

LITHIA MOTORS INC  
Form 10-Q  
April 26, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2013

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

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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.)

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

97501  
(Zip Code)

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

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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

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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	22,977,404
Class B common stock without par value	2,690,027
(Class)	(Outstanding at April 26, 2013)

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

	March 31, 2013	December 31, 2012
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 15,006	\$42,839
Accounts receivable, net of allowance for doubtful accounts of \$141 and \$336	134,109	133,149
Inventories, net	714,121	723,326
Deferred income taxes	3,079	3,832
Other current assets	11,729	17,484
Assets held for sale	12,996	12,579
<b>Total Current Assets</b>	<b>891,040</b>	<b>933,209</b>
Property and equipment, net of accumulated depreciation of \$98,328 and \$97,883	427,935	425,086
Goodwill	32,047	32,047
Franchise value	62,429	62,429
Deferred income taxes	20,704	17,123
Other non-current assets	25,548	22,808
<b>Total Assets</b>	<b>\$ 1,459,703</b>	<b>\$ 1,492,702</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Floor plan notes payable	\$ 15,545	\$ 13,454
Floor plan notes payable: non-trade	567,981	568,130
Current maturities of long-term debt	7,483	8,182
Trade payables	41,339	41,589
Accrued liabilities	87,787	81,602
Liabilities related to assets held for sale	8,662	8,347
<b>Total Current Liabilities</b>	<b>728,797</b>	<b>721,304</b>
Long-term debt, less current maturities	222,249	286,876
Deferred revenue	35,252	33,589
Other long-term liabilities	25,602	22,832
<b>Total Liabilities</b>	<b>1,011,900</b>	<b>1,064,601</b>
<b>Stockholders' Equity:</b>		
Preferred stock - no par value; authorized 15,000 shares; none outstanding	-	-
Class A common stock - no par value; authorized 100,000 shares; issued and outstanding 22,950 and 22,916	263,253	268,801
Class B common stock - no par value; authorized 25,000 shares; issued and outstanding 2,693 and 2,762	335	343
Additional paid-in capital	15,096	12,399
Accumulated other comprehensive loss	(2,109)	(2,615)
Retained earnings	171,228	149,173

Total Stockholders' Equity	447,803	428,101
Total Liabilities and Stockholders' Equity	\$1,459,703	\$1,492,702

See accompanying notes to consolidated financial statement

LITHIA MOTORS, INC. AND SUBSIDIARIES  
Consolidated Statements of Operations  
(In thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
<b>Revenues:</b>		
New vehicle	\$493,441	\$392,946
Used vehicle retail	239,228	190,619
Used vehicle wholesale	39,506	33,357
Finance and insurance	31,663	24,876
Service, body and parts	90,440	83,544
Fleet and other	8,802	12,904
Total revenues	903,080	738,246
<b>Cost of sales:</b>		
New vehicle	458,794	362,694
Used vehicle retail	204,255	162,342
Used vehicle wholesale	38,532	32,960
Service, body and parts	46,661	43,409
Fleet and other	8,400	12,507
Total cost of sales	756,642	613,912
Gross profit	146,438	124,334
Asset impairments	-	115
Selling, general and administrative	101,131	88,439
Depreciation and amortization	4,721	4,138
Operating income	40,586	31,642
Floor plan interest expense	(3,449)	(2,902)
Other interest expense	(2,361)	(2,727)
Other income, net	801	498
Income from continuing operations before income taxes	35,577	26,511
Income tax provision	(13,695)	(9,877)
Income from continuing operations, net of income tax	21,882	16,634
Income from discontinued operations, net of income tax	173	162
Net income	\$22,055	\$16,796
<b>Basic income per share from continuing operations</b>		
	\$0.85	\$0.64
<b>Basic income per share from discontinued operations</b>		
	0.01	0.01
<b>Basic net income per share</b>		
	\$0.86	\$0.65
<b>Shares used in basic per share calculations</b>		
	25,626	25,986
<b>Diluted income per share from continuing operations</b>		
	\$0.84	\$0.63
<b>Diluted income per share from discontinued operations</b>		
	0.01	-
<b>Diluted net income per share</b>		
	\$0.85	\$0.63
<b>Shares used in diluted per share calculations</b>		
	26,054	26,478

See accompanying notes to consolidated financial statement



LITHIA MOTORS, INC. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
(In thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$22,055	\$16,796
Other comprehensive income, net of tax:		
Gain on cash flow hedges, net of tax expense of \$315 and \$265	506	426
Comprehensive income	\$22,561	\$17,222

See accompanying notes to consolidated financial statement



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

	Three Months Ended March 31,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net income	\$22,055	\$16,796
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Asset impairments	-	115
Depreciation and amortization	4,721	4,138
Depreciation and amortization within discontinued operations	-	61
Stock-based compensation	1,140	576
Gain on disposal of other assets	(19 )	(988 )
Deferred income taxes	(206 )	(870 )
Excess tax benefit from share-based payment arrangements	(2,937 )	(749 )
<b>(Increase) decrease (net of acquisitions and dispositions):</b>		
Trade receivables, net	(960 )	(11,633 )
Inventories	7,890	(62,113 )
Other current assets	5,757	5,292
Other non-current assets	(424 )	2,778
<b>Increase (decrease) (net of acquisitions and dispositions):</b>		
Floor plan notes payable	2,257	(3,324 )
Trade payables	(410 )	1,549
Accrued liabilities	6,188	5,105
Other long-term liabilities and deferred revenue	4,705	2,280
Net cash provided by (used in) operating activities	49,757	(40,987 )
<b>Cash flows from investing activities:</b>		
Principal payments received on notes receivable	319	25
Capital expenditures	(6,585 )	(8,459 )
Proceeds from sales of assets	440	1,009
Payments for life insurance policies	(2,641 )	(1,968 )
Proceeds from sales of stores	-	2,901
Net cash used in investing activities	(8,467 )	(6,492 )
<b>Cash flows from financing activities:</b>		
Borrowings on floor plan notes payable: non-trade	953	39,401
Borrowings on lines of credit	118,000	5,000
Repayments on lines of credit	(156,303 )	(12,000 )
Principal payments on long-term debt, scheduled	(2,003 )	(2,028 )
Principal payments on long-term debt and capital leases, other	(25,770 )	-
Proceeds from issuance of long-term debt	-	8,069
Proceeds from issuance of common stock	966	869
Repurchase of common stock	(7,903 )	(2,653 )
Excess tax benefit from share-based payment arrangements	2,937	749
Dividends paid	-	(1,814 )

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Net cash provided by (used in) financing activities	(69,123	)	35,593
Decrease in cash and cash equivalents	(27,833	)	(11,886
Cash and cash equivalents at beginning of year	42,839		20,851
Cash and cash equivalents at end of year	\$15,006		\$8,965

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$5,837		\$5,794
Cash paid (refunded) during the period for income taxes, net	(964	)	2,122

Supplemental schedule of non-cash activities:

Floor plan debt paid in connection with store disposals	-		6,712
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See accompanying notes to consolidated financial statement

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 March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012. 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 2012 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2012 is derived from our 2012 Annual Report on Form 10-K. The interim condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our 2012 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):

	March 31, 2013	December 31, 2012
Contracts in transit	\$68,066	\$65,597
Trade receivables	27,682	25,885
Vehicle receivables	18,525	21,298
Manufacturer receivables	24,398	25,658
	138,671	138,438
Less: Allowance	(141 )	(336 )
Less: Long-term portion of trade receivables	(4,421 )	(4,953 )
Total accounts receivable, net	\$ 134,109	\$ 133,149

The long-term portion of trade receivables was included as a component of other non-current assets in the Consolidated Balance Sheets.

Note 3. Inventories

The components of inventory consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
New vehicles	\$551,820	\$563,275
Used vehicles	132,616	130,529

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Parts and accessories	29,685	29,522
Total inventories	\$714,121	\$723,326

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## Note 4. Goodwill

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

	Goodwill
Balance as of December, 31, 2011, gross	\$318,224
Accumulated impairment loss	(299,266 )
Balance as of December 31, 2011, net	18,958
Additions through acquisitions	13,710
Goodwill allocated to dispositions	(621 )
Balance as of December 31, 2012, net	32,047
Additions through acquisitions	-
Goodwill allocated to dispositions	-
Balance as of March 31, 2013, net	\$32,047

## Note 5. Commitments and Contingencies

## Litigation

We are party to numerous legal proceedings arising in the normal course of our business. Although we do not anticipate that the resolution of legal proceedings arising in the normal course of business or the proceedings described below will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.

## Alaska Consumer Protection Act Claims

In December 2006, a suit was filed against us (Jackie Neese, et al vs. Lithia Chrysler Jeep of Anchorage, Inc, et al, Case No. 3AN-06-13341 CI), and in April, 2007, a second case (Jackie Neese, et al vs. Lithia Chrysler Jeep of Anchorage, Inc, et al, Case No. 3AN-06-4815 CI), in the Superior Court for the State of Alaska, Third Judicial District at Anchorage. These suits are now consolidated. In the suits, plaintiffs alleged that we, through our Alaska dealerships, engaged in three practices that purportedly violate Alaska consumer protection laws: (i) charging customers dealer fees and costs (including document preparation fees) not disclosed in the advertised price, (ii) failing to disclose the acquisition, mechanical and accident history of used vehicles or whether the vehicles were originally manufactured for sale in a foreign country, and (iii) engaging in deception, misrepresentation and fraud by providing to customers financing from third parties without disclosing that we receive a fee or discount for placing that loan (a "dealer reserve"). The suit seeks statutory damages of \$500 for each violation or three times plaintiff's actual damages, whichever is greater, and attorney fees and costs. The plaintiffs sought class action certification. Before and during the pendency of these suits, we engaged in settlement discussions with the State of Alaska through its Office of Attorney General with respect to the first two practices enumerated above. As a result of those discussions, we entered into a Consent Judgment subject to court approval and permitted potential class members to "opt-out" of the proposed settlement. Counsel for the plaintiffs attempted to intervene and, after various motions, hearings and an appeal to the state Court of Appeals, the Consent Judgment became final.