

LITHIA MOTORS INC
Form 10-Q
July 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from ____ to ____

Commission file number: **001-14733**

LITHIA MOTORS, INC.

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of incorporation

or organization)

93-0572810

(I.R.S. Employer
Identification No.)

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150 N. Bartlett Street, Medford, Oregon
(Address of principal executive offices)

97501
(Zip Code)

Registrant's telephone number, including area code: **541-776-6401**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A common stock without par value	23,735,715
Class B common stock without par value	2,562,231
(Class)	(Outstanding at July 31, 2015)

LITHIA MOTORS, INC.

FORM 10-Q

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LITHIA MOTORS, INC. AND SUBSIDIARIES**Consolidated Balance Sheets****(In thousands)****(Unaudited)**

	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$23,394	\$29,898
Accounts receivable, net of allowance for doubtful accounts of \$1,866 and \$2,191	287,808	295,379
Inventories, net	1,367,317	1,249,659
Other current assets	32,028	32,010
Assets held for sale	-	8,563
Total Current Assets	1,710,547	1,615,509
Property and equipment, net of accumulated depreciation of \$128,528 and \$117,679	836,889	816,745
Goodwill	199,129	199,375
Franchise value	150,856	150,892
Other non-current assets	107,434	98,411
Total Assets	\$3,004,855	\$2,880,932
Liabilities and Stockholders' Equity		
Current Liabilities:		
Floor plan notes payable	\$45,464	\$41,047
Floor plan notes payable: non-trade	1,169,717	1,137,632
Current maturities of long-term debt	37,963	31,912
Trade payables	78,885	70,853
Accrued liabilities	157,579	153,661
Deferred income taxes	3,494	2,603
Liabilities related to assets held for sale	-	4,892
Total Current Liabilities	1,493,102	1,442,600
Long-term debt, less current maturities	599,402	609,066
Deferred revenue	59,893	54,403
Deferred income taxes	36,077	42,795
Other long-term liabilities	64,079	58,963
Total Liabilities	2,252,553	2,207,827
Stockholders' Equity:		
Preferred stock - no par value; authorized 15,000 shares; none outstanding	-	-
	268,748	276,058

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Class A common stock - no par value; authorized 100,000 shares; issued and outstanding 23,742 and 23,671

Class B common stock - no par value; authorized 25,000 shares; issued and outstanding 2,562 and 2,562

Additional paid-in capital	319	319
Accumulated other comprehensive loss	33,584	29,775
Retained earnings	(622)	(926)
Total Stockholders' Equity	450,273	367,879
Total Liabilities and Stockholders' Equity	752,302	673,105
	\$3,004,855	\$2,880,932

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES**Consolidated Statements of Operations****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
New vehicle	\$1,149,512	\$694,484	\$2,157,328	\$1,274,006
Used vehicle retail	488,801	310,475	951,732	612,368
Used vehicle wholesale	66,796	44,286	129,004	86,979
Finance and insurance	72,463	43,838	137,067	83,469
Service, body and parts	182,695	114,337	356,170	218,954
Fleet and other	36,680	14,382	54,824	24,132
Total revenues	1,996,947	1,221,802	3,786,125	2,299,908
Cost of sales:				
New vehicle	1,080,170	648,490	2,026,212	1,188,988
Used vehicle retail	426,108	266,408	829,597	527,505
Used vehicle wholesale	65,390	42,782	125,437	84,144
Service, body and parts	91,946	58,155	180,982	111,940
Fleet and other	35,684	13,667	52,873	22,970
Total cost of sales	1,699,298	1,029,502	3,215,101	1,935,547
Gross profit	297,649	192,300	571,024	364,361
Asset impairments	6,130	-	10,260	-
Selling, general and administrative	195,610	125,463	387,228	247,292
Depreciation and amortization	10,287	5,825	20,013	11,332
Operating income	85,622	61,012	153,523	105,737
Floor plan interest expense	(4,655)	(3,215)	(9,304)	(6,199)
Other interest expense	(4,972)	(1,869)	(9,800)	(3,843)
Other (expense) income, net	(356)	1,146	(724)	2,083
Income from continuing operations before income taxes	75,639	57,074	133,695	97,778
Income tax provision	(24,416)	(21,904)	(41,819)	(37,914)
Income from continuing operations, net of income tax	51,223	35,170	91,876	59,864
Income from discontinued operations, net of income tax	-	3,139	-	3,179
Net income	\$51,223	\$38,309	\$91,876	\$63,043
Basic income per share from continuing operations	\$1.95	\$1.35	\$3.49	\$2.30
Basic income per share from discontinued operations	-	0.12	-	0.12
Basic net income per share	\$1.95	\$1.47	\$3.49	\$2.42
Shares used in basic per share calculations	26,332	26,119	26,310	26,047

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Diluted income per share from continuing operations	\$1.93	\$1.34	\$3.47	\$2.27
Diluted income per share from discontinued operations	-	0.11	-	0.12
Diluted net income per share	\$1.93	\$1.45	\$3.47	\$2.39
Shares used in diluted per share calculations	26,496	26,331	26,509	26,326

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$51,223	\$38,309	\$91,876	\$63,043
Other comprehensive income, net of tax:				
Gain on cash flow hedges, net of tax expense of \$94, \$81, \$181, and \$174 respectively	165	130	304	279
Comprehensive income	\$51,388	\$38,439	\$92,180	\$63,322

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$91,876	\$63,043
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Asset impairments	10,260	-
Depreciation and amortization	20,013	11,332
Stock-based compensation	5,822	3,259
Loss on disposal of other assets	44	62
Gain on disposal of franchise	(5,919)	(5,744)
Deferred income taxes	(1,145)	2,840
Excess tax benefit from share-based payment arrangements	(4,865)	(6,058)
(Increase) decrease (net of acquisitions and dispositions):		
Trade receivables, net	7,570	(20,709)
Inventories	(122,660)	(77,300)
Other assets	(3,815)	(5,951)
Increase (decrease) (net of acquisitions and dispositions):		
Floor plan notes payable	4,417	368
Trade payables	8,854	1,411
Accrued liabilities	7,717	17,594
Other long-term liabilities and deferred revenue	11,161	11,659
Net cash provided by (used in) operating activities	29,330	(4,194)
Cash flows from investing activities:		
Capital expenditures	(48,008)	(35,230)
Proceeds from sales of assets	145	103
Cash paid for other investments	(15,222)	(3,454)
Cash paid for acquisitions, net of cash acquired	(87)	(79,482)
Proceeds from sales of stores	12,966	10,617
Net cash used in investing activities	(50,206)	(107,446)
Cash flows from financing activities:		
Borrowings on floor plan notes payable, net: non-trade	35,685	112,910
Borrowings on lines of credit	557,394	578,000
Repayments on lines of credit	(602,818)	(567,000)
Principal payments on long-term debt, scheduled	(7,324)	(3,693)
Principal payments on long-term debt and capital leases, other	(9,189)	-

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Proceeds from issuance of long-term debt	59,425	5,392
Proceeds from issuance of common stock	2,589	2,253
Repurchase of common stock	(16,773)	(10,206)
Excess tax benefit from share-based payment arrangements	4,865	6,058
Dividends paid	(9,482)	(7,557)
Net cash provided by financing activities	14,372	116,157
 (Decrease) increase in cash and cash equivalents	 (6,504)	 4,517
 Cash and cash equivalents at beginning of period	 29,898	 23,686
Cash and cash equivalents at end of period	\$23,394	\$28,203
 Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$22,262	\$10,218
Cash paid during the period for income taxes, net	28,699	23,444
 Supplemental schedule of non-cash activities:		
Debt issued in connection with acquisitions	\$-	\$3,161
Floor plan debt paid in connection with store disposals	4,400	3,311

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Interim Financial Statements

Basis of Presentation

These condensed Consolidated Financial Statements contain unaudited information as of June 30, 2015 and for the three- and six-month periods ended June 30, 2015 and 2014. The unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America for annual financial statements are not included herein. In management's opinion, these unaudited financial statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the information when read in conjunction with our 2014 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2014 is derived from our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2015. The interim condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our 2014 Annual Report on Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency and comparability between periods presented.

These reclassifications had no impact on previously reported net income.

Note 2. Accounts Receivable

Accounts receivable consisted of the following (in thousands):

June 30, 2015	December 31, 2014
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Contracts in transit	\$ 159,225	\$ 162,785
Trade receivables	33,637	37,194
Vehicle receivables	33,763	34,876
Manufacturer receivables	54,281	56,008
Auto loan receivables	31,375	25,424
Other receivables	4,551	4,554
	316,832	320,841
Less: Allowances	(2,993)	(3,130)
Less: Long-term portion of accounts receivable, net	(26,031)	(22,332)
Total accounts receivable, net	\$ 287,808	\$ 295,379

Accounts receivable classifications include the following:

Contracts in transit are receivables from various lenders for the financing of vehicles that we have arranged on behalf of the customer and are typically received within five to ten days of selling a vehicle.

Trade receivables are comprised of amounts due from customers, lenders for the commissions earned on financing and others for commissions earned on service contracts and insurance products.

Vehicle receivables represent receivables for the portion of the vehicle sales price paid directly by the customer.

Manufacturer receivables represent amounts due from manufacturers, including holdbacks, rebates, incentives and warranty claims.

Auto loan receivables include amounts due from customers related to retail sales of vehicles and certain finance and insurance products.

Interest income on auto loan receivables is recognized based on the contractual terms of each loan and is accrued until repayment, charge-off or repossession. Direct costs associated with loan originations are capitalized and expensed as an offset to interest income when recognized on the loans. All other receivables are recorded at invoice and do not bear interest until they are 60 days past due.

The allowance for doubtful accounts is estimated based on our historical write-off experience and is reviewed monthly. Consideration is given to recent delinquency trends and recovery rates. Account balances are charged against the allowance after all appropriate means of collection have been exhausted and the potential for recovery is considered remote. The annual activity for charges and subsequent recoveries is immaterial.

The long-term portion of accounts receivable, net, was included as a component of other non-current assets in the Consolidated Balance Sheets.

Note 3. Inventories

The components of inventories, net, consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
New vehicles	\$1,024,686	\$958,876
Used vehicles	292,270	240,908
Parts and accessories	50,361	49,875
Total inventories	\$1,367,317	\$1,249,659

Note 4. Goodwill and Franchise Value

The changes in the carrying amounts of goodwill are as follows (in thousands):

	Domestic	Import	Luxury	Consolidated
Balance as of December 31, 2013⁽¹⁾	\$ 22,548	\$ 16,797	\$ 10,166	\$ 49,511
Additions through acquisitions	68,463	62,804	18,597	149,864
Balance as of December 31, 2014⁽¹⁾	91,011	79,601	28,763	199,375
Reduction related to divestiture	-	(246)	-	(246)
Balance as of June 30, 2015⁽¹⁾	\$ 91,011	\$ 79,355	\$ 28,763	\$ 199,129

(1) Net of accumulated impairment losses of \$299.3 million recorded during the year ended December 31, 2008.

The changes in the carrying amounts of franchise value are as follows (in thousands):

	Franchise Value
Balance as of December 31, 2013	\$ 71,199
Additions through acquisitions	80,233
Transfers to assets held for sale	(540)
Balance as of December 31, 2014	150,892
Reduction related to divestiture	(36)
Balance as of June 30, 2015	\$ 150,856

Note 5. Stockholders' Equity***Reclassification From Accumulated Other Comprehensive Loss***

The reclassification from accumulated other comprehensive loss was as follows (in thousands):

	Three Months Ended June 30, 2015	2014	Affected Line Item in the Consolidated Statements of Operations
Loss on cash flow hedges	\$(108)	\$(118)	Floor plan interest expense
Taxes	42	45	Income tax provision
Loss on cash flow hedges, net	\$(66)	\$(73)	

	Six Months Ended June 30, 2015	2014	Affected Line Item in the Consolidated Statements of Operations
Loss on cash flow hedges	\$(233)	\$(252)	Floor plan interest expense
Taxes	90	96	Income tax provision
Loss on cash flow hedges, net	\$(143)	\$(156)	

See Note 8 for more details regarding our derivative contracts.

Repurchases of Class A Common Stock

In August 2011, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our Class A common stock and, on July 20, 2012, our Board of Directors authorized the repurchase of 1,000,000 additional shares of our Class A common stock. Through June 30, 2015, we have repurchased 1,598,723 shares under this program at an average price of \$35.56 per share. Of this amount, 98,947 shares were repurchased during the first six months of 2015 at an average price of \$100.29 per share for a total of \$9.9 million. As of June 30, 2015, 1,401,277 shares remained available for repurchase pursuant to this program. The authority to repurchase does not have an expiration date.

In addition, during the first six months of 2015, we repurchased 77,438 shares at an average price of \$88.45 per share, for a total of \$6.9 million, related to tax withholdings associated with the vesting of restricted stock units ("RSUs"). The repurchase of shares related to tax withholdings associated with stock awards does not reduce the number of shares available for repurchase as approved by our Board of Directors.

Dividends

Dividends paid on our Class A and Class B common stock were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015 2014		June 30, 2015 2014	
Dividend amount per share	\$0.20	\$0.16	\$0.36	\$0.29
Total amount of dividend (in thousands)	5,266	4,179	9,482	7,557

See Note 14 for a discussion of a dividend related to our second quarter 2015 financial results.

Note 6. Deferred Compensation and Long-Term Incentive Plan

We offer a deferred compensation and long-term incentive plan (the “LTIP”) to provide certain employees the ability to accumulate assets for retirement on a tax-deferred basis. We may make discretionary contributions to the LTIP. Discretionary contributions vest over one to seven years depending on the employee’s age and position. Additionally, a participant may defer a portion of his or her compensation and receive the deferred amount upon certain events, including termination or retirement. The following is a summary related to our LTIP (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Compensation expense	\$463	\$377	\$920	\$1,077
Discretionary contribution	\$153	\$-	\$2,249	\$2,100
Guaranteed annual return	5.25 %	5.25 %	5.25 %	5.25 %

As of June 30, 2015 and December 31, 2014, the balance due to participants was \$16.0 million and \$14.2 million, respectively, and was included as a component of accrued liabilities and other long-term liabilities in the Consolidated Balance Sheets.

Note 7. Fair Value Measurements

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

Level 1 – quoted prices in active markets for identical securities;

Level 2 – other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment spreads, credit risk; and

Level 3 – significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing financial assets and liabilities are not necessarily an indication of the risk associated with investing in them.

We use the income approach to determine the fair value of our interest rate swap using observable Level 2 market expectations at each measurement date and an income approach to convert estimated future cash flows to a single present value amount (discounted) assuming that participants are motivated, but not compelled, to transact. Level 2 inputs for the swap valuation are limited to quoted prices for similar assets or liabilities in active markets (specifically

futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs, including the cash rates for very short term borrowings, futures rates for up to two years and LIBOR swap rates beyond the derivative maturity, are used to predict future reset rates to discount those future cash flows to present value at the measurement date.

Inputs are collected from Bloomberg on the last market day of the period and used to determine the rate used to discount the future cash flows. The valuation of the interest rate swap also takes into consideration estimates of our own, as well as the counterparty's, risk of non-performance under the contract. See Note 8 for more details regarding our derivative contracts.

We estimate the value of our equity-method investment that is recorded at fair value on a non-recurring basis based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets. Because these valuations contain unobservable inputs, we classified the measurement of fair value of our equity-method investment as Level 3.

We estimate the value of long-lived assets that are recorded at fair value based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value. Real estate appraisers' and brokers' valuations are typically developed using one or more valuation techniques including market, income and replacement cost approaches. Because these valuations contain unobservable inputs, we classified the measurement of fair value of long-lived assets as Level 3.

There were no changes to our valuation techniques during the six-month period ended June 30, 2015.

Assets and Liabilities Measured at Fair Value

Following are the disclosures related to our assets and (liabilities) that are measured at fair value (in thousands):

Fair Value at June 30, 2015	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative contracts, net	\$ -	\$(1,187)	\$-
Measured on a non-recurring basis:			
Equity-method investment	\$ -	\$-	\$34,009
Long-lived assets held and used:			
Certain buildings and improvements			3,367

Fair Value at December 31, 2014	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative contracts, net	\$ -	\$(1,750)	\$-
Measured on a non-recurring basis:			
Equity-method investment	\$ -	\$-	\$33,282

See Note 8 for more details regarding our derivative contracts.

Based on operating losses recognized by the equity-method investment, we determined that an impairment of our investment had occurred. Accordingly, we performed a fair value calculation for this investment and determined that a \$4.1 million and an \$8.3 million impairment, respectively, was required to be recorded as asset impairments in our Consolidated Statements of Operations for the three and six months ended June 30, 2015. See Note 11.

Long-lived assets classified as held and used are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An estimate of future undiscounted net cash flows associated with the long-lived assets is used to determine if the carrying value of the assets is recoverable. An impairment charge is recorded if the carrying value of the asset is determined to not be recoverable and exceeds its fair value. Due to changes in the expected future use for certain properties, we evaluated the future undiscounted net cash flows for each property. It was determined the carrying value was not recoverable and exceeded the estimated fair value. As a result of this evaluation, we recorded \$2.0 million of impairment charges associated with these properties

in the second quarter of 2015.

Fair Value Disclosures for Financial Assets and Liabilities

We determined the carrying value of cash equivalents, accounts receivable, trade payables, accrued liabilities and short-term borrowings approximate their fair values because of the nature of their terms and current market rates of these instruments. We believe the carrying value of our variable rate debt approximates fair value.

We have fixed rate debt and calculate the estimated fair value of our fixed rate debt using a discounted cash flow methodology. Using estimated current interest rates based on a similar risk profile and duration (Level 2), the fixed cash flows are discounted and summed to compute the fair value of the debt. As of June 30, 2015, this debt had maturity dates between November 2016 and October 2034. A summary of the aggregate carrying values and fair values of our long-term fixed interest rate debt is as follows (in thousands):

	June 30, 2015	December 31, 2014
Carrying value	\$253,934	\$257,780
Fair value	260,408	270,781

Note 8. Derivative Financial Instrument

From time to time, we enter into interest rate swaps to fix a portion of our interest expense. We do not enter into derivative instruments for any purpose other than to manage interest rate exposure to fluctuations in the one-month LIBOR benchmark. That is, we do not engage in interest rate speculation using derivative instruments.

As of June 30, 2015, we had a \$25 million interest rate swap outstanding with U.S. Bank Dealer Commercial Services. This interest rate swap matures on June 15, 2016 and has a fixed rate of 5.587% per annum. The variable rate on the interest rate swap is the one-month LIBOR rate. At June 30, 2015, the one-month LIBOR rate was 0.19% per annum, as reported in the Wall Street Journal.

Typically, we designate all interest rate swaps as cash flow hedges and, accordingly, we record the change in fair value for the effective portion of these interest rate swaps in comprehensive income rather than net income until the underlying hedged transaction affects net income. If a swap is no longer designated as a cash flow hedge and the forecasted transaction remains probable or reasonably possible of occurring, the gain or loss recorded in accumulated other comprehensive loss is recognized in income as the forecasted transaction occurs. If the forecasted transaction is probable of not occurring, the gain or loss recorded in accumulated other comprehensive loss is recognized in income immediately. See Note 7.

The estimated amount that we expect to reclassify from accumulated other comprehensive loss to net income within the next twelve months is \$1.0 million at June 30, 2015.

The fair value of our derivative instruments was included in our Consolidated Balance Sheets as follows (in thousands):

Balance Sheet Information Fair Value of Liability Derivatives

Derivatives Designated as		June 30,
Hedging Instruments		2015
Interest Rate Swap Contract	Accrued liabilities	\$1,187
	Other long-term liabilities	-
		\$1,187

Balance Sheet Information Fair Value of Liability Derivatives

Derivatives Designated as		December 31,
Hedging Instruments		2014
Interest Rate Swap Contract	Accrued liabilities	\$ 1,194
	Other long-term liabilities	556
		\$ 1,750

The effect of derivative instruments on our Consolidated Statements of Operations was as follows (in thousands):

					Amount of Loss
Derivatives in Cash Flow Hedging Relationships	Amount of Gain	Location of Loss	Amount of Loss	Location of Loss	Recognized in Income
	Recognized in	Reclassified from	Reclassified from	Recognized in Income on Derivative	on Derivative
	Accumulated OCI	Accumulated OCI	Accumulated OCI	(Ineffective Portion and Amount	(Ineffective Portion
	(Effective Portion)	into Income (Effective Portion)	into Income (Effective Portion)	Excluded from Effectiveness Testing)	and Amount Excluded from Effectiveness Testing)
Three Months Ended June 30, 2015					
Interest Rate Swap Contract	\$ 151	Floor plan interest expense	\$ (108)	Floor plan interest expense	\$ (191)
Three Months Ended June 30, 2014					
Interest Rate Swap Contract	\$ 93	Floor plan interest expense	\$ (118)	Floor plan interest expense	\$ (188)
Six Months Ended June 30, 2015					
Interest Rate Swap Contract	\$ 252	Floor plan interest expense	\$ (233)	Floor plan interest expense	\$ (368)
Six Months Ended June 30, 2014					
Interest Rate Swap Contract	\$ 201	Floor plan interest expense	\$ (252)	Floor plan interest expense	\$ (359)

See also Note 8.

Note 9. Assets Held for Sale and Discontinued Operations

Assets Held for Sale

We classify an asset group as held for sale if we have ceased operations at that location or the store meets the criteria required by U.S. generally accepted accounting standards as follows:

our management team, possessing the necessary authority, commits to a plan to sell the store;
the store is available for immediate sale in its present condition;
an active program to locate buyers and other actions that are required to sell the store are initiated;
a market for the store exists and we believe its sale is likely within one year;
active marketing of the store commences at a price that is reasonable in relation to the estimated fair market value;
and
our management team believes it is unlikely changes will be made to the plan or the plan to dispose of the store will be withdrawn.

As of December 31, 2014, we had two Import stores classified as held for sale. During the first six months of 2015, we completed the sale of both of these Import stores, and recognized a gain of \$5.9 million as a component of selling, general and administrative on our Consolidated Statements of Operations for the six months ended June 30, 2015.

As of June 30, 2015, we no longer had any stores classified as held for sale. Assets held for sale included the following (in thousands):

	June 30,	December 31,
	2015	2014
Inventories	\$ -	\$ 6,284
Property, plant and equipment	-	1,739
Intangible assets	-	540
	\$ -	\$ 8,563

Liabilities related to assets held for sale included the following (in thousands):

	June 30,	December 31,
	2015	2014
Floor plan notes payable	\$ -	\$ 4,892

Discontinued Operations and the Sales of Stores

In the third quarter of 2014, we early-adopted guidance that redefined discontinued operations. As a result, we determined that individual stores which met the criteria for held for sale after our adoption date would no longer qualify for classification as discontinued operations. We had previously reclassified a store's operations to discontinued operations in our Consolidated Statements of Operations, on a comparable basis for all periods presented, provided we did not expect to have any significant continuing involvement in the store's operations after its disposal.

Certain financial information related to discontinued operations and sales of stores was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenue	\$-	\$3,920	\$-	\$12,569

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Pre-tax loss from discontinued operations	\$-	\$(532)	\$-	\$(467)
Net gain on disposal activities	-	5,744	-	5,744
	-	5,212	-	5,277
Income tax expense	-	(2,073)	-	(2,098)
Income from discontinued operations, net of income tax expense	\$-	\$3,139	\$-	\$3,179
Goodwill and other intangible assets disposed of	\$157	\$221	\$246	\$221
Cash generated from disposal activities	9,286	10,617	12,966	10,617
Floor plan debt paid in connection with disposal activities	2,192	3,311	4,400	3,311

Note 10. Net Income Per Share of Class A and Class B Common Stock

We compute net income per share of Class A and Class B common stock using the two-class method. Under this method, basic net income per share is computed using the weighted average number of common shares outstanding during the period excluding unvested common shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and unvested restricted shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options and other grants is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

Except with respect to voting and transfer rights, the rights of the holders of our Class A and Class B common stock are identical. Under our Restated Articles of Incorporation, the Class A and Class B common stock must share equally in any dividends, liquidation proceeds or other distribution with respect to our common stock and the Articles of Incorporation can only be amended by a vote of the shareholders. Additionally, Oregon law provides that amendments to our Articles of Incorporation that would adversely alter the rights, powers or preferences of a given class of stock, must be approved by the class of stock adversely affected by the proposed amendment. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. Because the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis.

Following is a reconciliation of the income from continuing operations and weighted average shares used for our basic earnings per share ("EPS") and diluted EPS (in thousands, except per share amounts):

Three Months Ended June 30,	2015		2014	
Basic EPS from Continuing Operations	Class A	Class B	Class A	Class B
<i>Numerator:</i>				
Income from continuing operations applicable to common stockholders	\$46,239	\$4,984	\$31,720	\$3,450
Distributed income applicable to common stockholders	(4,754)	(512)	(3,769)	(410)
Basic undistributed income from continuing operations applicable to common stockholders	\$41,485	\$4,472	\$27,951	\$3,040
<i>Denominator:</i>				
Weighted average number of shares outstanding used to calculate basic income per share	23,770	2,562	23,557	2,562
Basic income per share from continuing operations applicable to common stockholders	\$1.95	\$1.95	\$1.35	\$1.35
Basic distributed income per share from continuing operations applicable to common stockholders	(0.20)	(0.20)	(0.16)	(0.16)
Basic undistributed income per share from continuing operations applicable to common stockholders	\$1.75	\$1.75	\$1.19	\$1.19

Three Months Ended June 30,	2015		2014	
Diluted EPS from Continuing Operations	Class A	Class B	Class A	Class B
Numerator:				
Distributed income applicable to common stockholders	\$4,754	\$512	\$3,769	\$410
Reallocation of distributed income as a result of conversion of dilutive stock options	3	(3)	3	(3)
Reallocation of distributed income due to conversion of Class B to Class A common shares outstanding	509	-	407	-
Diluted distributed income applicable to common stockholders	\$5,266	\$509	\$4,179	\$407
Undistributed income from continuing operations applicable to common stockholders	\$41,485	\$4,472	\$27,951	\$3,040
Reallocation of undistributed income as a result of conversion of dilutive stock options	28	(28)	25	(25)
Reallocation of undistributed income due to conversion of Class B to Class A	4,444	-	3,015	-
Diluted undistributed income from continuing operations applicable to common stockholders	\$45,957	\$4,444	\$30,991	\$3,015
Denominator:				
Weighted average number of shares outstanding used to calculate basic income per share from continuing operations	23,770	2,562	23,557	2,562
Weighted average number of shares from stock options	164	-	212	-
Conversion of Class B to Class A common shares outstanding	2,562	-	2,562	-
Weighted average number of shares outstanding used to calculate diluted income per share from continuing operations	26,496	2,562	26,331	2,562
Diluted income per share from continuing operations applicable to common stockholders	\$1.93	\$1.93	\$1.34	\$1.34
Diluted distributed income per share from continuing operations applicable to common stockholders	(0.20)	(0.20)	(0.16)	(0.16)
Diluted undistributed income per share from continuing operations applicable to common stockholders	\$1.73	\$1.73	\$1.18	\$1.18

**Three Months
Ended June
30,**

**Diluted EPS
Antidilutive
Securities**

Shares issuable
pursuant to
stock options
not included
since they were
antidilutive

2015

Class A

Class B

2014

Class A

Class B

17

-

12

-

Six Months Ended June 30,

2015

2014

Basic EPS from Continuing Operations

Class A

**Class
B**

Class A

**Class
B**

Numerator:

Income from continuing operations applicable to common stockholders

\$82,929

\$8,947

\$53,976

\$5,888

Distributed income applicable to common stockholders

(8,559)

(923)

(6,814)

(743)

Basic undistributed income from continuing operations applicable to common stockholders

\$74,370

\$8,024

\$47,162

\$5,145

Denominator:

Weighted average number of shares outstanding used to calculate basic income per share

23,748

2,562

23,485

2,562

Basic income per share from continuing operations applicable to common stockholders

\$3.49

\$3.49

\$2.30

\$2.30

Basic distributed income per share from continuing operations applicable to common stockholders

(0.36)

(0.36)

(0.29)

(0.29)

Basic undistributed income per share from continuing operations applicable to common stockholders

\$3.13

\$3.13

\$2.01

\$2.01

Six Months Ended June 30,	2015		2014	
Diluted EPS from Continuing Operations	Class A	Class B	Class A	Class B
Numerator:				
Distributed income applicable to common stockholders	\$8,559	\$923	\$6,814	\$743
Reallocation of distributed income as a result of conversion of dilutive stock options	7	(7)	8	(8)
Reallocation of distributed income due to conversion of Class B to Class A common shares outstanding	916	-	735	-
Diluted distributed income applicable to common stockholders	\$9,482	\$916	\$7,557	\$735
Undistributed income from continuing operations applicable to common stockholders	\$74,370	\$8,024	\$47,162	\$5,145
Reallocation of undistributed income as a result of conversion of dilutive stock options	61	(61)	55	(55)
Reallocation of undistributed income due to conversion of Class B to Class A	7,963	-	5,090	-
Diluted undistributed income from continuing operations applicable to common stockholders	\$82,394	\$7,963	\$52,307	\$5,090
Denominator:				
Weighted average number of shares outstanding used to calculate basic income per share from continuing operations	23,748	2,562	23,485	2,562
Weighted average number of shares from stock options	199	-	279	-
Conversion of Class B to Class A common shares outstanding	2,562	-	2,562	-
Weighted average number of shares outstanding used to calculate diluted income per share from continuing operations	26,509	2,562	26,326	2,562
Diluted income per share from continuing operations applicable to common stockholders	\$3.47	\$3.47	\$2.27	\$2.27
Diluted distributed income per share from continuing operations applicable to common stockholders	(0.36)	(0.36)	(0.29)	(0.29)
Diluted undistributed income per share from continuing operations applicable to common stockholders	\$3.11	\$3.11	\$1.98	\$1.98

Six Months Ended June 30,	2015		2014	
Diluted EPS Antidilutive Securities	Class A	Class B	Class A	Class B
Shares issuable pursuant to stock options not included since they were antidilutive	16	-	14	-

Note 11. Equity-Method Investment

In October 2014, we acquired a 99.9% membership interest in a limited liability company managed by U.S. Bancorp Community Development Corporation with an initial equity contribution of \$4.1 million. We made additional equity contributions to the entity of \$5.7 million and \$11.4 million, respectively, in the three and six-month periods ended June 30, 2015. We are obligated to make \$49.8 million of contributions to the entity over a two-year period ending October 2016, \$15.5 million of which had been paid as of June 30, 2015.

This investment generates new markets tax credits under the New Markets Tax Credit Program (“NMTC Program”). The NMTC Program was established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities.

While U.S. Bancorp Community Development Corporation exercises management control over the limited liability company, due to the economic interest we hold in the entity, we determined our ownership portion of the entity was appropriately accounted for using the equity method.

The following amounts related to this equity-method investment were recorded in our Consolidated Balance Sheets (in thousands):

	June 30,	December 31,
	2015	2014
Carrying value, recorded as a component of other non-current assets	\$34,009	\$ 33,282
Present value of obligation associated with future equity contributions, recorded as a component of accrued liabilities and other long-term liabilities	33,582	32,177

The following amounts related to this equity-method investment were recorded in our Consolidated Statements of Operations (in thousands):

	Three Months Ended	Six Months Ended
	June 30, 2015	June 30, 2014
Asset impairments to write investment down to fair value	\$4,130	\$ -
Our portion of the partnership’s operating losses	1,733	-
Non-cash interest expense related to the amortization of the discounted fair value of future equity contributions	183	-
Tax benefits and credits generated	7,652	-

Note 12. Segments

While we have determined that each individual store is an operating segment, we have aggregated our operating segments into three reportable segments based on their economic similarities: Domestic, Import and Luxury.

Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Chrysler, General Motors and Ford. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Honda, Toyota, Subaru, Nissan and Volkswagen. Our Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by BMW, Mercedes-Benz and Lexus. The franchises in each segment also sell used vehicles, parts and automotive services, and automotive finance and insurance products.

Corporate and other is comprised of our stand-alone collision center; unallocated corporate overhead expenses, such as corporate personnel costs, certain interest expense and depreciation expense, and retrospective commissions for certain finance and insurance transactions that we arrange under agreements with third parties.

We define our chief operating decision maker (“CODM”) to be certain members of our executive management group. Historical and forecasted operational performance is evaluated on a store-by-store basis and on a consolidated basis by the CODM. We derive the operating results of the segments directly from our internal management reporting system. The accounting policies used to derive segment results are substantially the same as those used to determine our consolidated results. Management measures the performance of each operating segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to allocate resources to, each of the operating segments.

Certain financial information on a segment basis is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenues:				
Domestic	\$768,989	\$641,378	\$1,460,393	\$1,210,308
Import	853,444	394,924	1,612,082	745,985
Luxury	372,369	185,826	709,290	344,437
	1,994,802	1,222,128	3,781,765	2,300,730
Corporate and other	2,145	(326)	4,360	(822)
	\$1,996,947	\$1,221,802	\$3,786,125	\$2,299,908
Segment income*:				
Domestic	\$31,045	\$25,288	\$58,174	\$47,710
Import	25,904	14,768	42,005	24,033
Luxury	9,515	5,832	15,414	8,017
	66,464	45,888	115,593	79,760
Corporate and other	9,175	11,186	18,102	18,018
Income from continuing operations before income taxes	\$75,639	\$57,074	\$133,695	\$97,778

*Segment income is defined as operating income less floor plan interest expense.

Floor plan interest expense:

Domestic	\$4,932	\$4,404	\$9,669	\$8,463
Import	3,724	1,904	7,422	3,711
Luxury	2,308	1,036	4,369	2,165
	10,964	7,344	21,460	14,339
Corporate and other	(6,309)	(4,129)	(12,156)	(8,140)
	\$4,655	\$3,215	\$9,304	\$6,199

June 30,

	2015	December 31,
		2014
Total assets:		
Domestic	\$922,933	\$831,574
Import	711,944	696,162
Luxury	422,318	405,222
Corporate and other	947,660	947,974
	\$3,004,855	\$2,880,932

Note 13. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued accounting standards update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which amends the accounting guidance related to revenues. This amendment will replace most of the existing revenue recognition guidance when it becomes effective. The new standard, as amended in July 2015, is effective for fiscal years beginning after December 15, 2017 and entities are allowed to adopt the standard as early as annual periods beginning after December 15, 2016, and interim periods therein. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this amendment will have on our consolidated financial statements and related disclosures and believe the financial impact is not material. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In June 2014, the FASB issued ASU 2014-12, “Compensation – Stock Compensation (Topic 718).” ASU 2014-12 addresses accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. ASU 2014-12 indicates that, in such situations, the performance target should be treated as a performance condition and, accordingly, the performance target should not be reflected in estimating the grant-date fair value of the award. Instead, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. We do not expect the adoption of ASU 2014-12 to have a material effect on our financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810).” ASU 2015-02 amends guidance regarding the consolidation of certain legal entities. ASU 2015-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We do not expect the adoption of ASU 2015-02 to have any effect on our financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, “Interest – Imputation of Interest (Subtopic 835-30).” ASU 2015-03 amends guidance in order to simplify the presentation of debt issuance costs. ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. We do not expect the adoption of ASU 2015-03 to have any effect on our financial position, results of operations or cash flows.

Note 14. Subsequent Events

Common Stock Dividend

On July 20, 2015, our Board of Directors approved a dividend of \$0.20 per share on our Class A and Class B common stock related to our second quarter 2015 financial results. The dividend will total approximately \$5.3 million and will be paid on August 21, 2015 to shareholders of record on August 7, 2015.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Risk Factors

Certain statements under the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, you can identify forward-looking

statements by terms such as “project”, “outlook,” “target”, “may,” “will,” “would,” “should,” “seek,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “likely,” “goal,” “strategy,” “future,” “maintain,” and “continue” or other similar terms. Examples of forward-looking statements in this Form 10-Q include, among others, statements we make regarding:

Future market conditions;

Expected operating results, such as improved store performance; maintaining incremental throughput between 45% and 50%; continued improvement of SG&A as a percentage of gross profit and all projections;

Anticipated continued success, integration and growth of DCH;

Anticipated ability to capture additional market share; ability to find accretive acquisitions; and additions of dealership locations to the company’s portfolio in the future;

Anticipated availability of liquidity from our unfinanced operating real estate; and

Anticipated levels of capital expenditures in the future.

The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our actual results to materially differ from the results expressed or implied by these statements. Certain important factors that could cause actual results to differ from our expectations are discussed in Part II - Other Information, Item 1A in this Form 10-Q and in the Risk Factors section of our 2014 Annual Report on Form 10-K, as supplemented and amended from time to time in Quarterly Reports on Form 10-Q and our other filings with the Securities and Exchange Commission.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events that depend on circumstances that may or may not occur in the future. You should not place undue reliance on these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. We assume no obligation to update or revise any forward-looking statement.

Overview

We are a leading operator of automotive franchises and a retailer of new and used vehicles and related services. As of July 31, 2015, we offered 31 brands of new vehicles and all brands of used vehicles in 129 stores in the United States and online at Lithia.com and DCHauto.com. We sell new and used cars and replacement parts; provide vehicle maintenance, warranty, paint and repair services; arrange related financing; and sell service contracts, vehicle protection products and credit insurance.

Our dealerships are located across the United States. We seek domestic, import and luxury franchises in cities ranging from mid-sized regional markets to metropolitan markets. We evaluate all brands for expansion opportunities provided the market is large enough to support adequate new vehicle sales to justify the required capital investment.

Our mission statement is: “Driven by our employees and preferred by our customers, Lithia is the leading automotive retailer in each of our markets.” We offer customers personal, convenient, flexible personalized service combined with the large company advantages of selection, competitive pricing, broad access to financing, and warranties. We strive for diversification in our products, services, brands and geographic locations to insulate us from market risk and to maintain profitability. We have developed a centralized support structure to reduce store level administrative functions. This allows store personnel to focus on providing a positive customer experience. With our management information systems and centrally-performed administrative functions in Medford, Oregon, and regional accounting processing centers, we seek to gain economies of scale from our dealership network.

Results of Continuing Operations

For the three months ended June 30, 2015 and 2014, we reported income from continuing operations, net of tax, of \$51.2 million, or \$1.93 per diluted share, and \$35.2 million, or \$1.34 per diluted share, respectively.

For the six months ended June 30, 2015 and 2014, we reported income from continuing operations, net of tax, of \$91.9 million, or \$3.47 per diluted share, and \$59.9 million, or \$2.27 per diluted share, respectively.

Discontinued Operations

In the third quarter of 2014, we early-adopted guidance that redefined discontinued operations. As a result, we determined that individual stores that met the criteria for held for sale after our adoption date would no longer qualify for classification as discontinued operations. We had previously reclassified a store's operations to discontinued operations in our Consolidated Statements of Operations, on a comparable basis for all periods presented, provided we did not expect to have any significant continuing involvement in the store's operations after its disposal.

We realized income from discontinued operations, net of tax, of \$3.1 million, or \$0.11 per diluted share for the three months ended June 30, 2014 and \$3.2 million, or \$0.12 per diluted share, for the six months ended June 30, 2014. See Note 9 of the Condensed Notes to Consolidated Financial Statements for additional information.

Key Revenue and Gross Profit Metrics

Key performance metrics for revenue and gross profit were as follows (dollars in thousands):

Three months ended June 30, 2015	Revenues	Percent of Total Revenues	Gross Profit	Gross Profit Margin	Percent of Total Gross Profit
New vehicle	\$1,149,512	57.6	% \$69,342	6.0	% 23.3
Used vehicle retail	488,801	24.5	62,693	12.8	21.1
Used vehicle wholesale	66,796	3.3	1,406	2.1	0.5
Finance and insurance ⁽¹⁾	72,463	3.6	72,463	100.0	24.3
Service, body and parts	182,695	9.2	90,749	49.7	30.5
Fleet and other	36,680	1.8	996	2.7	0.3
	\$1,996,947	100.0	% \$297,649	14.9	% 100.0

Three months ended June 30, 2014	Revenues	Percent of Total Revenues	Gross Profit	Gross Profit Margin	Percent of Total Gross Profit
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						Gross Profit		
New vehicle	\$694,484	56.8	%	\$45,994	6.6	%	23.9	%
Used vehicle retail	310,475	25.4		44,067	14.2		22.9	
Used vehicle wholesale	44,286	3.6		1,504	3.4		0.8	
Finance and insurance ⁽¹⁾	43,838	3.6		43,838	100.0		22.8	
Service, body and parts	114,337	9.4		56,182	49.1		29.2	
Fleet and other	14,382	1.2		715	5.0		0.4	
	\$1,221,802	100.0	%	\$192,300	15.7	%	100.0	%

Six months ended June 30, 2015	Revenues	Percent of Total Revenues	Gross Profit	Gross Profit Margin	Percent of Total Gross Profit			
New vehicle	\$2,157,328	57.0	%	\$131,116	6.1	%	23.0	%
Used vehicle retail	951,732	25.1		122,135	12.8		21.4	
Used vehicle wholesale	129,004	3.4		3,567	2.8		0.6	
Finance and insurance ⁽¹⁾	137,067	3.6		137,067	100.0		24.0	
Service, body and parts	356,170	9.4		175,188	49.2		30.7	
Fleet and other	54,824	1.5		1,951	3.6		0.3	
	\$3,786,125	100.0	%	\$571,024	15.1	%	100.0	%

Six months ended June 30, 2014	Revenues	Percent of Total Revenues	Gross Profit	Gross Profit Margin	Percent of Total Gross Profit
New vehicle	\$1,274,006	55.4	% \$85,018	6.7	% 23.3
Used vehicle retail	612,368	26.6	84,863	13.9	23.3
Used vehicle wholesale	86,979	3.8	2,835	3.3	0.8
Finance and insurance ⁽¹⁾	83,469	3.6	83,469	100.0	22.9
Service, body and parts	218,954	9.5	107,014	48.9	29.4
Fleet and other	24,132	1.1	1,162	4.8	0.3
	\$2,299,908	100.0	% \$364,361	15.8	% 100.0

(1) Commissions reported net of anticipated cancellations.

Same Store Operating Data

In 2014, we acquired 36 stores. As a result, we experienced significant growth in the first six months of 2015 compared to the same period in 2014. We believe that same store comparisons are an important indicator of our financial performance. Same store measures demonstrate our ability to grow revenues in our existing locations. As a result, same store measures have been integrated into the discussion below.

Same store measures reflect results for stores that were operating in each comparison period and only include the months when operations occurred in both periods. For example, a store acquired in May 2014 would be included in same store operating data beginning in June 2015, after its first full complete comparable month of operation. The second quarter operating results for the same store comparisons would include results for that store in only the period of June for both comparable periods.

New Vehicle Revenue and Gross Profit

(Dollars in thousands, except per unit amounts) Reported	Three Months Ended		Increase (Decrease)	% Increase (Decrease)
	June 30, 2015	2014		
Revenue	\$1,149,512	\$694,484	\$455,028	65.5 %
Gross profit	\$69,342	\$45,994	\$23,348	50.8
Gross margin	6.0	% 6.6	% (60)	bp
Retail units sold	35,112	20,446	14,666	71.7

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Average selling price per retail unit	\$32,738	\$33,967	\$ (1,229)	(3.6)
Average gross profit per retail unit	\$1,975	\$2,250	\$ (275)	(12.2)

Same store

Revenue	\$742,347	\$689,006	\$ 53,341	7.7 %
Gross profit	\$45,475	\$45,578	\$ (103)	(0.2)
Gross margin	6.1 %	6.6 %	(50) bp	

Retail units sold	21,411	20,260	1,151	5.7
Average selling price per retail unit	\$34,671	\$34,008	\$ 663	1.9
Average gross profit per retail unit	\$2,124	\$2,250	\$ (126)	(5.6)

(1) A basis point is equal to 1/100th of one percent.

Six Months Ended

(Dollars in thousands, except per unit amounts)	June 30, 2015	2014	Increase (Decrease)	% Increase (Decrease)
Reported				
Revenue	\$2,157,328	\$1,274,006	\$ 883,322	69.3 %
Gross profit	\$131,116	\$85,018	\$ 46,098	54.2
Gross margin	6.1 %	6.7 %	(60) bp	
Retail units sold	65,735	37,720	28,015	74.3
Average selling price per retail unit	\$32,819	\$33,775	\$ (956)	(2.8)
Average gross profit per retail unit	\$1,995	\$2,254	\$ (259)	(11.5)
Same store				
Revenue	\$1,379,617	\$1,260,741	\$ 118,876	9.4 %
Gross profit	\$85,494	\$83,957	\$ 1,537	1.8
Gross margin	6.2 %	6.7 %	(50) bp	
Retail units sold	39,894	37,268	2,626	7.0
Average selling price per retail unit	\$34,582	\$33,829	\$ 753	2.2
Average gross profit per retail unit	\$2,143	\$2,253	\$ (110)	(4.9)

New vehicle sales increased 65.5% and 69.3%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 primarily driven by the acquisition of 27 stores from the DCH Auto Group in the fourth quarter of 2014. On a same store basis, new vehicle sales increased 7.7% and 9.4%, respectively, primarily due to unit volume growth of 5.7% and 7.0%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods in 2014. Same store unit sales increased in all reportable segments in the 2015 periods compared to the comparable 2014 periods as follows:

	Three months ended		National growth in the three months ended		Six months ended		National growth in the six months ended	
	June 30, 2015		June 30, 2015		June 30, 2015		June 30, 2015	
	compared to the same period of 2014		compared to the same period of 2014		compared to the same period of 2014		compared to the same period of 2014	
Domestic	8.8	%	3.0	%	7.9	%	3.6	%
Import	3.3		2.8		6.4		4.3	
Luxury	0.3		10.0		5.5		10.9	
Overall	5.7	%	3.4	%	7.0	%	4.4	%

Our unit volume growth rate for the 2015 periods was higher than the national average for our domestic and import stores, while growth in our luxury stores was flat for the three months ended June 30, 2015. We continue to focus on increasing our share of overall new vehicle sales within our markets.

New vehicle gross profit increased 50.8% and 54.2%, respectively, for the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, primarily driven by the acquisition of the DCH Auto Group in the fourth quarter of 2014. On a same store basis, new vehicle gross profit decreased 0.2% and increased 1.8%, respectively, for the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014. In the three-month period ended June 30, 2015, lower gross profit per unit and gross margins resulted in a slight decline in gross profits. In the six-month period ended June 30, 2015, gross profit increases were due to a greater number of vehicles sold, offset by lower gross profit per unit and gross margins.

With our volume-based strategy, on a same store basis, the average gross profit per new retail unit decreased \$126, or 5.6%, and \$110, or 4.9%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014. We believe our volume-based strategy creates additional used vehicle trade-in opportunities, finance and insurance sales and future service work, which will generate incremental business in future periods that will more than offset the lower new vehicle gross profit per unit that has occurred with the pursuit of a volume-based strategy.

Used Vehicle Retail Revenue and Gross Profit

(Dollars in thousands, except per unit amounts) Reported	Three Months Ended				%
	June 30, 2015	2014	Increase (Decrease)	Increase (Decrease)	
Retail revenue	\$488,801	\$310,475	\$ 178,326	57.4	%
Retail gross profit	\$62,693	\$44,067	\$ 18,626	42.3	
Retail gross margin	12.8	% 14.2	% (140)	bp	
Retail units sold	24,689	16,086	8,603	53.5	
Average selling price per retail unit	\$19,798	\$19,301	\$ 497	2.6	
Average gross profit per retail unit	\$2,539	\$2,739	\$ (200)	(7.3))
Same store					
Retail revenue	\$357,673	\$307,616	\$ 50,057	16.3	%
Retail gross profit	\$47,933	\$43,720	\$ 4,213	9.6	
Retail gross margin	13.4	% 14.2	% (80)	bp	
Retail units sold	17,769	15,924	1,845	11.6	
Average selling price per retail unit	\$20,129	\$19,318	\$ 811	4.2	
Average gross profit per retail unit	\$2,698	\$2,746	\$ (48)	(1.7))

(Dollars in thousands, except per unit amounts) Reported	Six Months Ended				%
	June 30, 2015	2014	Increase (Decrease)	Increase (Decrease)	
Retail revenue	\$951,732	\$612,368	\$ 339,364	55.4	%
Retail gross profit	\$122,135	\$84,863	\$ 37,272	43.9	
Retail gross margin	12.8	% 13.9	% (110)	bp	
Retail units sold	48,893	32,402	16,491	50.9	
Average selling price per retail unit	\$19,466	\$18,899	\$ 567	3.0	
Average gross profit per retail unit	\$2,498	\$2,619	\$ (121)	(4.6))
Same store					
Retail revenue	\$689,918	\$604,960	\$ 84,958	14.0	%
Retail gross profit	\$92,650	\$84,052	\$ 8,598	10.2	
Retail gross margin	13.4	% 13.9	% (50)	bp	
Retail units sold	34,942	31,971	2,971	9.3	
Average selling price per retail unit	\$19,745	\$18,922	\$ 823	4.3	
Average gross profit per retail unit	\$2,652	\$2,629	\$ 23	0.9	

Used vehicle retail sales are a strategic focus for organic growth. We offer three categories of used vehicles: manufacturer certified pre-owned vehicles; core vehicles, or late-model vehicles with lower mileage; and value autos, or vehicles with over 80,000 miles. Additionally, our volume-based strategy for new vehicle sales increases the organic opportunity to convert vehicles acquired via trade to retail used vehicle sales.

Same store sales increased in all three categories of used vehicles as follows:

	Three months ended	Six months ended
	June 30, 2015	June 30, 2015
	compared to the	compared to the
	same period of 2014	same period of 2014
Certified pre-owned vehicles	20.6%	19.1%
Core vehicles	16.1	13.7
Value autos	9.2	6.7
Overall	16.3	14.0

On an annualized average as of June 30, 2015 and 2014, each of our stores sold 59 and 55 retail used vehicle units, respectively, per month. We continue to target increasing sales to 75 units per store per month.

Used retail vehicle gross profit increased 42.3% and 43.9%, respectively, for the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, primarily driven by the acquisition of the DCH Auto Group in the fourth quarter of 2014. On a same store basis, gross profit increased 9.6% and 10.2%, respectively, for the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014. These increases were mainly related to increased unit volume. The unit volume growth was driven by a mix shift toward certified pre-owned and core vehicles, which have higher average selling prices and lower gross margins than value autos.

Used Vehicle Wholesale Revenue and Gross Profit

	Three Months Ended					
	June 30,			Increase	%	
(Dollars in thousands, except per unit amounts)	2015	2014		(Decrease)	Increase	
Reported					Decrease	
Wholesale revenue	\$66,796	\$44,286		\$ 22,510	50.8	%
Wholesale gross profit	\$1,406	\$1,504		\$ (98)	(6.5)
Wholesale gross margin	2.1	3.4	%	(130)bp		
Wholesale units sold	9,439	6,047		3,392	56.1	
Average selling price per wholesale unit	\$7,077	\$7,324		\$ (247)	(3.4)
Average gross profit per retail unit	\$149	\$249		\$ (100)	(40.2)
Same store						
Wholesale revenue	\$49,157	\$44,043		\$ 5,114	11.6	%
Wholesale gross profit	\$1,369	\$1,560		\$ (191)	(12.2)
Wholesale gross margin	2.8	3.5	%	(70)bp		
Wholesale units sold	6,259	5,981		278	4.6	
Average selling price per wholesale unit	\$7,854	\$7,364		\$ 490	6.7	
Average gross profit per retail unit	\$219	\$261		\$ (42)	(16.1)
	Six Months Ended					
	June 30,			Increase	%	
(Dollars in thousands, except per unit amounts)	2015	2014		(Decrease)	Increase	
Reported					Decrease	
Wholesale revenue	\$129,004	\$86,979		\$ 42,025	48.3	%

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Wholesale gross profit	\$3,567	\$2,835	\$ 732	25.8
Wholesale gross margin	2.8	% 3.3	% (50)bp
Wholesale units sold	18,583	11,900	6,683	56.2
Average selling price per wholesale unit	\$6,942	\$7,309	\$ (367) (5.0)
Average gross profit per retail unit	\$192	\$238	\$ (46) (19.3)
Same store				
Wholesale revenue	\$94,161	\$86,573	\$ 7,588	8.8 %
Wholesale gross profit	\$3,051	\$2,902	\$ 149	5.1
Wholesale gross margin	3.2	% 3.4	% (20)bp
Wholesale units sold	12,211	11,785	426	3.6
Average selling price per wholesale unit	\$7,711	\$7,346	\$ 365	5.0
Average gross profit per retail unit	\$250	\$246	\$ 4	1.6

Wholesale transactions are vehicles we have purchased from customers or vehicles we have attempted to sell via retail that we elect to dispose of due to inventory age or other factors. Wholesale vehicles are typically sold at or near inventory cost and do not comprise a meaningful component of our gross profit.

Finance and Insurance

	Three Months Ended			%	
(Dollars in thousands, except per unit amounts)	June 30, 2015	2014	Increase	Increase	
Reported					
Revenue	\$72,463	\$43,838	\$28,625	65.3	%
Average finance and insurance per retail unit	\$1,212	\$1,200	\$12	1.0	%
Same store					
Revenue	\$50,160	\$43,508	\$6,652	15.3	%
Average finance and insurance per retail unit	\$1,280	\$1,202	\$78	6.5	%

	Six Months Ended			%	
(Dollars in thousands, except per unit amounts)	June 30, 2015	2014	Increase	Increase	
Reported					
Revenue	\$137,067	\$83,469	\$53,598	64.2	%
Average finance and insurance per retail unit	\$1,196	\$1,190	\$6	0.5	%
Same store					
Revenue	\$94,133	\$82,548	\$11,585	14.0	%
Average finance and insurance per retail unit	\$1,258	\$1,192	\$66	5.5	%

The increases in total finance and insurance revenue were primarily due to higher unit volume, as a result of the acquisition of the DCH Auto Group in the fourth quarter of 2014. On a same store basis, the increases were due to higher unit volume sales and an increase in the average finance and insurance revenue earned per unit. Trends in penetration rates for total new and used retail vehicles sold are detailed below:

	Three Months Ended			Six Months Ended	
	June 30, 2015	2014		June 30, 2015	2014
Finance and insurance	77 %	80 %		77 %	79 %
Service contracts	41	43		41	43
Lifetime lube, oil and filter contracts	25	36		25	37

We believe the availability of credit is one of the key indicators of our ability to retail automobiles, as we arrange financing on almost 80% of the vehicles we sell and believe a significant amount of the vehicles we do not arrange financing for are financed elsewhere. To evaluate the availability of credit, we categorize our customers based on their Fair, Isaac and Company (FICO) credit score.

The distribution by credit score for the customers we arranged financing for was as follows:

		Three Months Ended June 30,		Six Months Ended June 30,	
	FICO Score Range	2015	2014	2015	2014
Prime	680 and above	69.5 %	70.0 %	68.9 %	68.8 %
Non-prime	620 - 679	18.6	18.5	18.8	18.6
Sub-prime	619 or less	11.9	11.5	12.3	12.5

We continued to see the availability of consumer credit expand in the first six months of 2015 compared to the same period of 2014.

Service, Body and Parts Revenue and Gross Profit

	Three Months Ended June 30,					
(Dollars in thousands)	2015	2014	Increase	% Increase		
Reported						
Customer pay	\$104,354	\$64,331	\$40,023	62.2	%	
Warranty	39,996	19,908	20,088	100.9		
Wholesale parts	27,012	19,950	7,062	35.4		
Body shop	11,333	10,148	1,185	11.7		
Total service, body and parts	\$182,695	\$114,337	\$68,358	59.8	%	
Service, body and parts gross profit	\$90,749	\$56,182	\$34,567	61.5	%	
Service, body and parts gross margin	49.7	% 49.1	% 60	bp		
Same store						
Customer pay	\$68,203	\$63,618	\$4,585	7.2	%	
Warranty	25,008	19,758	5,250	26.6		
Wholesale parts	20,640	19,765	875	4.4		
Body shop	10,235	10,112	123	1.2		
Total service, body and parts	\$124,086	\$113,253	\$10,833	9.6	%	
Service, body and parts gross profit	\$61,333	\$55,593	\$5,740	10.3	%	
Service, body and parts gross margin	49.4	% 49.1	% 30	bp		
	Six Months Ended June 30,					
(Dollars in thousands)	2015	2014	Increase (Decrease)	% Increase Decrease		
Reported						
Customer pay	\$201,323	\$121,160	\$80,163	66.2	%	
Warranty	77,367	37,826	39,541	104.5		
Wholesale parts	54,603	39,744	14,859	37.4		
Body shop	22,877	20,224	2,653	13.1		
Total service, body and parts	\$356,170	\$218,954	\$137,216	62.7	%	
Service, body and parts gross profit	\$175,188	\$107,014	\$68,174	63.7	%	
Service, body and parts gross margin	49.2	% 48.9	% 30	bp		
Same store						
Customer pay	\$129,414	\$119,709	\$9,705	8.1	%	
Warranty	48,346	37,500	10,846	28.9		
Wholesale parts	41,285	39,385	1,900	4.8		
Body shop	20,056	20,188	(132)	(0.7))	

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Total service, body and parts	\$239,101	\$216,782	\$22,319	10.3	%
Service, body and parts gross profit	\$117,028	\$105,844	\$11,184	10.6	%
Service, body and parts gross margin	48.9	%	48.8	%	10 bp

Our service, body and parts sales grew in all areas except same store body shop in the six-month period ended June 30, 2015 compared to the same periods of 2014. There are more late-model vehicles in operation as new vehicle sales volumes have been increasing since 2010. We believe this increase in units in operation will benefit our service, body and parts sales in the coming years as more late-model vehicles age, necessitating repairs and maintenance.

We focus on retaining customers by offering competitively priced routine maintenance and through our marketing efforts. We increased our same store customer pay business 7.2% and 8.1%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods in 2014.

Same store warranty sales increased 26.6% and 28.9%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, primarily due to significant numbers of vehicle recalls. Additionally, we continue to see increases due to the growing number of units in operation. Routine maintenance, such as oil changes, offered by certain brands, including BMW, Toyota and General Motors, for two to four years after a vehicle is sold, provides for future work as consumers return to the franchised dealer for this 'prepaid' maintenance item.

Increases in same-store warranty work by segment were as follows:

	Three months ended		Six months ended	
	June 30, 2015		June 30, 2015	
	compared to the		compared to the	
	same period of 2014		same period of 2014	
Domestic	33.5	%	36.6	%
Import	9.9	%	11.1	%
Luxury	32.6	%	35.2	%

Wholesale parts represented 16.6% and 17.3%, respectively, of our same store service, body and parts revenue mix in the three- and six-month periods ended June 30, 2015 and 17.5% and 18.2%, respectively, in the same periods of 2014. Same store wholesale parts grew 4.4% and 4.8%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, primarily due to targeting fleet and mechanical wholesale accounts.

Body shop represented 8.2% and 8.4%, respectively, of our same store service, body and parts revenue mix in the three- and six-month periods ended June 30, 2015, and 8.9% and 9.3%, respectively, in the same periods of 2014. Same store body shop increased 1.2% and decreased 0.7%, respectively, in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014. During the first quarter of 2015, our body shops were impacted by a milder winter in the Pacific Northwest in 2015 where the majority of our body shops are located.

Same store service, body and parts gross profit increased 10.6% in both the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, which is in line with our revenue growth. Our gross margins were consistent in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014.

Segments

Certain financial information by segment is as follows:

Three Months Ended**June 30,**

(Dollars in thousands)	2015	2014	Increase	% Increase	
Revenues:					
Domestic	\$ 768,989	\$ 641,378	\$ 127,611	19.9	%
Import	853,444	394,923	458,521	116.1	
Luxury	372,369	185,826	186,543	100.4	
	1,994,802	1,222,127	772,675	63.2	
Corporate and other	2,145	(325)	2,470	NM	
	\$ 1,996,947	\$ 1,221,802	\$ 775,145	63.4	%

Six Months Ended**June 30,**

(Dollars in thousands)	2015	2014	Increase	% Increase	
Revenues:					
Domestic	\$ 1,460,393	\$ 1,210,308	\$ 250,085	20.7	%
Import	1,612,082	745,985	866,097	116.1	
Luxury	709,290	344,437	364,853	105.9	
	3,781,765	2,300,730	1,481,035	64.4	
Corporate and other	4,360	(822)	5,182	NM	
	\$ 3,786,125	\$ 2,299,908			