Bonus Program"), which provided that a portion of the incentive compensation earned by Mr. Jackson (equal to the amount earned in respect of 33 1/3% of his base salary) for each of 2016, 2017, and 2018 would be paid to him on a deferred basis in February 2019 (without interest), subject to certain terms and conditions.

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The following table sets forth the 2017 threshold, target, and maximum awards, expressed as a percentage of salary, established by the Committee for each named executive officer under the 2017 Plan.

Participant	Threshold	Target	Maximum
Mike Jackson	100.00 %	200 %	400 %
Cheryl Miller	35.00 %	70 %	140 %
Thomas J. Conophy	35.00 %	70 %	140 %
Donna Parlapiano	35.00 %	70 %	140 %
Marc Cannon	35.00 %	70 %	140 %
William R. Berman	50.00 %	100 %	200 %
Jonathan P. Ferrando	50.00 %	100 %	200 %

Actual results for 2017 were above the performance target set by the Committee, and, as a result, the annual cash incentive payouts to our named executive officers (and all other eligible employees) were above target. Based on our financial performance against the performance target, incentive awards under the AOP and the 2017 Plan were paid at 107% of the targeted levels. The following table sets forth our performance under the AOP and the 2017 Plan for 2017:

2017 Performance Metric	Target	Attainment	Payout
Adjusted Operating Income Per Basic Share	$7.94	$8.05	107.00%

Actual payouts to our named executive officers are shown in the table titled "Summary Compensation Table" below. Pursuant to the Deferred Bonus Program, a portion of the 2017 incentive compensation earned by Mr. Jackson under the 2017 Plan (equal to $445,833) will be paid to him on a deferred basis in February 2019 (without interest), subject to certain terms and conditions.

Long-Term Incentive Awards

The Committee grants stock-based awards to our named executive officers in order to provide long-term incentives, which align the long-term interests of management with the long-term interests of our stockholders. The Committee believes that stock-based awards motivate our named executive officers to focus on optimizing our long-term business performance and stockholder value and create an owner-oriented culture. For 2017, the Committee administered our equity compensation plans and approved all stock-based awards under the 2017 Plan, which was approved by our stockholders at the 2017 Annual Meeting of Stockholders.

Stock-based awards are approved on an annual basis in amounts determined by the Committee, while carefully considering the cost to us and our stockholders, including common stock dilution. For 2017, the sum of all stock-based awards granted to AutoNation employees represented potential share issuances equal to approximately 0.6% of our outstanding shares of common stock, based on the number of shares of our common stock outstanding at the beginning of 2017.

In January 2017, the Committee, advised by PM and based on a review of peer group and market data, approved the 2017 long-term incentive plan under the 2017 Plan, which included a shift from stock options to performance-based RSU awards (the "2017 RSU Awards"). The 2017 RSU Awards were granted to each of our named executive officers on March 1, 2017, subject to stockholder approval of the 2017 Plan. For accounting purposes, the 2017 RSU awards were considered granted effective upon stockholder approval of the 2017 Plan on April 19, 2017. Mr. Ferrando's 2017 RSU Awards were canceled prior to stockholder approval of the 2017 Plan.

For 2017, each of our named executive officers received four awards of performance-based RSUs. Each award was granted subject to the achievement by the Company of not less than $400 million of "EBIT" (defined as gross profit, less selling, general, and administrative expenses, floorplan interest expense, and depreciation and amortization) for fiscal year 2017 (the "2017 Performance Goal").

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The first grant, representing approximately two-thirds of the total number of RSUs granted to each named executive officer in 2017, is subject only to the 2017 Performance Goal and a four-year vesting schedule pursuant to which 25% of the grant vests on each of the first four anniversaries of March 1, 2017. The second, third, and fourth grants (collectively, the “2017-2019 RSUs”), together representing approximately one-third of the total number of RSUs granted to each named executive officer in 2017, are each subject to a three-year performance period (fiscal years 2017-2019) based on an additional measure of earnings for the second grant (referred to as “EBITDA” below), a measure of return on invested capital for the third grant (referred to as “ROIC” below), and certain customer satisfaction indices for the fourth grant (referred to as “CSI” below). The second, third, and fourth grants represented 40%, 40%, and 20%, respectively, of the total number of 2017-2019 RSUs granted to our named executive officers in 2017.

The 2017-2019 RSUs will cliff vest following the three-year performance period, with zero to 150% of the target number of shares vesting depending on the Company’s performance relative to the applicable performance goal. Target levels of EBITDA, ROIC, and CSI were established by the Committee in January 2017 after consultation with PM and a review of the strategic plan for fiscal years 2017-2019. The Committee chose EBITDA as a performance measure because they believe that it is a strong indicator of overall financial performance and a key indicator used by industry analysts to evaluate operating performance and that it motivates our executives to drive company growth and profitability. The ROIC measure is intended to hold executives accountable for returns on capital investments. The CSI measure is intended to increase customer satisfaction and retention. The Committee believes that these performance measures appropriately align the interests of our executive officers with the interests of our stockholders, incentivize our executives to strive for continuously improving performance, and provide variable compensation based on performance achieved against pre-established goals.

In 2017, other eligible employees received time-based RSUs subject to a four-year vesting schedule pursuant to which 25% of the grant vests on each of the first four anniversaries of March 1, 2017.

Perquisites and Other Benefits

Our compensation program for named executive officers also includes limited perquisites and other benefits, including participation in the Company’s life and health insurance and similar benefit programs (including the AutoNation 401(k) Plan and the AutoNation, Inc. Deferred Compensation Plan) on the same general terms as other participants in these programs, participation in Company car programs entitling the executives to a demonstrator vehicle and/or a vehicle allowance, and use of an on-site fitness facility. In addition, Mr. Jackson’s employment agreement provides for personal use of corporate aircraft of up to 70 hours per year.

Employment Agreement with CEO

In January 2015, we entered into an amended employment agreement with Mike Jackson, pursuant to which Mr. Jackson will continue to serve as Chairman and Chief Executive Officer until December 31, 2019. The Committee believes that entering into the employment agreement with Mr. Jackson furthered our efforts to retain him. See “Summary Compensation Table” below for more information.

Severance and Change in Control Policy and Agreements for Post-Termination Payments

We have a policy governing severance and change in control agreements with the Company’s named executive officers, which is set forth in our Corporate Governance Guidelines. Generally, the policy provides that we will not enter into any severance agreements with senior executives that provide specified benefits in an amount exceeding 299% of the sum of such executive’s base salary plus bonus unless such severance agreement has been submitted to a stockholder vote. Further, unless such severance agreement has been submitted to a stockholder vote, we will not enter into a severance agreement that provides for the payment of specified benefits to an executive triggered by (i) a change in control of our Company that is approved by stockholders but not completed, or (ii) a completed change in control of the Company in which the named executive officer remains employed in a substantially similar capacity by the successor entity. We have not entered into any change in control agreements with any of our named executive officers.

Our employment agreement with Mr. Jackson provides for payments or benefits to him at, following, or in connection with, termination under certain circumstances. We do not have employment agreements with our other named executive officers. The 2017 Plan, which is our active equity compensation plan, provides for vesting of unvested awards if they are not continued, assumed, or substituted, or in the event a qualifying termination of employment occurs within 24 months, following a change in control. The 2008 Plan provides for accelerated vesting of unvested awards in the

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event of a change in control. These provisions are designed to promote stability and continuity of senior management. A description of the applicable potential payments pursuant to such provisions for the named executive officers is provided under "Potential Payments Upon Termination or Change in Control" below.

Policy Regarding Recoupment of Certain Incentive Compensation

In February 2015, the Board adopted the AutoNation, Inc. Policy Regarding Recoupment of Certain Incentive Compensation (the "Policy"). Under the Policy, if an officer (as defined for purposes of Section 16 of the Securities Exchange Act of 1934, as amended) of the Company engages in fraud, intentional misconduct, or gross negligence, and as a result, we are required to restate our financial statements due to material noncompliance with any financial reporting requirement, then we may require reimbursement or forfeiture of all or a portion of any excess incentive compensation paid to or received by such officer, during the three-year period preceding the date on which we are required to prepare the restatement, that would not have been paid or received under the specific terms of the applicable incentive award had the financial results been originally reported as set forth in the restatement. Each of our named executive officers is covered by the Policy. A copy of the Policy is available at investors.autonation.com.

Consideration of the Company's Stockholder Vote on Executive Compensation

At both our 2011 and 2017 Annual Meetings of Stockholders, our stockholders voted, on an advisory basis, to approve a triennial holding of the advisory vote on executive compensation. In addition, at our 2011, 2014, and 2017 Annual Meetings of Stockholders, our executive compensation program was approved by our stockholders, on an advisory basis, by more than 96%, 98%, and 98% of the votes cast, respectively. The Committee believes that the positive outcomes of the "say-on-pay" votes demonstrate strong stockholder support for the compensation programs established by the Committee for our named executive officers, and accordingly, it has not changed its overall approach.

Company Policy on Section 162(m) Limits on Deductibility of Compensation

Section 162(m) of the Internal Revenue Code places a limit of $1 million per year on the amount of compensation paid to certain of our executive officers that the Company may deduct for federal income tax purposes. An exception to the $1 million limitation for performance-based compensation meeting certain requirements was repealed beginning in 2018, as described below.

H.R.1, formally known as the "Tax Cuts and Jobs Act," enacted on December 22, 2017, substantially modifies Section 162(m) by, among other things, eliminating the performance-based exception to the $1 million deduction limit effective as of January 1, 2018. As a result, beginning in 2018, compensation paid to our named executive officers in excess of $1 million will generally be nondeductible, whether or not it is performance-based. The Compensation Committee will continue to maintain flexibility and the ability to pay competitive compensation by not requiring all compensation to be deductible. H.R.1 also includes a transition rule under which the changes to Section 162(m) described above will not apply to compensation payable pursuant to a written binding contract that was in effect on November 2, 2017 and is not subsequently materially modified. To the extent applicable to our existing contracts and awards, the Compensation Committee may avail itself of the transition rule.

Executive Stock Ownership Guidelines

In order to further align the long-term interests of management and stockholders and to ensure an owner-oriented culture, the Board has established stock ownership guidelines for our Chief Executive Officer and President and each Executive Vice President. These guidelines provide that the Board expects that the person(s) holding the offices of Chief Executive Officer and/or President will hold shares of our common stock having a fair market value of not less than four times his or her annual base salary and that each Executive Vice President will hold shares of our common stock having a fair market value of not less than two times his or her annual base salary. In January 2017, the Board amended these guidelines to provide that a covered executive is expected to retain 50% of any shares of our common stock, net of applicable tax withholding and the payment of any exercise or purchase price (if applicable), he or she receives upon the vesting or settlement of any equity awards or the exercise of any employee stock options, until the applicable threshold under the guidelines is met. In addition, the amended guidelines provide that each covered executive is expected to satisfy the guidelines by the later of January 31, 2022 or five years after he or she became a covered executive.

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The following table sets forth information regarding the number and dollar value of shares held by our named executive officers as of February 21, 2018, and lists the specific ownership requirements under the ownership guidelines.

EXECUTIVE STOCK OWNERSHIP GUIDELINES

Name	Ownership as of February 21, 2018		Ownership Requirement
	Number of Shares(1)	Dollar Value of Shares(2)	
Mike Jackson	114,463	$5,922,316	$5,000,000 (4 x Salary)
Cheryl Miller	6,096	$315,407	$1,300,000 (2 x Salary)
Thomas M. Conophy	908	$46,980	$1,200,000 (2 x Salary)
Donna Parlapiano	3,540	$183,160	$1,300,000 (2 x Salary)
Marc Cannon	10,382	$537,165	$1,290,000 (2 x Salary)

(1) Includes common stock beneficially owned by each executive and excludes shares underlying stock options and unvested restricted stock.

(2) The value of the shares is based on the closing price of our common stock on February 21, 2018 ($51.74).

Conclusion

The Committee believes that our compensation programs appropriately reward executive performance and align the interests of our named executive officers and key employees with the long-term interests of our stockholders, while also enabling the Company to attract and retain talented executives. The Committee will continue to evolve and administer our compensation program in a manner that the Committee believes will be in the best interests of our stockholders.

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COMPENSATION TABLES

Summary Compensation Table

The following table provides information regarding compensation earned by each of our named executive officers for 2017, 2016, and 2015, except in the case of Messrs. Conophy and Cannon who were not named executive officers in 2016 and 2015. This table should be read in conjunction with the narrative descriptions under “Compensation Discussion and Analysis.”

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(2)	Total ($)
Mike Jackson	2017	1,250,000	—	8,128,579	—	2,675,000 (3)	133,365 (4)	12,186,944
Chairman of the Board, Chief	2016	1,250,000	—	—	7,717,160	2,024,250 (3)	109,968	11,101,378
Executive Officer and President	2015	1,250,000	—	—	7,074,586	1,699,313 (3)	114,905	10,138,804
Cheryl Miller	2017	643,750	—	1,672,161	—	486,850	35,381 (5)	2,838,142
Executive Vice	2016	596,875	—	—	1,557,924	340,074	43,811	2,538,684
President and Chief Financial Officer	2015	522,917	—	—	1,078,289	309,275	43,056	1,953,537
Thomas M. Conophy Executive Vice President and Chief Technology Officer	2017	600,000	—	1,393,437	—	449,400	131,543 (6)	2,574,380
Donna Parlapiano	2017	635,000	—	928,958	—	486,850	17,742 (7)	2,068,550
Executive Vice	2016	532,084	—	315,180	322,889	257,485	17,571	1,445,209
President, Franchise Operations, Mergers & Acquisitions and Corporate Real Estate	2015	515,208	102,000	286,207	266,263	193,722	17,393	1,380,793
Marc Cannon Executive Vice President - Chief Marketing Officer, Communications and Public Policy	2017	630,000	—	928,958	—	483,105	23,091 (8)	2,065,154
William R, Berman	2017	491,779	—	2,415,359 (9)	—	—	1,512,064 (10)	4,419,202
Former President and	2016	771,875	—	—	1,884,002	627,518	45,315	3,328,710
Chief Operating Officer	2015	687,731	—	—	2,156,578	507,528	431,113	3,782,950
Jonathan P. Ferrando	2017	195,433	—	—	1,478,678 (11)	—	1,721,390 (12)	3,395,501
Former Executive Vice	2016	747,917	—	—	2,608,618	607,275	43,212	4,007,022
President - General Counsel, Corporate Development and Human Resources	2015	700,000	—	—	2,970,749	570,969	33,921	4,275,639

(1) The amounts reported reflect the aggregate grant date fair value of each award computed in accordance with FASB ASC Topic 718 for each year shown in the table. For additional information regarding the calculation of these amounts, see Note 10 of the Notes to Consolidated Financial Statements in our Annual Reports on Form 10-K for the years ended December 31, 2017, 2016, and 2015, respectively.

Assuming the highest level of performance is achieved under the applicable performance conditions, the maximum possible value of the performance-based RSUs granted to certain named executive officers in 2017 as of the grant date would be as follows:

Mr. Jackson	Ms. Miller	Mr. Conophy	Ms. Parlapiano	Mr. Cannon	Mr. Berman
$9,483,350	$1,950,795	$1,625,612	$1,083,756	$1,083,756	$2,817,920(a)

(a) Mr. Berman’s 2017 stock awards were canceled on June 30, 2017 in connection with his separation from the Company.

(2) The amounts reported for personal usage by Mr. Jackson of corporate aircraft are calculated based on the aggregate incremental cost to the Company. Such incremental cost to the Company is calculated based on the direct operating costs to the Company, including fuel costs, crew fees and travel expenses, trip-related repairs and maintenance, landing fees, and other direct operating costs. The amounts reported for personal usage of cars are based on imputed income attributable to each named executive officer calculated in accordance with Treasury regulations, which amounts we believe are equal to or greater than our incremental costs of providing such usage. In addition to

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the perquisites and other benefits identified in the footnotes below, our named executive officers also are eligible to use our on-site fitness facility, and from time to time, use our tickets for sporting and entertainment events for personal purposes, and receive occasional secretarial support with respect to personal matters.

(3) Includes amounts that are subject to the terms of the Deferred Bonus Program established for Mr. Jackson. See "Compensation Discussion and Analysis - Annual Incentive Awards."

(4) Includes $62,232 for personal usage of corporate aircraft, $45,000 for a vehicle allowance, and $24,403 for group term life insurance premiums, as well as the cost of a Company paid executive health examination.

(5) Includes $29,571 for demonstrator vehicle usage, as well as the cost of a Company paid executive health examination.

(6) Includes $98,221 for relocation reimbursement (including $35,960 for tax reimbursement) and $24,871 for demonstrator vehicle usage, as well as the cost of a Company paid executive health examination.

(7) Includes $15,600 for vehicle allowance.

(8) Includes $15,244 for vehicle allowance, as well as the cost of a Company paid executive health examination.

(9) Mr. Berman's 2017 stock awards were canceled on June 30, 2017 in connection with his separation from the Company.

(10) Includes $1,468,250 for severance compensation (received pursuant to the terms of the Separation Agreement by and between the Company and Mr. Berman described below under "Potential Payments Upon Termination or Change in Control - Named Executive Officer Departures"), as well as $42,297 for vehicle allowance.

(11) Pursuant to the terms of the Retirement Agreement by and between the Company and Mr. Ferrando described below under "Potential Payments Upon Termination or Change in Control - Named Executive Officer Departures," the Company agreed to accelerate the vesting of unvested options held by Mr. Ferrando and agreed that such unvested options would remain exercisable until March 31, 2020. The amounts reported reflect the aggregate grant date fair value of each modified award computed in accordance with FASB ASC Topic 718. The exercise price of each such unvested option was higher than the closing price per share of our common stock on the effective date of his retirement.

(12) Includes $1,700,625 for severance compensation (received pursuant to the terms of the Retirement Agreement referenced in footnote 11 above), as well as $9,645 for demonstrator vehicle usage and the cost of a Company paid executive health examination.

Employment Agreement with CEO. On January 15, 2015, we entered into an amended employment agreement with Mr. Jackson pursuant to which he serves as our Chairman and Chief Executive Officer. The agreement, which expires on December 31, 2019 (subject to earlier termination in certain circumstances), provides for a continuation of his base salary of $1,250,000 per year, subject to future increases as determined by the Compensation Committee.

Mr. Jackson's employment agreement also provides for his participation in the Executive Incentive Plan (or any successor or substitute to the Executive Incentive Plan), with bonus eligibility and performance objectives as established by the Compensation Committee, provided that the target award level will be no less than 150% of his base salary. For 2017, Mr. Jackson's target award under the 2017 Plan was equal to 200% of his base salary. A portion of his annual incentive awards is payable on a deferred basis (without interest), subject to certain terms and conditions, as described above under "Compensation Discussion and Analysis - Annual Incentive Awards." The agreement provides that Mr. Jackson will participate in our equity awards program during each year of his employment at the discretion of the Compensation Committee. See "Potential Payments Upon Termination or Change in Control" for a description of certain provisions in his employment agreement that provide for payments or benefits to him at, following, or in connection with, termination under certain circumstances. The agreement also contains non-competition covenants and provides that Mr. Jackson is entitled to certain benefits during his employment, including limited personal use of our corporate aircraft.

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Grants of Plan-Based Awards in Fiscal 2017

The following table sets forth certain information with respect to the non-equity incentive plan awards and the stock-based awards granted to our named executive officers in 2017. The material terms of these awards are described above in the sections titled “Annual Incentive Awards” and “Long-Term Incentive Awards” under “Compensation Discussion and Analysis.”

GRANTS OF PLAN-BASED AWARDS IN FISCAL 2017

Name	Award Type	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/sh)	Gr Da Fa of an Op Aw ($)
				Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)			
Mike Jackson	PBRSU	4/19/2017	1/30/2017					125,151				5,4
	PBRSU-EBITDA	4/19/2017	1/30/2017				12,515	25,030	37,545			1,0
	PBRSU-ROIC	4/19/2017	1/30/2017				12,515	25,030	37,545			1,0
	PBRSU-CSI	4/19/2017	1/30/2017				6,258	12,516	18,774			54
	Annual Cash			1,250,000	2,500,000	5,000,000						
Cheryl Miller	PBRSU	4/19/2017	1/30/2017					25,745				1,1
	PBRSU-EBITDA	4/19/2017	1/30/2017				2,574	5,149	7,723			22
	PBRSU-ROIC	4/19/2017	1/30/2017				2,574	5,149	7,723			22
	PBRSU-CSI	4/19/2017	1/30/2017				1,287	2,575	3,862			11
	Annual Cash			227,500	455,000	910,000						
Thomas M. Conophy	PBRSU	4/19/2017	1/30/2017					21,454				92
	PBRSU-EBITDA	4/19/2017	1/30/2017				2,145	4,291	6,436			18
	PBRSU-ROIC	4/19/2017	1/30/2017				2,145	4,291	6,436			18
	PBRSU-CSI	4/19/2017	1/30/2017				1,072	2,145	3,217			92
	Annual Cash			210,000	420,000	840,000						
Donna Parlapiano	PBRSU	4/19/2017	1/30/2017					14,303				61
	PBRSU-EBITDA	4/19/2017	1/30/2017				1,430	2,860	4,290			12
	PBRSU-ROIC	4/19/2017	1/30/2017				1,430	2,860	4,290			12
	PBRSU-CSI	4/19/2017	1/30/2017				715	1,431	2,146			61
	Annual Cash			227,500	455,000	910,000						
Marc Cannon	PBRSU	4/19/2017	1/30/2017					14,303				61
	PBRSU-EBITDA	4/19/2017	1/30/2017				1,430	2,860	4,290			12
	PBRSU-ROIC	4/19/2017	1/30/2017				1,430	2,860	4,290			12
	PBRSU-CSI	4/19/2017	1/30/2017				715	1,431	2,146			61
	Annual Cash			225,750	451,500	903,000						
William R. Berman	PBRSU(2)	4/19/2017	1/30/2017					37,188				1,6
	PBRSU-EBITDA(2)	4/19/2017	1/30/2017				3,719	7,438	11,157			32
	PBRSU-ROIC(2)	4/19/2017	1/30/2017				3,719	7,438	11,157			32
	PBRSU-CSI(2)	4/19/2017	1/30/2017				1,859	3,718	5,577			16
	Annual Cash(3)			462,500	925,000	1,850,000						

Jonathan P. Ferrando	Option(4)	3/31/2017				6,540	43.45	55
	Option(4)	3/31/2017				6,540	46.22	48
	Option(4)	3/31/2017				6,540	47.25	46
	Option(4)	3/31/2017				6,540	48.80	42
	Option(4)	3/31/2017				17,219	52.65	94
	Option(4)	3/31/2017				17,219	57.44	74
	Option(4)	3/31/2017				17,219	54.04	87
	Option(4)	3/31/2017				17,220	58.29	71
	Option(4)	3/31/2017				25,829	62.60	87
	Option(4)	3/31/2017				25,829	62.93	86
	Option(4)	3/31/2017				25,829	58.08	10
	Option(4)	3/31/2017				25,830	64.48	80
	Option(4)	3/31/2017				108,000	52.53	59
	Annual Cash(3)		375,000	750,000	1,500,000			

(1) Amounts reported in this column are based on the grant date fair value of awards computed in accordance with FASB ASC Topic 718.

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(2) Mr. Berman’s 2017 stock awards were canceled on June 30, 2017 in connection with his separation from the Company.

(3) Messrs. Berman and Ferrando received a prorated 2017 incentive award, based on time served as an employee of the Company during 2017. See “Potential Payments Upon Termination or Change in Control - Named Executive Officer Departures” below.

(4) Pursuant to the terms of the Retirement Agreement by and between the Company and Mr. Ferrando described below under “Potential Payments Upon Termination or Change in Control - Named Executive Officer Departures,” the Company agreed to accelerate the vesting of unvested options held by Mr. Ferrando and agreed that such unvested options would remain exercisable until March 31, 2020. The amounts reported reflect the aggregate grant date fair value of each modified award computed in accordance with FASB ASC Topic 718. The exercise price of each such unvested option was higher than the closing price per share of our common stock on the effective date of his retirement.

Outstanding Equity Awards at End of Fiscal 2017

The following table provides information concerning unexercised options and unvested restricted stock and restricted stock units held by our named executive officers as of December 31, 2017. Mr. Berman did not hold any equity awards as of December 31, 2017.

OUTSTANDING EQUITY AWARDS AT END OF FISCAL 2017

		Option Awards(1)				Stock Awards(1)			
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Mike Jackson(2)	9/1/2009	33,006	—	18.02	3/2/2019				
	3/1/2010	37,104	—	18.20	3/1/2020				
	6/1/2010	37,104	—	19.64	3/1/2020				
	9/1/2010	37,104	—	23.21	3/1/2020				
	12/1/2010	37,104	—	26.49	3/1/2020				
	3/1/2011	32,231	—	32.50	3/1/2021				
	6/1/2011	32,231	—	34.51	3/1/2021				
	9/1/2011	32,231	—	40.37	3/1/2021				
	12/1/2011	32,231	—	35.99	3/1/2021				
	3/1/2012	29,294	—	34.09	3/1/2022				
	6/1/2012	29,294	—	35.00	3/1/2022				
	9/4/2012	29,294	—	41.16	3/1/2022				
	12/3/2012	29,294	—	38.63	3/1/2022				
	3/1/2013	25,316	—	43.45	3/1/2023				
	6/3/2013	25,316	—	46.22	3/1/2023				

9/3/2013	25,316	—	47.25	3/1/2023
12/2/2013	25,316	—	48.80	3/1/2023
3/3/2014	35,798	20,503	52.65	3/3/2024
6/2/2014	35,799	20,503	57.44	3/3/2024
9/2/2014	35,799	20,503	54.04	3/3/2024
12/1/2014	35,799	20,503	58.29	3/3/2024
3/2/2015	23,865	41,006	62.60	3/2/2025
6/1/2015	23,866	41,006	62.93	3/2/2025
9/1/2015	23,866	41,006	58.08	3/2/2025
12/1/2015	23,866	41,006	64.48	3/2/2025
3/1/2016	61,983	319,500	52.53	3/1/2026

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OUTSTANDING EQUITY AWARDS AT END OF FISCAL 2017

Name	Grant Date	Option Awards(1) Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards(1) Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Mike Jackson(2)	4/19/2017					—	—	125,151	6,424,001
(continued)	4/19/2017					—	—	12,515	642,395
	4/19/2017					—	—	12,515	642,395
	4/19/2017					—	—	6,258	321,223
Cheryl Miller	6/1/2009	245	—	16.99	3/2/2019				
	9/1/2009	246	—	18.02	3/2/2019				
	12/1/2009	246	—	17.70	3/2/2019				
	3/1/2010	715	—	18.20	3/1/2020				
	6/1/2010	715	—	19.64	3/1/2020				
	9/1/2010	1,010	—	23.21	3/1/2020				
	12/1/2010	1,010	—	26.49	3/1/2020				
	3/1/2011	1,243	—	32.50	3/1/2021				
	6/1/2011	1,243	—	34.51	3/1/2021				
	9/1/2011	1,243	—	40.37	3/1/2021				
	12/1/2011	1,243	—	35.99	3/1/2021				
	3/1/2012	1,229	—	34.09	3/1/2022				
	6/1/2012	1,229	—	35.00	3/1/2022				
	9/4/2012	1,229	—	41.16	3/1/2022				
	12/3/2012	1,229	—	38.63	3/1/2022				
	3/1/2013	1,150	—	43.45	3/1/2023				
	6/3/2013	1,150	—	46.22	3/1/2023				
	9/3/2013	1,150	—	47.25	3/1/2023				
	12/2/2013	1,150	—	48.80	3/1/2023				
	3/3/2014					903	46,351	—	—
	3/3/2014	38,405	12,802	52.65	3/3/2024				
	6/2/2014	8,405	2,802	57.44	3/3/2024				
	9/2/2014	8,405	2,802	54.04	3/3/2024				
	12/1/2014	8,405	2,802	58.29	3/3/2024				
	3/2/2015	6,250	6,250	62.60	3/2/2025				
	6/1/2015	6,250	6,250	62.93	3/2/2025				

	9/1/2015	6,250	6,250	58.08	3/2/2025					
	12/1/2015	6,250	6,250	64.48	3/2/2025					
	3/1/2016	21,500	64,500	52.53	3/1/2026					
	4/19/2017					—	—	25,745	(4)	1,321,491
	4/19/2017					—	—	2,574	(5)	132,123
	4/19/2017					—	—	2,574	(5)	132,123
	4/19/2017					—	—	1,287	(5)	66,062
Thomas M. Conophy	10/31/2016					3,750	192,488	—		—
	4/19/2017					—	—	21,454	(4)	1,101,234
	4/19/2017					—	—	2,145	(5)	110,103
	4/19/2017					—	—	2,145	(5)	110,103
	4/19/2017					—	—	1,072	(5)	55,026
Donna Parlapiano	3/1/2011	1,041	—	32.50	3/1/2021					
	6/1/2011	1,041	—	34.51	3/1/2021					
	9/1/2011	2,081	—	40.37	3/1/2021					

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OUTSTANDING EQUITY AWARDS AT END OF FISCAL 2017

Name	Grant Date	Option Awards(1) Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards(1) Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Donna Parlapiano (continued)	12/1/2011	1,041	—	35.99	3/1/2021					
	3/1/2012	1,892	—	34.09	3/1/2022					
	6/1/2012	1,892	—	35.00	3/1/2022					
	9/4/2012	2,838	—	41.16	3/1/2022					
	12/3/2012	2,838	—	38.63	3/1/2022					
	3/1/2013	3,270	—	43.45	3/1/2023					
	6/3/2013	3,270	—	46.22	3/1/2023					
	9/3/2013	3,270	—	47.25	3/1/2023					
	12/2/2013	3,270	—	48.80	3/1/2023					
	3/3/2014					1,143	58,670	—		—
	3/3/2014	2,570	857	52.65	3/3/2024					
	6/2/2014	2,570	857	57.44	3/3/2024					
	9/2/2014	2,570	857	54.04	3/3/2024					
	12/1/2014	2,570	857	58.29	3/3/2024					
	3/2/2015					2,286	117,340	—		—
	3/2/2015	1,713	1,714	62.60	3/2/2025					
	6/1/2015	1,713	1,714	62.93	3/2/2025					
	9/1/2015	1,713	1,714	58.08	3/2/2025					
	12/1/2015	1,713	1,714	64.48	3/2/2025					
	3/1/2016					4,500	230,985	—		—
	3/1/2016	4,456	13,368	52.53	3/1/2026					
	4/19/2017					—	—	14,303	(4)	734,173
	4/19/2017					—	—	1,430	(5)	73,402
	4/19/2017					—	—	1,430	(5)	73,402
	4/19/2017					—	—	715	(5)	36,701
Marc Cannon	3/1/2011	1,041	—	32.50	3/1/2021					
	6/1/2011	1,041	—	34.51	3/1/2021					
	9/1/2011	4,162	—	40.37	3/1/2021					
	12/1/2011	1,041	—	35.99	3/1/2021					
	3/1/2012	1,892	—	34.09	3/1/2022					
	6/1/2012	1,892	—	35.00	3/1/2022					

9/4/2012	3,784	—	41.16	3/1/2022				
12/3/2012	3,784	—	38.63	3/1/2022				
3/1/2013	3,270	—	43.45	3/1/2023				
6/3/2013	3,270	—	46.22	3/1/2023				
9/3/2013	3,270	—	47.25	3/1/2023				
12/2/2013	3,270	—	48.80	3/1/2023				
3/3/2014					830	42,604	—	—
3/3/2014	2,570	857	52.65	3/3/2024				
6/2/2014	2,570	857	57.44	3/3/2024				
9/2/2014	2,570	857	54.04	3/3/2024				
12/1/2014	2,570	857	58.29	3/3/2024				
3/2/2015					1,661	85,259	—	—
3/2/2015	1,713	1,714	62.60	3/2/2025				
6/1/2015	1,713	1,714	62.93	3/2/2025				

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OUTSTANDING EQUITY AWARDS AT END OF FISCAL 2017

Name	Grant Date	Option Awards(1) Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards(1) Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Marc Cannon (continued)	9/1/2015	1,713	1,714	58.08	3/2/2025					
	12/1/2015	1,713	1,714	64.48	3/2/2025					
	3/1/2016					3,057	156,916	—		—
	3/1/2016	4,456	13,368	52.53	3/1/2026					
	4/19/2017					—	—	14,303	(4)	734,173
	4/19/2017					—	—	1,430	(5)	73,402
	4/19/2017					—	—	1,430	(5)	73,402
	4/19/2017					—	—	715	(5)	36,701
Jonathan P. Ferrando	3/31/2017	17,219	—	52.65	3/31/2020					
	3/31/2017	17,219	—	57.44	3/31/2020					
	3/31/2017	17,219	—	54.04	3/31/2020					
	3/31/2017	17,220	—	58.29	3/31/2020					
	3/31/2017	25,829	—	62.60	3/31/2020					
	3/31/2017	25,829	—	62.93	3/31/2020					
	3/31/2017	25,829	—	58.08	3/31/2020					
	3/31/2017	25,830	—	64.48	3/31/2020					
	3/31/2017	108,000	—	52.53	3/31/2020					

(1) Stock options and shares of restricted stock vested or will vest in 25% annual increments on each of the first four anniversaries of June 1 of the year in which they were granted for awards granted prior to 2016 and March 1 of the year in which they were granted for awards granted in 2016.

(2) All options held by Mr. Jackson are owned by a trust of which he is the sole trustee and beneficiary. Options transferred by Mr. Jackson during 2017 and in previous years pursuant to transactions that were exempt from Section 16 of the Exchange Act pursuant to Rule 16a-12 promulgated thereunder are not shown in the table.

(3) Based on the closing price per share of our common stock on December 29, 2017 ($51.33).

(4) These restricted stock unit awards will vest in 25% annual increments on each of the first four anniversaries of the grant date.

(5) These restricted stock unit awards are scheduled to cliff vest on the date that achievement of the applicable performance goal is certified following the three-year performance period ending on December 31, 2019.

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Option Exercises and Stock Vested in Fiscal 2017

The following table provides information concerning exercises of stock options and vesting of restricted stock held by the named executive officers during 2017.

OPTION EXERCISES AND STOCK VESTED IN FISCAL 2017

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Mike Jackson	—	—	—	—
Cheryl Miller	—	—	1,287	51,930
Thomas M. Conophy	—	—	1,250	59,250
Donna Parlapiano	—	—	4,876	206,137
Marc Cannon	—	—	3,470	146,393
William R. Berman	27,204	221,167	1,246	50,276
Jonathan P. Ferrando	433,436	5,594,978	—	—

Non-Qualified Deferred Compensation in Fiscal 2017

The AutoNation, Inc. Deferred Compensation Plan (“DCP”) affords the named executive officers and certain other employees the opportunity to defer up to 75% of base salary and 90% of bonuses and/or commissions on a pre-tax basis. For 2017, we provided matching contributions for both the DCP and the AutoNation 401(k) Plan. Participants eligible for a matching contribution under the DCP were not eligible for the matching contribution in the AutoNation 401(k) Plan.

For 2017, we provided eligible participants under the DCP a matching contribution of up to 50% of the first $5,400 deferred. The 2017 matching contributions were credited by the Company as of January 2, 2018. One-third of the 2017 matching contributions vested as of January 2, 2018, and an additional one-third will vest in January 2019 and 2020, provided, however, that a participant’s matching contribution will immediately vest in the event of the death of such participant while actively employed, the disability of such participant, or the attainment of age sixty with at least six years of service by such participant. Our non-employee directors are also eligible to defer all or a portion of their annual and committee retainers under the DCP. We do not provide matching contributions to non-employee directors that participate in the DCP.

Earnings on deferrals are based on “deemed” investments in funds selected for inclusion in the DCP by us. The DCP provides daily processing of account transactions including participant deemed investment election changes. Additionally, the DCP provides for payment of vested deferrals and earnings upon separation from service, death, and disability as well as upon specified in-service payment dates selected by the participants. Participants may elect to receive payments upon specified in-service dates (in the form of a lump sum payment or up to five annual installments) or upon separation from service (in the form of a lump sum payment or up to 15 annual installments). The DCP is intended to meet the requirements of Section 409A of the Code and other relevant provisions thereunder and related Treasury regulations.

For 2018, we will provide eligible participants under the DCP a matching contribution of up to 100% of the first $5,500 deferred.

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The following table sets forth the non-qualified deferred compensation activity for each named executive officer during 2017.

NON-QUALIFIED DEFERRED COMPENSATION IN FISCAL 2017

Name	Executive Contributions in Last Fiscal Year ($)		AutoNation Contributions in Last Fiscal Year ($)		Aggregate Earnings (Loss) in Last Fiscal Year ($)(1)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)	
Mike Jackson	445,833	(2)	—		—	—	783,208	(2)
Cheryl Miller	49,000	(3)	2,700	(4)	22,529	—	183,459	(5)
Thomas M. Conophy	60,000	(3)	2,700	(4)	5,017	—	67,717	
Donna Parlapiano	—		—		1,787	—	9,284	(6)
Marc Cannon	90,000	(3)	2,700	(4)	91,936	—	556,352	
William R. Berman(7)	115,159	(3)	—		107,632	887,362	—	
Jonathan P. Ferrando(8)	25,000	(3)	—		6,896	157,023	11,604	(9)

(1) These amounts are not included in the “Summary Compensation Table.”

(2) Amount reflects the portion of Mr. Jackson’s non-equity incentive plan compensation for 2017 that was subject to the terms of the Deferred Bonus Program (included in the “Non-Equity Incentive Plan Compensation” column for 2017 in the “Summary Compensation Table”). See “Compensation Discussion and Analysis - Annual Incentive Awards” for additional information regarding the Deferred Bonus Program. Mr. Jackson did not participate in the DCP.

(3) Amounts are included in the “Salary” column for 2017 in the “Summary Compensation Table,” except for $25,000 for Ms. Miller, $40,000 for Mr. Cannon, and $62,752 for Mr. Berman, which amounts are included in the “Non-Equity Incentive Plan Compensation” column for 2016 in the “Summary Compensation Table” for each of them.

(4) Amounts represent 2017 matching contributions under the DCP, which were credited by the Company as of January 2, 2018.

(5) $39,438 and $12,500 of this amount has been previously reported as compensation in the “Summary Compensation Table” for 2016 and 2015, respectively.

(6) $4,002 of this amount has been previously reported as compensation in the “Summary Compensation Table” for 2015.

(7) In connection with his resignation, Mr. Berman forfeited $2,860 related to unvested matching contributions.

(8) In connection with his resignation, Mr. Ferrando forfeited $2,803 related to unvested matching contributions.

(9) Amount, other than (a) contributions reported in the “Executive Contributions in Last Fiscal Year” and “AutoNation Contributions in Last Fiscal Year” columns and (b) gains or losses not required to be reported in the “Summary Compensation Table,” has been previously reported as compensation in the “Summary Compensation Table” for previous years.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The tables below reflect the amount of compensation that would have been payable to each of our named executive officers, other than Messrs. Ferrando and Berman, under any contract, agreement, plan, or arrangement with us that provides for any payment to such executive in the event of termination of such executive's employment or a change in control of the Company, in each case assuming the termination or change in control occurred effective as of December 29, 2017, the last business day of our last completed fiscal year. See "Named Executive Officer Departures" below for information regarding certain separation agreements we entered into with Mr. Ferrando and Mr. Berman prior to December 29, 2017. The amount of compensation payable to each named executive officer serving on December 29, 2017 upon "termination for cause," "voluntary termination" (or "voluntary termination for good reason" and "voluntary termination without good reason"), "death or disability," "retirement," "involuntary termination without cause," and "change in control," as applicable, is shown below. We have prepared the tables based on the assumptions set forth below under "General Assumptions," and the tables should be considered in conjunction with those assumptions and the disclosures below the tables.

General Assumptions

Stock-Based Awards

In certain cases upon a termination of employment, the vesting of unvested stock options and shares of restricted stock would be accelerated. In the event of a participant's death, the vesting of RSUs would be accelerated or would continue on a prorated basis, subject to the satisfaction of applicable performance goals. In certain cases upon a termination of employment (other than as a result of death), the vesting of RSUs would continue in full or on a prorated basis, subject to the satisfaction of applicable performance goals, following the termination of employment.

To determine the value of each unvested stock option that would accelerate in the applicable cases, we calculated the difference, if positive, between (1) the closing price per share of our common stock on December 29, 2017, which was $51.33, and (2) the exercise price of such stock option, and multiplied such difference by the number of shares underlying such stock option. Since vested stock options are already exercisable upon termination (except in the case of a termination for "cause"), no value is attributable in the tables to the extension of the exercise period for such vested options. All unvested stock options held by our named executive officers as of December 29, 2017 had a higher exercise price than the closing price per share of our common stock on such date. Accordingly, no value is shown for the acceleration of such unvested stock options in the tables below.

To determine the market value of unvested shares of restricted stock and RSUs that would accelerate, and the market value of unvested RSUs that would continue to vest in the applicable cases, we multiplied (x) the number of unvested shares of restricted stock and RSUs that would accelerate or continue to vest by (y) $51.33. In addition, in the case of unvested RSUs that would continue to vest on a prorated basis subject to the satisfaction of applicable performance goals, we assumed that the target level of performance would be achieved.

Benefits

Mr. Jackson is eligible for health and welfare benefits, including disability and life insurance, in connection with certain termination events, and in such events the tables below reflect our expense based on the applicable premiums as of January 1, 2018.

Change in Control

We have not entered into any change in control agreements with any of our named executive officers. Under the 2008 Plan, in the event of a "change in control" (as defined in the 2008 Plan and related agreements), all outstanding stock options held by a named executive officer shall become immediately exercisable in full and, unless waived in advance of such change in control by our Board, such executive shall have the right to require us to pay, in cancellation of options, an amount equal to the product of (i) the excess of (a) the fair market value per share of the stock over (b) the option price times (ii) the number of shares of stock specified by such executive in a written notice to us. In addition, in the event of a change in control, all unvested shares of restricted stock held by a named executive officer shall immediately vest.

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Under the 2017 Plan, if an outstanding award is continued, assumed, or substituted in connection with a "change in control" (as defined in the 2017 Plan and related agreements), then, in the case of awards subject to performance goals:

- the performance goals will be deemed to be achieved at the target level of performance, and the awards will vest in full at the end of the applicable performance period, subject to the participant's continued employment, and
- if within 24 months following such change in control, a participant's employment or service is terminated without cause or the participant resigns with good reason (as defined in the 2017 Plan and related agreements), all of the participant's outstanding equity awards that have not yet vested will immediately vest and become exercisable and all restrictions on such awards will immediately lapse.

Under the 2017 Plan, if an outstanding award is not continued, assumed, or substituted in connection with a change in control, then such award will immediately vest and become exercisable and all restrictions on such awards will immediately lapse (if applicable, assuming achievement at the target level of performance goals).

The following tables disclose the value of unvested stock options, shares of restricted stock, and restricted stock units held by our named executive officers that would have accelerated if a change in control had taken place on December 29, 2017, the last business day of 2017. To determine such value, we used the formula described above under "Stock-Based Awards." With respect to awards granted under the 2017 Plan, we assumed that such awards were not continued, assumed, or substituted in connection with the change in control.

Restrictive Covenant Agreements

Our named executive officers have entered into restrictive covenants and other obligations as contained in various stock-based award agreements, confidentiality, non-solicitation/no-hire and non-compete agreements, and other similar agreements with us in connection with employment or the grant of stock-based awards. Generally, these restrictive covenants provide a restriction of one year in which the named executive officer may not perform certain activities within specified geographic regions. The competitive activities include generally (i) participating or owning an interest in an entity engaged in the auto business (as defined in the applicable agreement) or any other business of the type and character engaged in by us, (ii) employing any person that was employed by us within the prior six months or seeking to induce any such person to leave his or her employment, (iii) soliciting any customer to patronize any business in competition with our business, or (iv) requesting or advising our customers or vendors to withdraw, curtail, or cancel their business with us. In certain cases, the receipt of post-termination payments by our named executive officers is conditioned upon their compliance with these restrictive covenants. In addition, if a named executive officer violates these restrictive covenants or other Company policy, (x) all vested and unvested employee stock options held by him or her would terminate immediately, and he or she would be required to pay to the Company an amount equal to the gain on any exercise of any stock option exercised by him or her during the preceding 12 months and (y) all unvested shares of restricted stock held by him or her would be immediately forfeited, and he or she would be required to pay to the Company an amount equal to the value of any restricted stock that vested during the preceding 12 months. The following tables assume that each of our named executive officers would have complied with these agreements.

Receipt of Benefits

To the extent required in order to comply with Section 409A of the Code, certain payments that would otherwise be made during the six-month period immediately following the executive's termination of employment may instead be paid on the first business day after the date that is six months following the executive's "separation from service" within the meaning of Section 409A.

Description of Triggering Events

Termination for Cause (Employment Agreement)

Under our employment agreement with Mr. Jackson, termination for "cause" generally means termination because of (i) the executive's breach of any of his covenants contained in the employment agreement, (ii) the executive's failure or refusal to perform the duties and responsibilities required to be performed by the executive under the terms of the employment agreement, (iii) the executive's willfully engaging in illegal conduct or gross misconduct in the performance of his duties hereunder (provided that no act or failure to act shall be deemed "willful" if done, or omitted to be done, in

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good faith and with the reasonable belief that such action or omission was in our best interest), (iv) the executive's commission of an act of fraud or dishonesty affecting us or the commission of an act constituting a felony, or (v) the executive's violation of our policies in any material respect.

Termination for Cause (Equity Compensation Plans)

Under our equity compensation plans, termination for "cause" generally means termination because of (i) the executive's conviction for commission of a felony or other crime, (ii) the commission by the executive of any act against us constituting willful misconduct, dishonesty, fraud, theft, or embezzlement, (iii) the executive's failure, inability, or refusal to perform any of the material services, duties, or responsibilities required of him by us or to materially comply with the policies or procedures established from time to time by us, for any reason other than his illness or physical or mental incapacity, (iv) the executive's dependence, as determined in good faith by us, on any addictive substance, including, but not limited to, alcohol or any illegal or narcotic drugs, (v) the destruction of or material damage to our property caused by the executive's willful or grossly negligent conduct, and (vi) the willful engaging by the executive in any other conduct which is demonstrably injurious to us or our subsidiaries, monetarily or otherwise.

Termination for Good Reason

Under our employment agreement with Mr. Jackson, termination for "good reason" generally means the occurrence of (i) a material change by us in the executive's duties or responsibilities which would cause the executive's position to become of materially and substantially less responsibility and importance than those associated with his duties or responsibilities as of the date of the employment agreement, or (ii) a material breach of the employment agreement by us, which breach is not cured within ten days after written notice is received by us.

Retirement

Retirement (as defined in our equity compensation plans) generally means the named executive officer's termination of employment or other service from us or a subsidiary of ours after attainment of age 55 and completion of at least six years of service with us or a subsidiary of ours (disregarding any service with an entity prior to becoming a subsidiary or after ceasing to be a subsidiary).

Mike Jackson

	Termination for Cause	Voluntary Termination for Good Reason	Voluntary Termination Without Good Reason	Death or Disability	Retirement	Involuntary Termination Without Cause	Change in Control
Cash Severance	—	$3,274,250	—	—	—	$3,274,250	—
Deferred Bonus	—	$783,208	—	$783,208	—	$783,208	—
Acceleration of Unvested RSUs	—	$9,636,027	7,494,642	7,494,642	7,494,642	$9,636,027	9,636,027
Post-Separation Health and Welfare Benefits	—	$20,766	—	—	—	$20,766	—

Termination for Cause

If we terminate Mr. Jackson's employment for "cause," he is not entitled to any payments triggered by the termination, and options held by Mr. Jackson on the date of termination, whether vested or unvested, will be canceled.

Voluntary Termination for Good Reason

If Mr. Jackson terminates his employment with us for "good reason," as long as Mr. Jackson is in compliance with the restrictive covenants and confidentiality provisions of his employment agreement and signs a reasonable and mutually acceptable severance agreement (including a release and a covenant of reasonable cooperation), he will be entitled to receive an amount equal to: (i) the sum of his then-current annual base salary plus annual bonus awarded to him in the calendar year prior to such termination of his employment, as well as (ii) the prorata portion (based on the portion of the calendar year actually served by Mr. Jackson) of his annual bonus to which he would have been entitled had his employment not been terminated, to the extent applicable performance targets are met. Payment of the amount due under clause (i) above would be made by us (by lump sum or otherwise) within 30 days following the termination

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(or at a later date, to the extent required to comply with Section 409A of the Code), and payment of the amount due under clause (ii) above would be made by us (in lump sum) at the same time as the annual bonuses for the relevant year are paid to other bonus-eligible employees (or at a later date, to the extent required to comply with Section 409A of the Code). Since the assumed date of termination is year-end, payment of the amount due under clause (ii) above (which was $2,675,000 for 2017, a portion of which is subject to the terms of the Deferred Bonus Program discussed below) is reflected under the "Non-Equity Incentive Plan Compensation" column in the "Summary Compensation Table," and not as "Cash Severance" in the table above.

In addition, in accordance with the terms of his employment agreement, unless he elects retirement treatment under our equity compensation plans, all vested stock options held by Mr. Jackson will survive and be exercisable for the remainder of their initial ten-year term, and all unvested stock options or other stock-based awards held by him will immediately vest on such termination, and stock options or other stock-based awards carrying a right to exercise will survive and be exercisable until the first anniversary of such termination.

Mr. Jackson and his dependents will also be entitled to continue to participate in our group health and welfare benefit plans for a period of 18 months following the termination at the same cost to Mr. Jackson as provided to him prior to termination (or we will procure and pay for comparable benefits during such time period).

The Deferred Bonus Program established for Mr. Jackson in 2016 provides that he is entitled to the amounts deferred thereunder in the event of his death or disability (as defined in Section 409A of the Code), if his employment is terminated without cause (as defined in his employment agreement), or if he terminates his employment for good reason (as defined in his employment agreement). See "Compensation Discussion and Analysis - Annual Incentive Awards."

Voluntary Termination Without Good Reason

If Mr. Jackson terminates his employment with us without "good reason," he is not entitled to any payments triggered by the termination. Since Mr. Jackson is eligible for "retirement" (as defined in our equity compensation plans), he would be entitled to the benefit described in the "Retirement" paragraph below.

Termination Due to Death or Disability

If Mr. Jackson's employment is terminated due to death or disability (as defined in our equity compensation plans), all options held by Mr. Jackson at the time of termination would immediately vest and remain exercisable until the earlier of the expiration date of the option or the third anniversary of the date of termination.

With respect to RSUs granted under the 2017 Plan, if Mr. Jackson's employment is terminated due to death, the RSUs that were granted subject solely to a one-year performance goal would immediately vest, and the RSUs that were granted subject to a three-year performance goal would continue to vest on a prorated basis (with the payout level determined based on actual performance). If Mr. Jackson's employment is terminated due to disability, then he will continue to vest in any RSUs that were granted subject solely to a one-year performance goal and in a prorated portion of any RSUs that were granted subject to a three-year performance goal (with the payout level determined based on actual performance), only if he fully complies with any non-compete, non-disparagement, confidentiality and other restrictive covenants set forth in any agreement entered into between him and the Company determined, notwithstanding the time periods set forth therein, as if all such restrictive covenants applied at all times while any such awards are outstanding.

As noted above, if Mr. Jackson's employment had terminated due to death or disability, he would have been entitled to all amounts deferred under the Deferred Bonus Program established for Mr. Jackson in 2016.

Retirement

In the event of Mr. Jackson's retirement, all stock options held by Mr. Jackson at the time of termination would immediately vest and remain exercisable until the earlier of the expiration date of the option or the third anniversary of the date of termination. In addition, he would continue to vest in any RSUs that were granted subject solely to a one-year performance goal and in a prorated portion of any RSUs that were granted subject to a three-year performance goal (with the payout level determined based on actual performance), only if he fully complies with any non-compete, non-disparagement, confidentiality and other restrictive covenants set forth in any agreement entered into between him and the Company determined, notwithstanding the time periods set forth therein, as if all such restrictive covenants applied at all times while any such awards are outstanding.

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Involuntary Termination Without Cause

If we terminate Mr. Jackson's employment without "cause," as long as Mr. Jackson is in compliance with the restrictive covenants and confidentiality provisions of his employment agreement and signs a reasonable and mutually acceptable severance agreement (including a release and a covenant of reasonable cooperation), he will be entitled to receive the same payments and other benefits as described in the first paragraph under "Voluntary Termination for Good Reason" above. In addition, as noted above, if we had terminated Mr. Jackson's employment without "cause," he would have been entitled to all amounts deferred under the Deferred Bonus Program established for Mr. Jackson in 2016.

Material Conditions and Obligations

Mr. Jackson will be subject to the restrictive covenant agreements described under "General Assumptions - Restrictive Covenant Agreements" above.

Cheryl Miller

	Termination for Cause	Voluntary Termination	Death or Disability	Retirement	Involuntary Termination Without Cause	Change in Control
Cash Severance	—	—	—	—	—	—
Acceleration of Unvested Shares of Restricted Stock and RSUs	—	—	$1,588,099	—	—	$2,028,613
Post-Separation Health and Welfare Benefits	—	—	—	—	—	—

Thomas M. Conophy

	Termination for Cause	Voluntary Termination	Death or Disability	Retirement	Involuntary Termination Without Cause	Change in Control
Cash Severance	—	—	—	—	—	—
Acceleration of Unvested Shares of Restricted Stock and RSUs	—	—	$1,477,226	—	—	$1,844,338
Post-Separation Health and Welfare Benefits	—	—	—	—	—	—

Donna Parlapiano

	Termination for Cause	Voluntary Termination	Death or Disability	Retirement	Involuntary Termination Without Cause	Change in Control
Cash Severance	—	—	—	—	—	—
Acceleration of Unvested Shares of Restricted Stock and RSUs	—	—	$1,263,488	—	—	$1,508,229
Post-Separation Health and Welfare Benefits	—	—	—	—	—	—

Marc Cannon

	Termination for Cause	Voluntary Termination	Death or Disability	Retirement	Involuntary Termination Without Cause	Change in Control
Cash Severance	—	—	—	—	—	—
Acceleration of Unvested Shares of Restricted Stock and RSUs	—	$1,141,271	$1,141,271	$1,141,271	$1,141,271	$1,386,013
Post-Separation Health and Welfare Benefits	—	—	—	—	—	—

Termination for Cause

If we terminate Mses. Miller's or Parlapiano's or Messrs. Conophy's or Cannon's employment for "cause," they are not entitled to any payments triggered by the termination, and all options (whether vested or unvested) and any unvested shares of restricted stock or restricted stock units held by such executive on the date of termination will be canceled.

Voluntary Termination

If Mses. Miller or Parlapiano or Mr. Conophy voluntarily terminates his or her employment for any reason, such executive is not entitled to any payments triggered by the termination, any options held by such executive, to the extent exercisable on the date of termination, would remain exercisable until the earlier of the expiration date of the options or 60 days following the date of termination, and any unvested options, shares of restricted stock, or restricted stock units held by such executive on the date of termination would be canceled. Since Mr. Cannon is eligible for "retirement" (as defined in our equity compensation plans), he would be entitled to the benefit described in the "Retirement" paragraph below.

Termination Due to Death or Disability

If Mses. Miller's or Parlapiano's or Messrs. Conophy's or Cannon's employment is terminated because of death or disability (as defined in our equity compensation plans), such executive would not be entitled to any payments triggered by the termination. With respect to options and shares of restricted stock granted under the 2008 Plan, any unvested options and any unvested shares of restricted stock held by such executive would immediately vest, and all such options and all vested options held by such executive would remain exercisable until the earlier of the expiration date of the option or the third anniversary of the date of termination.

If Mses. Miller's or Parlapiano's or Messrs. Conophy's or Cannon's employment is terminated because of death, any RSUs that were granted subject solely to a one-year performance goal would immediately vest, and any RSUs that were granted subject to a three-year performance goal would continue to vest on a prorated basis (with the payout level determined based on actual performance). If Mses. Miller's or Parlapiano's or Messrs. Conophy's or Cannon's employment is terminated due to disability, then such executive would continue to vest in any RSUs that were granted subject solely to a one-year performance goal and in a prorated portion of any RSUs that were granted subject to a three-year performance goal (with the payout level determined based on actual performance), only if such executive fully complies with any non-compete, non-disparagement, confidentiality and other restrictive covenants set forth in any agreement entered into between him or her and the Company determined, notwithstanding the time periods set forth therein, as if all such restrictive covenants applied at all times while any such awards are outstanding.

Retirement

In the event of Mses. Miller's or Parlapiano's or Mr. Conophy's retirement, he or she will be entitled to receive the same payments and other benefits as described under the section "Voluntary Termination" above. Mses. Miller and Parlapiano and Mr. Conophy were not at December 29, 2017 and are not currently eligible for retirement treatment under our equity compensation plans.

Mr. Cannon is retirement eligible under our equity compensation plans. In the event of Mr. Cannon's retirement, with respect to options and shares of restricted stock granted under the 2008 Plan, all shares of restricted stock held by him at the time of termination would immediately vest, and all options held by him would immediately vest and remain exercisable until the earlier of the expiration date of the option or the third anniversary of the date of termination. In addition, upon retirement he would continue to vest in any RSUs that were granted subject solely to a one-year performance goal and in a prorated portion of any RSUs that were granted subject to a three-year performance goal (with the payout level determined based on actual performance), only if he fully complies with any non-compete, non-disparagement, confidentiality and other restrictive covenants set forth in any agreement entered into between him and the Company determined, notwithstanding the time periods set forth therein, as if all such restrictive covenants applied at all times while any such awards are outstanding.

Involuntary Termination Without Cause

If we terminate Mses. Miller's or Parlapiano's or Mr. Conophy's employment without "cause," he or she will be entitled to receive the same payments and other benefits as described under the section "Voluntary Termination" above. Since Mr. Cannon is eligible for "retirement" (as defined in our equity compensation plans), he would be entitled to the benefit described in the "Retirement" paragraph above.

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Material Conditions and Obligations

Mses. Miller's or Parlapiano's or Messrs. Conophy's or Cannon's will be subject to the restrictive covenant agreements described under "General Assumptions - Restrictive Covenant Agreements" above.

Named Executive Officer Departures

Jonathan P. Ferrando

Mr. Ferrando retired from the Company effective as of March 31, 2017. As disclosed in a Current Report on Form 8-K filed with the SEC on March 8, 2017, in connection with his retirement, the Company entered into a Retirement Agreement with Mr. Ferrando. Pursuant to the terms of the Retirement Agreement, in consideration for, among other things, his compliance with non-solicitation, no-hire, confidentiality, and cooperation obligations, as well as his compliance with all other agreements between him and the Company, including non-competition agreements, the Company agreed to pay to Mr. Ferrando (i) severance compensation equal to $2,250,000, less applicable taxes and withholdings, payable in 36 semi-monthly installments over 18 months and (ii) a prorated 2017 incentive award, based on time served as an employee of the Company during 2017 and a 2017 annual target award equal to 100% of his salary, at the same time and at the same payout level as the 2017 incentive awards are paid to other executives of the Company.

In addition, the Company agreed to accelerate the vesting of unvested options held by Mr. Ferrando and agreed that such unvested options would remain exercisable until March 31, 2020. The exercise price of each such unvested option was higher than the closing price per share of our common stock on the effective date of his retirement. All other unvested equity awards held by Mr. Ferrando terminated as of the effective date of his retirement. All vested options held by Mr. Ferrando were treated in accordance with the terms of the applicable equity award agreements and equity plans.

In consideration for Mr. Ferrando agreeing to extend his non-competition and non-solicitation covenants through March 31, 2020, the Company also agreed to pay to Mr. Ferrando $1,500,000, less applicable taxes and withholdings, payable in 72 semi-monthly installments over 36 months.

William R. Berman

Mr. Berman resigned from his position as President and Chief Operating Officer of the Company effective as of May 15, 2017. As disclosed in a Current Report on Form 8-K filed with the SEC on June 1, 2017, in connection with his resignation, the Company entered into a Separation Agreement with Mr. Berman. Pursuant to the terms of the Separation Agreement, in consideration for, among other things, his compliance with non-solicitation, no-hire, confidentiality, and cooperation obligations, as well as his compliance with all other agreements between him and the Company, including non-competition agreements, the Company agreed to pay to Mr. Berman (i) severance compensation equal to $2,775,000, less applicable taxes and withholdings, payable in 36 semi-monthly installments over 18 months following his separation of employment with the Company on June 30, 2017 and (ii) a prorated 2017 incentive award, based on time served as an employee of the Company during 2017 and a 2017 annual target award equal to 100% of his salary, at the same time and at the same payout level as the 2017 incentive awards are paid to other executives of the Company.

In accordance with the terms of the Company's equity plans, all vested options held by Mr. Berman at the time of his separation remained exercisable for 60 days following the date of his separation, and all unvested equity awards then held were canceled.

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PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, the Compensation Committee determined that the total annual compensation paid to our Chief Executive Officer in respect of 2017 was approximately 268 times the median of the total annual compensation of all of our employees (other than our Chief Executive Officer) in respect of 2017.

For purposes of the pay ratio calculation, we identified the median employee by examining the 2017 total compensation for all individuals, excluding our Chief Executive Officer, who were employed by us on December 31, 2017. We included all employees, whether employed on a full-time or part-time basis, excluding contingent and outsourced employees and consultants. We calculated annual total compensation for all employees using the same methodology we use for our named executive officers as set forth in the “Summary Compensation Table” above. The median of the annual total compensation of all of our employees (other than our Chief Executive Officer) was $45,543. The total compensation of our Chief Executive Officer is set forth in the “Summary Compensation Table” above under the heading “Total.”

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AUDIT COMMITTEE REPORT

The following statement made by our Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate such statement by reference.

The Board has determined that each Audit Committee member has the requisite independence and other qualifications for audit committee membership under SEC rules, the listing standards of the NYSE, our Audit Committee Charter, and the independence standards set forth in our Corporate Governance Guidelines. The Board has also determined that each of Mr. Grusky and Mr. Edelson is an “audit committee financial expert” as defined under Item 407(d)(5) of Regulation S-K under the Securities Exchange Act of 1934, as amended.

As more fully described below, in carrying out its responsibilities, the Audit Committee looks to management and AutoNation’s independent registered public accounting firm. The Audit Committee members are not professionally engaged in the practice of accounting or auditing. The Audit Committee operates under a written charter that is reviewed annually and is available at investors.autonation.com.

Our primary function is to assist the Board in fulfilling its oversight responsibilities by reviewing AutoNation’s financial reporting, audit processes, internal control over financial reporting, and disclosure controls. Management is responsible for the Company’s consolidated financial statements and the financial reporting process, including internal control over financial reporting. We also monitor the preparation by management of the Company’s quarterly and annual consolidated financial statements. KPMG LLP (“KPMG”), AutoNation’s independent registered public accounting firm, is accountable to us and is responsible for expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of AutoNation in conformity with U.S. generally accepted accounting principles. KPMG also is responsible for auditing and reporting on internal control over financial reporting. We are solely responsible for selecting and reviewing the performance of AutoNation’s independent registered public accounting firm and, if we deem appropriate in our sole discretion, terminating and replacing the independent registered public accounting firm. We also are responsible for reviewing and approving the terms of the annual engagement of AutoNation’s independent registered public accounting firm, including the scope of audit and non-audit services to be provided by the independent registered public accounting firm and the fees to be paid for such services, and discussing with the independent registered public accounting firm any relationships or services that may impact the objectivity and independence of the independent registered public accounting firm.

In fulfilling our oversight role, we met and held discussions, both together and separately, with the Company’s management and KPMG. Management advised us that the Company’s consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, and we reviewed and discussed the consolidated financial statements and key accounting and reporting issues with management and KPMG, both together and separately, in advance of the public release of operating results and filing of annual or quarterly reports with the SEC. We discussed significant matters with KPMG, including those matters required to be discussed pursuant to Auditing Standard No. 1301, Communications with Audit Committees, adopted by the Public Company Accounting Oversight Board (“PCAOB”), and the rules of the SEC, and reviewed a letter from KPMG disclosing such matters.

KPMG also provided us with the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent registered public accounting firm’s communications with the Audit Committee concerning independence, and we discussed with KPMG matters relating to their independence and considered whether their provision of certain non-audit services is compatible with maintaining their independence. In the letter, KPMG confirmed its independence, and we determined that KPMG’s provision of non-audit services to AutoNation is compatible with maintaining their independence. We also reviewed a report by KPMG describing the firm’s internal quality-control procedures and any material issues raised in the most recent internal quality-control review or external peer review or inspection performed by the PCAOB.

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Based on our review with management and KPMG of AutoNation's audited consolidated financial statements and KPMG's report on such consolidated financial statements, and based on the discussions and written disclosures described above and our business judgment, we recommended to the Board of Directors that the audited consolidated financial statements be included in AutoNation's Annual Report on Form 10-K for the year ended December 31, 2017 for filing with the SEC.

Audit Committee:
Robert R. Grusky, Chair
Tomago Collins
David B. Edelson

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ITEMS TO BE VOTED ON

PROPOSAL 1: ELECTION OF DIRECTORS

Upon the recommendation of the Corporate Governance and Nominating Committee, our Board has nominated each of the following ten persons to stand for election for a term expiring at the 2019 Annual Meeting of Stockholders or until their successors are duly elected and qualified: Mike Jackson, Rick L. Burdick, Tomago Collins, David B. Edelson, Robert R. Grusky, Kaveh Khosrowshahi, Michael Larson, G. Mike Mikan, Alison H. Rosenthal, and Jacqueline A. Travisano. Each of the nominees is willing and able to serve as a director of AutoNation. See “Board of Directors and Corporate Governance - Directors” for information regarding each of the director nominees. Proxies cannot be voted for a greater number of persons than the number of nominees named in this proxy statement.

Recommendation of the Board

The Board recommends that you vote “FOR” the election of each of the persons nominated by the Board.

PROPOSAL 2: RATIFICATION OF THE SELECTION OF
OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors is directly responsible for the appointment, compensation, retention, and oversight of the Company’s independent registered public accounting firm. To fulfill this responsibility, the Committee engages in a comprehensive annual evaluation of the independent registered public accounting firm’s qualifications, performance, and independence and considers whether the independent registered public accounting firm should be rotated and the advisability and potential impact of selecting a different independent registered public accounting firm.

The Audit Committee has selected KPMG LLP (“KPMG”) as our independent registered public accounting firm for the year ending December 31, 2018. KPMG has served in this capacity since May 6, 2003. In accordance with SEC rules and KPMG policies, audit partners are subject to rotation requirements to limit the number of consecutive years an individual partner may provide audit services to our Company. For the lead audit engagement partner and the engagement quality control reviewing partner, the maximum number of consecutive years of service in that capacity is five years. The process for selection of the Company’s lead audit engagement partner pursuant to this rotation policy involves a meeting between the Chair of the Audit Committee and the candidate for the role, as well as a discussion by the full Committee and with management.

The Audit Committee and the Board of Directors believe that the continued retention of KPMG as our independent registered public accounting firm is in the best interest of the Company and our stockholders, and we are asking our stockholders to ratify the selection of KPMG as our independent registered public accounting firm for 2018. Although not required by our organizational documents or applicable law, our Board is submitting the selection of KPMG to our stockholders for ratification because we value our stockholders’ views on the Company’s independent registered public accounting firm, and we believe doing so is consistent with good corporate governance. If the selection of KPMG as our independent registered public accounting firm is not ratified by our stockholders, the Audit Committee will re-evaluate its selection, taking into consideration the stockholder vote on the ratification. However, the Audit Committee is solely responsible for selecting and terminating our independent registered public accounting firm and may do so at any time at its discretion. A representative of KPMG is expected to attend the Annual Meeting and be available to respond to appropriate questions. The representative also will be afforded an opportunity to make a statement, if he or she desires to do so.

Auditor Fees and Services

The Audit Committee is responsible for the compensation of the Company’s independent registered public accounting firm and oversees the audit fee negotiations associated with the Company’s retention of KPMG. The following table shows the fees for audit and other services provided by KPMG for fiscal years 2016 and 2017.

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Fee Category	2016	2017
Audit Fees	$3,115,100	$2,992,700
Audit-Related Fees	60,000	—
Tax Fees	—	—
All Other Fees	1,780	1,780
Total Fees	$3,176,880	$2,994,480

Audit Fees. This category includes fees billed for professional services rendered by KPMG for the audit of our consolidated financial statements, audit of our internal control over financial reporting, review of the consolidated financial statements included in our Form 10-Q quarterly reports, and services that are normally provided by the independent registered public accounting firm in connection with acquisitions, new accounting standards, and statutory or regulatory filings or engagements, including comfort letters and consents issued in connection with SEC filings.

Audit-Related Fees. This category consists of fees billed for the audit of the financial statements of our 401(k) Plan in 2016. No audit-related fees were billed by KPMG in 2017.

Tax Fees. No tax fees were billed by KPMG in 2016 or 2017.

All Other Fees. This category consists of fees billed for our use of KPMG's online technical research service.

Policy for Approval of Audit and Permitted Non-Audit Services

Our Audit Committee's policies require pre-approval of all audit and permissible non-audit services provided by our independent registered public accounting firm other than services permitted under the de minimis exception under applicable SEC rules (which are approved by our Audit Committee prior to our independent registered public accounting firm's completion of its annual audit). Under our Audit Committee's policies, pre-approval generally is detailed as to the particular service or category of services and is subject to a specific budget. Under our Audit Committee's policies, all tax planning services and services that do not constitute audit, audit-related, or tax-compliance services are subject to a formal bidding process and may not be provided by our independent registered public accounting firm unless our Audit Committee concludes that such services may be provided most effectively or economically by our independent registered public accounting firm and that the independence of our registered public accounting firm would not be affected adversely by the provision of such services. Our Audit Committee has delegated to its Chair the authority to approve, within guidelines and limits established by the Committee, specific services to be provided by our independent registered public accounting firm and the fees to be paid. Any such approval must be reported to the Audit Committee at the next scheduled meeting. As required by Section 10A of the Exchange Act, our Audit Committee pre-approved all audit and non-audit services provided by our independent registered public accounting firm during 2016 and 2017, and the fees paid for such services.

Recommendation of the Board

The Board recommends that you vote "FOR" the ratification of the selection of KPMG as our independent registered public accounting firm for us and our subsidiaries for 2018.

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PROPOSAL 3: STOCKHOLDER PROPOSAL

The stockholder proposal set forth below was submitted to the Company by John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, California 90278, a purported owner of “no fewer than” 100 shares of our common stock, or approximately 0.0001% of our outstanding shares. Mr. Chevedden’s proposal is printed below verbatim, and we have not endeavored to correct any false, inaccurate, or misleading statements or typographical errors that may be contained therein. Although Mr. Chevedden has attempted to make, or made, stockholder proposals to the Company every year since 2001, he has never personally attended an annual meeting to present one of his proposals. The Company is not responsible for the contents of this proposal or the supporting statement. Our Board has recommended a vote against the proposal for the reasons set forth following the proposal.

“3 - Independent Board Chairman

Shareholders request that our Board of Directors adopt a policy, and amend our governing documents as necessary, to require henceforth that the Chair of the Board of Directors, whenever possible, be an independent member of the Board. The Board would have the discretion to phase in this policy for the next CEO transition, implemented so it does not violate any existing agreement.

If the Board determines that a Chairman who was independent when selected is no longer independent, the Board shall select a new Chairman who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chairman. This proposal requests that all the necessary steps be taken to accomplish the above.

Caterpillar is an example of a company recently changing course and naming an independent board chairman. Caterpillar had strongly opposed a shareholder proposal for an independent board chairman as recently as its 2016 annual meeting. Wells Fargo also reversed itself and named an independent board chairman in 2016.

It was reported that 53% of the Standard & Poors 1,500 firms separate these 2 positions in 2015. This proposal topic won 50%-plus support at 5 major U.S. companies in 2013 including 73%-support at Netflix. This proposal topic also received the highest support of any of the various shareholder proposal topics voted at AutoNation - 27%-support.

AN did not report whether this 27%-support translated into more than 40%-support from the independent shares of AN. The 2017 AN annual meeting proxy did not give the 2017 shareholder proposal proponent credit for initially proposing shareholder proxy access immediately before AN adopted shareholder proxy access.

An independent director could focus on needed improvement of our board of directors. For example Rick Burdick had 26-years long-tenure. Long-tenure can impair the independence of a director no matter how well qualified. Mr. Burdick received 10-times as many negative votes as David Edelson and 2 other AN directors. Plus Mr. Burdick may be the most influential outside AN director since he made up 33% of the membership of 2 of our most important board committees.

Meanwhile newer directors do not own any stock after 2+ years according to a 2017 report: Tomago Collins and Kaveh Khosrowshahi. Our 2017 annual meeting proxy said that Mr. Khosrowshahi had a co-role at Allen & Company's Capital Markets Group but did not say how many employees this sub-entity had.

Michael Larson, as Lead Director, received the 2nd highest negative shareholder votes in 2017. Mr. Larson may be a distracted director while working on 4 Boards total. Also Mr. Larson cannot call a special shareholder meeting - which may indicate that our top management does not believe in a strong role for the Lead Director position.

Please vote to enhance Chairman of the Board oversight:

Independent Board Chairman - Proposal 3”

Board of Directors’ Response

Under our by-laws, the Board has the flexibility to determine whether it is in the best interests of our stockholders and the Company to separate or combine the roles of the Chairman of the Board and Chief Executive Officer at any point in time. This proposal would remove this flexibility and narrow the governance arrangements that the Board may

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consider, which could be contrary to the best interests of our stockholders. The Board believes that it should be permitted to use its business judgment to decide who is the best person to serve as Chairman of the Board, based on what is in the best interests of AutoNation at a given point in time, taking into account, among other things, the composition of the Board and the issues facing AutoNation. See also “Board of Directors and Corporate Governance - Role of the Board and Board Structure.”

Our Board is stockholder-oriented - approximately 22% of our outstanding shares of common stock are held by our directors or entities related to our directors (as of February 21, 2018) - and focused on the best interests of our stockholders. Furthermore, we have adopted strong and effective corporate governance policies and procedures to promote the effective and independent governance of the Company. For example, in May 2013, our Board amended our corporate governance guidelines to provide for a Lead Independent Director and appointed Michael Larson as our Lead Independent Director. See also “Board of Directors and Corporate Governance - Role of the Board and Board Structure.” Our independent directors meet in executive session. Ninety percent of our directors are “independent” under NYSE listing standards and AutoNation’s corporate governance guidelines. Additionally, the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee, the Finance Committee, and the Technology Committee are each comprised solely of independent directors.

We note that similar stockholder proposals were presented at our 2016, 2014, 2012, 2010, and 2009 annual meetings of stockholders, and they were soundly rejected by AutoNation stockholders. Approximately 76%, 72%, 84%, 85%, and 86% of the votes cast in 2016, 2014, 2012, 2010, and 2009, respectively, voted against those proposals.

We also note that Mr. Chevedden, a purported owner of no fewer than 100 shares, or approximately 0.0001%, of our common stock and a stockholder proponent that sends out stockholder proposals to a large number of companies every year, has been sending stockholder proposals to the Company since 2001, none of which have received a majority stockholder vote. Instead, each time one of his stockholder proposals has been presented at an Annual Meeting of AutoNation stockholders, our stockholders have soundly rejected it. Further, in most cases, rather than presenting the stockholder proposal himself, a representative of the International Association of Machinists and Aerospace Workers (the “Machinists”) presented the stockholder proposal from Mr. Chevedden on his behalf. It is not clear to us what the nature of Mr. Chevedden’s relationship is with the Machinists or what his or the Machinists’ motivations are in making stockholder proposals, but we do know that the Machinists have been attempting to organize automotive dealership service technicians, including some of ours, for many years. While we do not ascribe improper motivations to Mr. Chevedden or the Machinists, we do not believe it is appropriate to make stockholder proposals based on personal or special interests - such as a desire to organize Company employees - or grievances against the Company that are not shared by stockholders as a whole.

Recommendation of the Board

The Board recommends that you vote “AGAINST” this stockholder proposal.

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OTHER MATTERS

We are not aware of any other matters that will be properly brought before the Annual Meeting. However, if any additional matters are properly brought before the Annual Meeting, Messrs. Jackson and Edmunds will vote as recommended by our Board of Directors or, if no recommendation is given, in accordance with their judgment. Messrs. Jackson and Edmunds were designated to be your proxies by our Board of Directors.

HOUSEHOLDING; AVAILABILITY OF ANNUAL REPORT AND PROXY STATEMENT

The SEC permits companies and intermediaries, such as a brokerage firm or a bank, to satisfy the delivery requirements for Notices and proxy materials with respect to two or more stockholders sharing the same address by delivering only one Notice or set of proxy materials to that address. This process, which is commonly referred to as “householding,” can effectively reduce our printing and postage costs.

Certain of our stockholders whose shares are held in street name and who have consented to householding will receive only one Notice or set of proxy materials per household. If you would like to receive a separate Notice or set of proxy materials in the future, or if your household is currently receiving multiple copies of the same items and you would like to receive only a single copy at your address in the future, please contact Householding Department by mail at 51 Mercedes Way, Edgewood, NY 11717 or by telephone at 866-540-7095 and indicate your name, the name of each of your brokerage firms or banks where your shares are held, and your account numbers.

If you would like to receive a copy of our 2017 Annual Report or this proxy statement, please contact our Investor Relations by mail at Investor Relations, AutoNation, Inc., 200 SW 1st Ave, Fort Lauderdale, FL 33301 or by telephone at (954) 769-7342, and we will send a copy to you without charge. Please note, however, that if you wish to receive a paper proxy card or other proxy materials for the purpose of the Annual Meeting, you should follow the instructions included in the Notice of Internet Availability of Proxy Materials.

DIRECTIONS TO THE 2018 ANNUAL MEETING OF STOCKHOLDERS OF AUTONATION, INC.

The 2018 Annual Meeting of Stockholders of AutoNation, Inc. will be held at AutoNation’s Headquarters, located at 200 SW 1st Ave, Fort Lauderdale, Florida 33301, on Thursday, April 19, 2018, at 8:00 a.m. Eastern Time. We have set forth below directions to AutoNation’s Headquarters.

From Interstate 95 (I-95)

Take I-95 (North or South) to Broward Blvd Exit. Head East on Broward Blvd until SW 1st Ave (also referred to as Brickell Ave). Turn right onto SW 1st Ave. AutoNation’s Headquarters will be on the left 0.1 miles ahead.