

LITHIA MOTORS INC  
Form 10-Q  
April 27, 2012

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 March 31, 2012

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.)

360 E. Jackson 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

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

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	22,456,219
Class B common stock without par value (Class)	3,562,231 (Outstanding at April 27, 2012)

---

LITHIA MOTORS, INC.  
FORM 10-Q  
INDEX

PART I - FINANCIAL INFORMATION		Page
Item 1.	Financial Statements	
	Consolidated Balance Sheets (Unaudited) – March 31, 2012 and December 31, 2011	2
	Consolidated Statements of Operations (Unaudited) – Three Months Ended March 31, 2012 and 2011	3
	Consolidated Statements of Comprehensive Income (Unaudited) – Three Months Ended March 31, 2012 and 2011	4
	Consolidated Statements of Cash Flows (Unaudited) – Three Months Ended March 31, 2012 and 2011	5
	Condensed Notes to Consolidated Financial Statements (Unaudited)	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	6
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4.	Controls and Procedures	28
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 6.	Exhibits	29
Signatures		31

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## LITHIA MOTORS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(In thousands)

(Unaudited)

	March 31, 2012	December 31, 2011
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$8,965	\$20,851
Accounts receivable, net of allowance for doubtful accounts of \$266 and \$261	111,040	99,407
Inventories, net	559,216	506,484
Deferred income taxes	4,427	4,730
Other current assets	10,618	16,719
<b>Total Current Assets</b>	<b>694,266</b>	<b>648,191</b>
Property and equipment, net of accumulated depreciation of \$102,465 and \$99,115	379,351	373,779
Goodwill	18,727	18,958
Franchise value	59,095	59,095
Deferred income taxes	30,536	29,270
Other non-current assets	16,752	16,840
<b>Total Assets</b>	<b>\$1,198,727</b>	<b>\$1,146,133</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Floor plan notes payable	\$109,628	\$114,760
Floor plan notes payable: non-trade	263,089	229,180
Current maturities of long-term debt	22,982	8,221
Trade payables	34,934	31,712
Accrued liabilities	77,874	72,711
<b>Total Current Liabilities</b>	<b>508,507</b>	<b>456,584</b>
Long-term debt, less current maturities	262,934	278,653
Deferred revenue	26,820	25,146
Other long-term liabilities	18,787	18,629
<b>Total Liabilities</b>	<b>817,048</b>	<b>779,012</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 22,365 and 22,195	278,970	279,366
Class B common stock - no par value; authorized 25,000 shares; issued and outstanding 3,612 and 3,762	449	468
Additional paid-in capital	10,483	10,918

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Accumulated other comprehensive loss	(4,082	)	(4,508	)
Retained earnings	95,859		80,877	
Total Stockholders' Equity	381,679		367,121	
Total Liabilities and Stockholders' Equity	\$1,198,727		\$1,146,133	

See accompanying condensed notes to consolidated financial statements.

## LITHIA MOTORS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
<b>Revenues:</b>		
New vehicle	\$404,288	\$300,640
Used vehicle retail	195,421	156,478
Used vehicle wholesale	34,336	29,537
Finance and insurance	25,420	19,299
Service, body and parts	86,448	73,761
Fleet and other	12,981	3,142
Total revenues	758,894	582,857
<b>Cost of sales:</b>		
New vehicle	373,162	278,034
Used vehicle retail	166,507	133,494
Used vehicle wholesale	33,918	29,138
Service, body and parts	44,855	38,000
Fleet and other	12,581	2,595
Total cost of sales	631,023	481,261
Gross profit	127,871	101,596
Asset impairments	115	382
Selling, general and administrative	91,590	77,134
Depreciation and amortization	4,199	4,092
Operating income	31,967	19,988
Floor plan interest expense	(2,950)	(2,462)
Other interest expense	(2,747)	(3,292)
Other income, net	499	77
Income from continuing operations before income taxes	26,769	14,311
Income tax provision	(9,973)	(5,923)
Income from continuing operations, net of income tax	16,796	8,388
Income from discontinued operations, net of income tax	-	317
Net income	\$16,796	\$8,705
Basic income per share from continuing operations	\$0.65	\$0.32
Basic income per share from discontinued operations	-	0.01
Basic net income per share	\$0.65	\$0.33
Shares used in basic per share calculations	25,986	26,341
Diluted income per share from continuing operations	\$0.63	\$0.31
Diluted income per share from discontinued operations	-	0.02
Diluted net income per share	\$0.63	\$0.33
Shares used in diluted per share calculations	26,478	26,694

See accompanying condensed notes to consolidated financial statements.



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

	Three Months Ended March 31,	
	2012	2011
Net income	\$ 16,796	\$ 8,705
Other comprehensive income, net of tax:		
Gains on cash flow hedges, net of tax expense of \$265 and \$320, respectively	426	562
Comprehensive income	\$ 17,222	\$ 9,267

See accompanying condensed notes to consolidated financial statements.



## LITHIA MOTORS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$16,796	\$8,705
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Asset impairments	115	382
Depreciation and amortization	4,199	4,092
Depreciation and amortization within discontinued operations	-	101
Stock-based compensation	576	491
(Gain) loss on disposal of other assets	(988 )	105
Deferred income taxes	(870 )	(394 )
Excess tax benefit from share-based payment arrangements	(749 )	(21 )
<b>(Increase) decrease (net of acquisitions and dispositions):</b>		
Trade receivables, net	(11,633 )	(4,648 )
Inventories	(62,113 )	(41,769 )
Other current assets	5,292	(888 )
Other non-current assets	2,778	(412 )
<b>Increase (decrease) (net of acquisitions and dispositions):</b>		
Floor plan notes payable	(3,324 )	9,905
Trade payables	1,549	3,296
Accrued liabilities	5,105	9,683
Other long-term liabilities and deferred revenue	2,280	132
Net cash used in operating activities	(40,987 )	(11,240 )
<b>Cash flows from investing activities:</b>		
Principal payments received on notes receivable	25	36
Capital expenditures	(8,459 )	(2,333 )
Proceeds from sales of assets	1,009	3,084
Payments for life insurance policies	(1,968 )	(1,048 )
Proceeds from sales of stores	2,901	-
Net cash used in investing activities	(6,492 )	(261 )
<b>Cash flows from financing activities:</b>		
Borrowings on floor plan notes payable: non-trade	39,401	39,262
Borrowings on lines of credit	5,000	-
Repayments on lines of credit	(12,000 )	(9,000 )
Principal payments on long-term debt, scheduled	(2,028 )	(2,233 )
Principal payments on long-term debt and capital leases, other	-	(11,870 )
Proceeds from issuance of long-term debt	8,069	-
Proceeds from issuance of common stock	869	590
Repurchase of common stock	(2,653 )	(141 )
Excess tax benefit from share-based payment arrangements	749	21
Dividends paid	(1,814 )	(1,316 )
Net cash provided by financing activities	35,593	15,313

Increase (decrease) in cash and cash equivalents	(11,886	) 3,812
Cash and cash equivalents at beginning of period	20,851	9,306
Cash and cash equivalents at end of period	\$8,965	\$13,118

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$5,794	\$6,017
Cash paid during the period for income taxes, net	2,122	927

See accompanying condensed 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 March 31, 2012 and for the three-month periods ended March 31, 2012 and 2011. 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 2011 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2011 is derived from our 2011 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 2011 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. Inventories

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

	March 31, 2012	December 31, 2011
New vehicles	\$417,158	\$372,838
Used and program vehicles	115,353	106,622
Parts and accessories	26,705	27,024
Total inventories	\$559,216	\$506,484

Note 3. Goodwill

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

	Goodwill
Balance as of December, 31, 2010, gross	\$305,452
Accumulated impairment loss	(299,266 )
Balance as of December 31, 2010, net	6,186
Additions through acquisitions	12,869
Transfers to discontinued operations	(97 )
Balance as of December 31, 2011, net	18,958
Goodwill allocated to dispositions	(231 )
Balance as of March 31, 2012, net	\$18,727

Note 4. Commitments and Contingencies

Litigation

We are party to numerous legal proceedings arising in the normal course of our business. While we cannot predict with certainty the outcomes of these matters, 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.

#### Text Messaging Claims

In April 2011, a third party vendor assisted us in promoting a targeted “0% financing on used vehicles” advertising campaign during a limited sale period. The marketing included sending a “Short Message Service” communication to cell phones (a “text message”) of our previous customers. The message was sent to over 50,000 cell phones in 14 states. The message indicated that the recipients could “Opt-Out” of receiving any further messages by replying “STOP,” but, due to a technical error, some recipients who responded requesting to be unsubscribed nonetheless may have received a follow-on message.

On or about April 21, 2011, a Complaint for Damages, Injunctive and Declaratory Relief was filed against us (Kevin McClintic vs. Lithia Motors, 11-2-14632-4 SEA, Superior Court of the State of Washington for King County) alleging the text messaging activity violated State of Washington anti-texting and consumer protection laws and the federal Telephone Consumer Protection Act, and seeking statutory damages of \$500 for each violation, trebled, plus injunctive relief and attorney fees. The suit seeks class action designation for all similarly situated entities and individuals. The suit has been removed to the United States District Court for the Western District of Washington at Seattle.

On or about July 5, 2011, a complaint was filed alleging nearly identical claims, also seeking class action designation (Dan McLaren vs. Lithia Motors, Civil # 11-810, United States District Court of Oregon, Portland Division). This case was stayed pending the outcome of the McClintic matter by order of the court on or about October 11, 2011. The class representative in the McLaren case also attempted to intervene in the McClintic case. This intervention motion was denied on October 19, 2011.

We participated in a mediation of the McClintic case and have entered into a settlement agreement with the plaintiffs, which is subject to court approval. Under this settlement agreement, we agreed to pay a total of \$2.5 million, all of which such amounts will be reimbursed by the vendor pursuant to contractual indemnification. No assurances can be given that the court will approve the settlement.

#### 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) (now consolidated)), in the Superior Court for the State of Alaska, Third Judicial District at Anchorage. 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 and 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.

Plaintiffs then filed a motion in November 2010 seeking certification of a class for (i) the 339 customers who “opted-out” of the state settlement, (ii) for those customers who did not qualify for recovery under the Consent Judgment but were allegedly eligible for recovery under the Plaintiffs’ broader interpretation of the applicable statutes and (iii) arguing that since the State’s suit against our dealerships did not address the loan fee/discount (dealer reserve)

claim, for those customers who arranged their vehicle financing through us. On June 14, 2011, the District Court granted Plaintiffs' motion to certify a class without addressing either the merits of the claims or the size of the class or classes. We intend to defend the claims vigorously and do not believe the novel "dealer reserve" claim has merit.

The ultimate resolution of these matters cannot be predicted with certainty, and an unfavorable resolution of any of the matters could have a material adverse effect on our results of operations, financial condition or cash flows.

#### Note 5. Stockholders' Equity

##### Share Repurchases

In August 2011, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our Class A common stock. Through March 31, 2012 we have repurchased 379,055 shares, of which 82,000 were purchased in 2012 at an average price of \$23.72 per share. At March 31, 2012, 1,620,945 shares remained available for purchase. This plan does not have an expiration date and we may continue to repurchase shares from time to time in the future as conditions warrant.

##### Dividends

During the first quarter of 2012, we paid a dividend of \$0.07 per share on our Class A and Class B common stock, or a total of \$1.8 million, related to our fourth quarter 2011 financial results. See Note 15 for a discussion of a dividend related to our first quarter 2012 financial results.

#### Note 6. Asset Impairment Charges

Long-lived assets classified as held and used and definite-lived intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of such 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 asset is determined to not be recoverable and the carrying value of the asset exceeds its fair value.

In the first quarter of 2012 and 2011, triggering events were determined to have occurred related to certain properties due to changes in the expected future use. We evaluated the future undiscounted net cash flows for each property and determined the carrying value was not recoverable. We concluded the carrying value of the assets exceeded the fair value and, as a result, we recorded asset impairment charges of \$0.1 million and \$0.4 million, respectively, for three months ended March 31, 2012 and 2011 in our Consolidated Statements of Operations.

#### Note 7. Stock-Based Compensation

In the first quarter of 2012, we issued restricted stock units ("RSUs") covering 168,000 shares of our Class A common stock to certain employees. The RSUs are not participating securities and fully vest on the fourth anniversary of the grant date.

Our executives and other key employees received 89,000 shares of the 168,000 issued. These shares are subject to forfeiture, in whole or in part, based upon minimum performance measures and continuation of employment. If minimum performance measures are met, the number of RSUs ultimately received under these awards is subject to attainment of specific earnings per share thresholds. Each earnings per share threshold specifies an attainment level ranging from 75% to 150% of the base number of units identified in the award. Therefore, at the 150% maximum attainment level, the number of shares awarded to executive officers and other key employees would increase by 44,500 shares for a total award of 133,500 shares. Failure to achieve the minimum performance threshold in 2012 will result in forfeiture of the entire award. The final attainment will be calculated using the 2012 adjusted net income per share from continuing operations with the attainment percentage determined on a pro-rata basis ranging between 75% and 150%.

We estimated compensation expense, based on a fair value methodology, of \$4.2 million related to the RSUs, which will be recognized over the vesting period. Of this amount, approximately \$0.9 million is expected to be recognized in 2012.

#### Note 8. Deferred Compensation and Long-term Incentive Plan

We offer a deferred compensation and long-term incentive plan (the "Plan") to provide certain employees the ability to accumulate assets for retirement on a tax deferred basis. We may make discretionary contributions to the Plan. These contributions vest between one and seven years based on the employee's age and position. Additionally, participants may defer a portion of their compensation and are 100% vested in their respective deferrals.

In March 2012, we made a discretionary contribution of \$1.9 million to the Plan. Participants will receive a guaranteed return of 5.9% in 2012. We recognized compensation expense related to the Plan of \$0.3 million and \$0.1 million, respectively, for the three months ended March 31, 2012 and 2011.

#### Note 9. 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 and 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 swaps 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 valuations 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. The same methodology is used to determine the rate used to discount the future cash flows. The valuation of the interest rate swaps also takes into consideration our own, as well as the counterparty's, risk of non-performance under the contract.

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. As these valuations contain unobservable inputs, we classified the measurement of fair value of



long-lived assets as Level 3.

9

---

There were no changes to our valuation techniques during the three-month period ended March 31, 2012.

#### 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 March 31, 2012	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative contracts, net	\$-	\$(6,889 )	\$-
Measured on a non-recurring basis:			
Long-lived assets held and used:			
Certain buildings and improvements	\$-	\$-	\$1,450
Fair Value at December 31, 2011			
Measured on a recurring basis:			
Derivative contracts, net	\$-	\$(7,530 )	\$-
Measured on a non-recurring basis:			
Long-lived assets held and used:			
Certain buildings and improvements	\$-	\$-	\$2,500

See Note 10 for more details regarding our derivative contracts.

#### Financial Assets and Liabilities Not Recorded at Fair Value

We had \$72.0 million and \$64.5 million of fixed interest rate debt outstanding as of March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012, this debt had maturity dates between February 2013 and May 2031. We 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, the fixed cash flows are discounted and summed to compute the fair value of the debt. Based on this analysis, we have determined that the fair value of this long-term fixed interest rate debt was approximately \$77.3 million and \$73.6 million at March 31, 2012 and December 31, 2011, respectively.

We believe the carrying value of our variable rate debt approximates fair value.

#### Note 10. Derivative Instruments

We enter into interest rate swaps to manage the variability of our interest rate exposure, thus fixing a portion of our interest expense in a rising or falling rate environment. 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.

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.



At March 31, 2012 and December 31, 2011, the net fair value of all of our agreements totaled a loss of \$6.9 million and \$7.5 million, respectively, which was recorded on our Consolidated Balance Sheets as a component of accrued liabilities and other long-term liabilities. The estimated amount expected to be reclassified into earnings within the next twelve months was \$3.9 million at March 31, 2012.

As of March 31, 2012, we had outstanding the following interest rate swaps with U.S. Bank Dealer Commercial Services:

- effective January 26, 2008 – a five year, \$25 million interest rate swap at a fixed rate of 4.495% per annum, variable rate adjusted on the 26th of each month;
- effective May 1, 2008 – a five year, \$25 million interest rate swap at a fixed rate of 3.495% per annum, variable rate adjusted on the 1st and 16th of each month;
- effective May 1, 2008 – a five year, \$25 million interest rate swap at a fixed rate of 3.495% per annum, variable rate adjusted on the 1st and 16th of each month and
  - effective June 16, 2006 – a ten year, \$25 million interest rate swap at a fixed rate of 5.587% per annum, variable rate adjusted on the 1st and 16th of each month.

We receive interest on all of the interest rate swaps at the one-month LIBOR rate. The one-month LIBOR rate at March 31, 2012 was 0.24% per annum, as reported in the Wall Street Journal.

At March 31, 2012 and December 31, 2011, the fair value of our derivative instruments was included in our Consolidated Balance Sheets as follows:

Balance Sheet Information (in thousands)	Fair Value of Asset Derivatives		Fair Value of Liability Derivatives	
	Location in Balance Sheet	March 31, 2012	Location in Balance Sheet	March 31, 2012
Derivatives Designated as Hedging Instruments				
Interest Rate Swap Contracts	Prepaid expenses and other	\$ -	Accrued liabilities	\$ 3,491
	Other non-current assets	-	Other long-term liabilities	3,398
		\$ -		\$ 6,889

Balance Sheet Information (in thousands)	Fair Value of Asset Derivatives		Fair Value of Liability Derivatives	
	Location in Balance Sheet	December 31, 2011	Location in Balance Sheet	December 31, 2011
Derivatives Designated as Hedging Instruments				
Interest Rate Swap Contracts	Prepaid expenses and other	\$ -	Accrued liabilities	\$ 3,522
		-		4,008

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Other non-current assets	\$ -	Other long-term liabilities	\$ 7,530

The effect of derivative instruments on our Consolidated Statements of Operations for the three-month periods ended March 31, 2012 and 2011 was as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in Accumulated OCI (Effective Portion)	Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended March 31, 2012					
Interest Rate Swap Contracts	\$ 283	Floor plan interest expense	\$ (408)	Floor plan interest expense	\$ (654)
Three Months Ended March 31, 2011					
Interest Rate Swap Contracts	\$ 388	Floor plan interest expense	\$ (494)	Floor plan interest expense	\$ (412)

See also Note 9.

#### Note 11. Related Party Transactions

On March 27, 2012, we completed the sale of an 80% interest in our Nissan, Volkswagen and BMW stores in Medford, Oregon to our Vice Chairman, Dick Heimann. The price of the intangible assets of the Nissan, Volkswagen and BMW stores was \$1.2 million. We received proceeds of \$9.6 million, of which \$2.9 million was received in cash and \$6.7 million was received through the payoff of floor plan financing. The sale of the 80% interest in the stores resulted in a gain of \$0.7 million and was recorded as a component of selling, general and administrative expense on our Consolidated Statements of Operations.

The Nissan and Volkswagen stores were purchased for the book value of the inventory as defined by the original terms of an option agreement provided to Mr. Heimann in 2009. The price of the intangible assets of \$1.2 million was based on the fair value of the intangible assets related to the BMW store. We corroborated the fair value of the BMW store's intangible assets with independent third party broker opinions and financial projections using a fair value income approach.

Concurrent to the sale of the interest in the three stores, we entered into a shared service agreement with the stores. This agreement allows the stores to lease our employees, use the Lithia name, utilize accounting support functions and receive consulting services.

We retained a 20% interest in the stores as of the transition date. We determined that we are not the primary beneficiary of the stores and the risk and rewards associated with our investment are based on ownership percentages.

We determined we maintained significant influence over the operations. As a result, the stores do not qualify for consolidation and our 20% interest is accounted for under the equity method. We recorded the equity investment at the fair value as of the transition date which resulted in a gain of \$0.2 million, which was recorded as a component of other income on our Consolidated Statements of Operations. We determined the fair value of our equity investment based on independent third party broker opinions and financial projections using a fair value income approach.

As of March 31, 2012, our equity investment totaled \$0.8 million and was recorded as a component of other non-current assets in our Consolidated Balance Sheets.

## Note 12. Discontinued Operations

In 2011, we sold three stores: a Chrysler Jeep Dodge FIAT store in Concord, California; a Volkswagen store in Thornton, Colorado and a GMC Buick and Kia store in Cedar Rapids, Iowa. The associated results of operations for these locations are classified as discontinued operations. As of March 31, 2012 and December 31, 2011, we had no stores and no properties classified as held for sale.

	Three Months Ended	
	March 31,	
	2012	2011
Revenue	\$-	\$20,140
Pre-tax gain from discontinued operations	\$-	\$517
Gain (loss) on disposal activities	-	-
	-	517
Income tax expense	-	(200)
Income from discontinued operations, net of income tax expense	\$-	\$317

## Note 13. 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. Our Restated Articles of Incorporation require that 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, which would have the effect of adversely altering 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. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

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 for the three-month periods ended March 31, 2012 and 2011 (in thousands, except per share amounts):



Three Months Ended March 31, Basic EPS from Continuing Operations	2012		2011	
	Class A	Class B	Class A	Class B
<b>Numerator:</b>				
Income from continuing operations applicable to common stockholders	\$14,373	\$2,423	\$7,190	\$1,198
Distributed income applicable to common stockholders	(1,552 )	(262 )	(1,128 )	(188 )
Basic undistributed income from continuing operations applicable to common stockholders	\$12,821	\$2,161	\$6,062	\$1,010
<b>Denominator:</b>				
Weighted average number of shares outstanding used to calculate basic income per share	22,238	3,748	22,579	3,762
<b>Basic income per share from continuing operations applicable to common stockholders</b>				
Basic distributed income per share from continuing operations applicable to common stockholders	(0.07 )	(0.07 )	(0.05 )	(0.05 )
Basic undistributed income per share from continuing operations applicable to common stockholders	\$0.58	\$0.58	\$0.27	\$0.27

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Three Months Ended March 31, Diluted EPS from Continuing Operations	2012		2011	
	Class A	Class B	Class A	Class B
<b>Numerator:</b>				
Distributed income applicable to common stockholders	\$1,552	\$262	\$1,128	\$188
Reallocation of distributed income as a result of conversion of dilutive stock options	5	(5 )	3	(3 )
Reallocation of distributed income due to conversion of Class B to Class A common shares outstanding	257	-	185	-
Diluted distributed income applicable to common stockholders	\$1,814	\$257	\$1,316	\$185
Undistributed income from continuing operations applicable to common stockholders	\$12,821	\$2,161	\$6,062	\$1,010
Reallocation of undistributed income as a result of conversion of dilutive stock options	40	(40 )	13	(13 )
Reallocation of undistributed income due to conversion of Class B to Class A	2,121	-	997	-
Diluted undistributed income from continuing operations applicable to common stockholders	\$14,982	\$2,121	\$7,072	\$997

**Denominator:**

Weighted average number of shares outstanding used to calculate basic income per share from continuing operations	22,238	3,748	22,579	3,762
Weighted average number of shares from stock options	492	-	353	-
Conversion of Class B to Class A common shares outstanding	3,748	-	3,762	-
Weighted average number of shares outstanding used to calculate diluted income per share from continuing operations	26,478	3,748	26,694	3,762

Diluted income per share from continuing operations applicable to common stockholders	\$0.63	\$0.63	\$0.31	\$0.31
Diluted distributed income per share from continuing operations applicable to common stockholders	(0.07 )	(0.07 )	(0.05 )	(0.05 )
Diluted undistributed income per share from continuing operations applicable to common stockholders	\$0.56	\$0.56	\$0.26	\$0.26

Three Months Ended March 31, Diluted EPS	2012		2011	
	Class A	Class B	Class A	Class B
<b>Antidilutive Securities</b>				
Shares issuable pursuant to stock options not included since they were antidilutive	90	-	387	-

**Note 14. Recent Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update that amends the accounting guidance on goodwill impairment testing. The amendments in this accounting standard update

are intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The amendments also improve previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments in this accounting standard update are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this accounting standard update will not have an impact on our consolidated financial position, results of operations, or cash flows, as it is intended to simplify the assessment for goodwill impairment.

## Note 15. Subsequent Events

### Common Stock Dividend

On April 25, 2012, we announced that our Board of Directors approved a dividend of \$0.10 per share on our Class A and Class B Common stock related to our first quarter 2012 financial results. The dividend will total approximately \$2.6 million and will be paid on May 25, 2012 to shareholders of record on May 11, 2012.

### Credit Facility

On April 17, 2012, we executed a new five-year \$650 million Credit Facility, which is comprised of 10 financial institutions, including four manufacturer affiliated finance companies. This credit facility provides a \$500 million new vehicle floor plan commitment, \$100 million in used vehicle inventory financing and a \$50 million revolving line of credit for general corporate use including working capital and acquisitions. This credit facility may be expanded to \$800 million total availability. The interest rate on the credit facility varies based on the type of debt with the rate ranging from the 1-month LIBOR plus 1.50% to the 1-month LIBOR plus 2.50%. Our financial covenants related to this credit facility include maintaining a current ratio of not less than 1.20:1.0, a fixed charge coverage ratio of not less than 1.20:1.0 and a leverage ratio of not more than 5.0:1.0.

## 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 "may," "will," "should," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "potential," and "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. 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 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 ("SEC").

While we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. 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 services. As of April 27, 2012, we offered 25 brands of new vehicles and all brands of used vehicles in 83 stores in the United States and online at Lithia.com. We sell new and used cars and light trucks and replacement parts; provide vehicle maintenance, warranty, paint and repair services; and arrange related financing, service contracts, protection products and credit insurance.

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 our customers personal, convenient, flexible hometown service combined with the large company advantages of selection, competitive pricing, broad access to financing, consistent service, competence and guarantees. 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, our emphasis on standardized operating practices and administrative functions performed centrally in Medford, Oregon, we seek to gain economies of scale from our dealership network.

## Results of Continuing Operations

For the three months ended March 31, 2012 and 2011, we reported income from continuing operations, net of tax, of \$16.8 million, or \$0.63 per diluted share, and \$8.4 million, or \$0.31 per diluted share, respectively.

## Discontinued Operations

Results for sold or closed stores qualifying for reclassification under the applicable accounting guidance are presented as discontinued operations in our Consolidated Statements of Operations. As a result, our results from continuing operations are presented on a comparable basis for all periods. We did not have any stores classified as discontinued operations during the quarter ended March 31, 2012. Income from discontinued operations, net of tax, for the quarter ended March 31, 2011 totaled \$0.3 million.

## Key Performance Metrics

Certain key performance metrics for revenue and gross profit were as follows for the three months ended March 31, 2012 and 2011 (dollars in thousands):

Three months ended		Percent of		Gross	Percent of
March 31, 2012	Revenues	Total	Gross Profit	Profit	Total
		Revenues		Margin	Gross
					Profit
New vehicle	\$ 404,288	53.3 %	\$ 31,126	7.7 %	24.4 %
Used vehicle retail	195,421	25.8	28,914	14.8	22.6
Used vehicle wholesale	34,336	4.5	418	1.2	0.3
Finance and insurance(1)	25,420	3.3	25,420	100.0	19.9
Service, body and parts	86,448	11.4	41,593	48.1	32.5
Fleet and other	12,981	1.7	400	3.1	0.3
	\$ 758,894	100.0%	\$ 127,871	16.8 %	100.0%

Three months ended		Percent of		Gross	Percent of
March 31, 2011	Revenues	Total	Gross Profit	Profit	Total
		Revenues		Margin	Gross
					Profit
New vehicle	\$ 300,640	51.6 %	\$ 22,606	7.5 %	22.3 %
Used vehicle retail	156,478	26.8	22,984	14.7	22.6

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Used vehicle wholesale	29,537	5.1	399	1.4	0.4
Finance and insurance(1)	19,299	3.3	19,299	100.0	19.0
Service, body and parts	73,761	12.7	35,761	48.5	35.2
Fleet and other	3,142	0.5	547	17.4	0.5
	\$ 582,857	100.0%	\$ 101,596	17.4	% 100.0%

(1) Commissions reported net of anticipated cancellations.

### Same Store Operating Data

We believe that same store comparisons are a key indicator of our financial performance. Same store metrics demonstrate our ability to profitably grow our revenue in our existing locations. As a result, same store comparisons have been integrated into the discussion below.

A same store metric represents stores that were operating during the three-month period ended March 31, 2012, and only includes the months when operations occur in both comparable periods. For example, a store acquired in February 2011 would be included in same store operating data beginning in March 2012, after its first full complete comparable month of operation. Thus, operating results for same store comparisons would include only the period of March for both comparable periods.

### New Vehicle Revenues

(Dollars in thousands, except per unit amounts)	Three Months Ended		Increase	% Increase	
	2012	March 31, 2011			
<b>Reported</b>					
Revenue	\$404,288	\$300,640	\$103,648	34.5	%
Retail units sold	12,469	9,525	2,944	30.9	
Average selling price per retail unit	\$32,423	\$31,563	\$860	2.7	
<b>Same store</b>					
Revenue	\$371,503	\$296,679	\$74,824	25.2	%
Retail units sold	11,631	9,391	2,240	23.9	
Average selling price per retail unit	\$31,941	\$31,592	\$349	1.1	

New vehicle sales in the first quarter of 2012 improved compared to the first quarter of 2011 as both volumes and average selling prices increased. Demand for new vehicles continues to be strong as same store sales volume increased 24% in the three-month period ended March 31, 2012 compared to the same period in 2011. This increase is in addition to a 40% increase in same store sales in the first quarter of 2011 as compared to the first quarter of 2010. We remain focused on increasing our share of overall new vehicle sales within our markets and continue to have an operational objective of increasing market share.

### Used Vehicle Retail Revenues

(Dollars in thousands, except per unit amounts)	Three Months Ended		Increase	% Increase	
	2012	March 31, 2011			
<b>Reported</b>					
Retail revenue	\$195,421	\$156,478	\$38,943	24.9	%
Retail units sold	11,508	9,506	2,002	21.1	
Average selling price per retail unit	\$16,981	\$16,461	\$520	3.2	
<b>Same store</b>					
Retail revenue	\$182,135	\$153,907	\$28,228	18.3	%
Retail units sold	10,806	9,350	1,456	15.6	
Average selling price per retail unit	\$16,855	\$16,461	\$394	2.4	

Used vehicle retail sales continue to be a strategic focus as we strive for organic growth and respond to potential supply constraints in late-model used vehicles as a result of the lower new vehicle sales in 2008, 2009 and 2010. Our strategy is to offer three categories of used vehicles: manufacturer certified pre-owned used vehicles; late model,

lower-mileage vehicles; and value autos. This approach allows us to expand our target customer base and increase the conversion of vehicles acquired via trade-in to retail used vehicle sales.

Through the first quarter of 2012, sales increased in all three categories of used vehicles. Our retail used to new vehicle sales ratio was 0.9:1 for the three-month period ended March 31, 2012 compared to 1.0:1 in the same period in 2011. We experienced growth in new vehicle sales that outpaced our used retail vehicle sales in the three-month period ended March 31, 2012. On average, each of our stores currently sells approximately 45 retail used vehicle units per month and we target increasing sales to 60 units per month. Our goal continues to be a retail used to new ratio of 1.0:1.



## Used Vehicle Wholesale Revenues

(Dollars in thousands, except per unit amounts)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	2012	March 31, 2011			
<b>Reported</b>					
Wholesale revenue	\$34,336	\$29,537	\$4,799	16.2	%
Wholesale units sold	4,593	3,742	851	22.7	
Average selling price per wholesale unit	\$7,476	\$7,893	\$(417)	(5.3)	)
<b>Same store</b>					
Wholesale revenue	\$31,961	\$28,735	\$3,226	11.2	%
Wholesale units sold	4,312	3,671	641	17.5	
Average selling price per wholesale unit	\$7,412	\$7,828	\$(416)	(5.3)	)

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 vehicle sales are typically sold at or near inventory cost and do not comprise a meaningful component of our gross profit. The increases in wholesale revenues are primarily due to increased volume.

## Finance and Insurance

(Dollars in thousands, except per unit amounts)	Three Months Ended		Increase	% Increase	
	2012	March 31, 2011			
<b>Reported</b>					
Revenue	\$25,420	\$19,299	\$6,121	31.7	%
<b>Revenue per retail unit</b>					
Finance reserves	\$395	\$364	\$31	8.5	
Maintenance contracts	547	541	6	1.1	
Insurance and other	118	109	9	8.3	
Revenue per retail unit	\$1,060	\$1,014	\$46	4.5	
<b>Same store</b>					
Revenue	\$23,696	\$18,463	\$5,233	28.3	%
<b>Revenue per retail unit</b>					
Finance reserves	\$392	\$360	\$32	8.9	
Maintenance contracts	553	523	30	5.7	
Insurance and other	111	102	9	8.8	
Revenue per retail unit	\$1,056	\$985	\$71	7.2	

The increases in finance and insurance sales were primarily due to more vehicles sold in the first three months of 2012 compared to the same period of 2011. The availability of consumer credit has expanded and lenders have increased the loan-to-value amount available to most customers. Additionally, competition has continued to increase among lenders and we have seen an increase in finance reserves. As a result, we have experienced continued improvement in the average amount of revenue per unit. These shifts afford us the opportunity to sell additional or more comprehensive products, while remaining within a loan-to-value framework acceptable to our retail customer lenders.



Penetration rates for certain products were as follows:

	Three Months Ended			
	March 31,		2011	
	2012	%	2011	%
Finance and insurance	75	%	73	%
Service contracts	41		40	
Lifetime oil change and filter	37		38	

#### Service, Body and Parts Revenue

(Dollars in thousands)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	2012	March 31, 2011			
<b>Reported</b>					
Customer pay	\$48,093	\$39,879	\$8,214	20.6	%
Warranty	13,316	12,978	338	2.6	
Wholesale parts	16,610	13,442	3,168	23.6	
Body shop	8,429	7,462	967	13.0	
Total service, body and parts	\$86,448	\$73,761	\$12,687	17.2	%
<b>Same store</b>					
Customer pay	\$41,627	\$39,155	\$2,472	6.3	%
Warranty	11,122	12,610	(1,488)	(11.8)	)
Wholesale parts	14,758	13,298	1,460	11.0	
Body shop	8,424	7,462	962	12.9	
Total service, body and parts	\$75,931	\$72,525	\$3,406	4.7	%

Our service, body and parts business continued to improve in the first quarter of 2012. We increased our same store customer pay business 6.3% in the first three months of 2012 compared to the same period in 2011 as we focused on retaining customers through competitively-priced routine maintenance offerings and increased marketing efforts. The same store customer pay service and parts business represented 54.8% and 54.0% of the total same store service, body and parts business in the three-month periods ended March 31, 2012 and 2011, respectively.

Warranty work accounted for approximately 14.7% of our same store service, body and parts sales in the first three months of 2012 compared to 17.4% in the same period in 2011. Warranty work decreased 11.8% in same store sales for the three months ended March 31, 2012 compared to the same period in 2011. Domestic brand warranty work decreased by 11.1%, while import/luxury warranty work decreased by 12.5% in the first three months of 2012 compared to the same period in 2011. Warranty work continues to be impacted by declining units in operation from 2008, 2009 and 2010, as well as the increased warranty work in 2011 associated with the Toyota recalls.

Our wholesale parts and body shop sales grew 11.0% and 12.9%, respectively, on a same store basis in the first three months of 2012 compared to the same period in 2011. Wholesale parts represented 19.4% and body shop sales represented 11.1%, of our same store service, body and parts revenue mix for the three-month period ended March 31, 2012. These categories allow for incremental organic growth. As both wholesale parts and body shop margins are lower than service work, we expect gross margins may modestly decline as these areas of the business comprise a larger portion of the total.

#### Gross Profit

Gross profit increased \$26.3 million in the three-month period ended March 31, 2012 compared to the same period in 2011 due to increased revenues, partially offset by declines in our overall gross profit margin.

Our gross profit margin by business line was as follows:

	Three Months Ended March				Basis	
	31,				Point	
	2012		2011		Change*	
New vehicle	7.7	%	7.5	%	20	bp
Used vehicle retail	14.8		14.7		10	
Used vehicle wholesale	1.2		1.4		(20)	)
Finance and insurance	100.0		100.0		-	
Service, body and parts	48.1		48.5		(40)	)
Overall	16.8	%	17.4	%	(60)	)

\* One basis point is equal to 1/100th of one percent.

Our overall gross profit margin decreased primarily as a result of a shift in revenue mix. New vehicle margins increased slightly during the first three months of 2012 as our vehicle sales mix moved towards smaller vehicles and import brands, which typically have a higher gross margin percentage. Used vehicle margins increased slightly for the first three months of 2012. We continue to grow our business in all three categories of used vehicles and have experienced the most growth in the higher-margin category of value autos. Service, body and parts margins decreased as our wholesale parts and body shop revenue growth continues. We believe our “single-point” strategy of maintaining franchise exclusivity within the markets we serve protects profitability and allows us to maintain overall margin levels.

#### Asset Impairment Charges

Long-lived assets classified as held and used by us and definite-lived intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable.

Asset impairments recorded as a component of continuing operations consisted of the following (in thousands):

	Three Months Ended March 31,	
	2012	2011
Long-lived assets	\$115	\$382

In the first quarter of 2012 and 2011, we recorded impairment charges associated with certain properties. As the expected future use of these facilities changed, the long-lived assets were tested for recoverability. As a result, we determined the carrying value exceeded the fair value of these properties. As additional market information becomes available and negotiations with prospective buyers continue, estimated fair values of our properties may change. These changes may result in the recognition of additional asset impairment charges in future periods.

#### Selling, General and Administrative Expense (“SG&A”)

“SG&A” includes salaries and related personnel expenses, advertising (net of manufacturer cooperative advertising credits), rent, facility costs, and other general corporate expenses.

(Dollars in thousands)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)
	2012	March 31, 2011		
Personnel	\$60,180	\$49,431	\$10,749	21.7 %
Advertising	6,544	5,630	914	16.2

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Rent	4,340	3,297	1,043	31.6
Facility costs	6,254	6,557	(303 )	(4.6 )
Other	14,272	12,219	2,053	16.8
Total SG&A	\$91,590	\$77,134	\$14,456	18.7 %

21

---

SG&A expense increased \$14.5 million in the three-month period ended March 31, 2012 compared to the same period in 2011. This change was primarily driven by increased variable costs associated with improved sales, offset by a continued focus to reduce or maintain fixed costs and effectively manage variable costs.

SG&A as a percentage of gross profit was 71.6% compared to 75.9%, respectively, for the three months ended March 31, 2012 and 2011. We target SG&A as a percentage of gross profit in the low 70% range with increased volume.

We also measure the leverage of our cost structure by evaluating throughput, which is calculated as the incremental percentage of gross profit retained after deducting SG&A expense. For the three-month period ended March 31, 2012, our incremental throughput was 45.0%. Throughput contributions for newly opened or acquired stores are on a 'first dollar' basis for the first twelve months of operations. We acquired four stores and added one open point since the first quarter of 2011 and, adjusting for these locations, our throughput on a same store basis was 56.0% for the three-month period ended March 31, 2012. We continue to target a same store incremental throughput of approximately 50%.

#### Depreciation and Amortization

Depreciation and amortization is comprised of depreciation expense related to buildings, significant remodels or betterments, furniture, tools, equipment and signage and amortization of certain intangible assets, including customer lists and non-compete agreements.

(Dollars in thousands)	Three Months Ended		Increase	% Increase	
	2012	2011			%
Depreciation and amortization	\$4,199	\$4,092	\$107	2.6	%

Depreciation and amortization for the three months ended March 31, 2012 increased slightly primarily related to the purchase of facilities in the second half of 2011.

#### Operating Margin

Operating income in the three-month period ended March 31, 2012 was 4.2% of revenue compared to 3.4% in the comparable period of 2011. This improvement was primarily due to improved sales and continued cost control.

#### Floor Plan Interest Expense and Floor Plan Assistance

Floor plan interest expense increased \$0.5 million in the three-month period ended March 31, 2012 compared to the same period of 2011. An increase of \$0.7 million resulted from changes in the average outstanding balances of our floor plan facilities. Changes in the average interest rates on our floor plan facilities decreased the expense \$0.4 million and ineffectiveness from hedging interest rate swaps resulted in an increase of \$0.2 million.

Floor plan assistance is provided by manufacturers to support store financing of new vehicle inventory. Under accounting standards, floor plan assistance is recorded as a component of new vehicle gross profit when the specific vehicle is sold. However, as manufacturers provide this assistance to offset inventory carrying costs, we believe a comparison of floor plan interest expense to floor plan assistance may be used to evaluate the efficiency of our new vehicle sales relative to stocking levels.

The following tables detail the carrying costs for new vehicles and include new and program vehicle floor plan interest net of floor plan assistance earned.

(Dollars in thousands)	Three Months Ended March 31,			% Increase	
	2012	2011	Increase		
Floor plan interest expense (new vehicles)	\$2,950	\$2,462	\$488	19.8	%
Floor plan assistance (included as an offset to cost of sales)	(3,710 )	(2,802 )	908	32.4	
Net new vehicle carrying costs	\$(760 )	\$(340 )	\$420	123.5	%

#### Other Interest Expense

Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages and our working capital, acquisition and used vehicle credit facility.

(Dollars in thousands)	Three Months Ended March 31,			% Increase	
	2012	2011	Increase (Decrease)	(Decrease)	
Mortgage interest	\$2,220	\$2,954	\$(734 )	(24.8)	%
Other interest	621	354	267	75.4	
Capitalized interest	(94 )	(16 )	78	487.5	
Total other interest expense	\$2,747	\$3,292	\$(545 )	(16.6)	%

For the three-month period ended March 31, 2012 compared to the same period of 2011, other interest expense decreased \$0.5 million, primarily due to decreases in outstanding real estate mortgage debt, offset by an increase in interest on our working capital, acquisition and used vehicle credit facility due to a higher volume of borrowing compared to the same period in 2011.

#### Other Income, Net

Other income, net primarily includes interest income and, in the 2012 period, the gain related to an equity investment. Other income, net was \$0.5 million and \$0.1 million for the three-month periods ended March 31, 2012 and 2011, respectively.

#### Income Tax Expense

Our effective income tax rate was 37.3% for the three-month period ended March 31, 2012, compared to 41.4% in the comparable period of 2011. We had certain tax attributes lowering our effective rate in the three months ended March 31, 2012. In the three months ended March 31, 2011, our income tax rate was increased due to a tax shortfall associated with our stock-based compensation. This resulted from the tax benefit recorded for stock-based compensation expense determined at the time of issuance being larger than the actual benefit received upon exercise of the option.

For the full year 2012, we anticipate our income tax rate to be approximately 38.6%.

#### Non-GAAP Reconciliations

We believe each of the non-GAAP financial measures below improves the transparency of our disclosures, provides a meaningful presentation of our results from the core business operations excluding adjustments for items not related to our ongoing core business operations or other non-cash adjustments, and improves the period-to-period comparability of our results from the core business operations. These presentations are not intended to provide cost of sales, SG&A expense, income from operations, income from continuing operations before income taxes, income from continuing operations or diluted income per share from continuing operations in accordance with GAAP and should not be



considered an alternative to GAAP measures.

23

---

The following table reconciles certain reported GAAP amounts per the Consolidated Statements of Operations to the comparable non-GAAP amounts (dollars in thousands, except per share amounts):

	Three Months Ended March 31, 2012				
	As reported	Asset impairment and disposal gain	Equity investment	Tax attribute	Adjusted
Asset impairments	\$115	\$(115)	\$-	\$-	\$-
Selling, general and administrative	91,590	739	-	-	92,329
Income from operations	31,967	(624)	-	-	31,343
Other income, net	499	-	(244)	-	255
Income from continuing operations before income taxes	\$26,769	\$(624)	\$(244)	\$-	\$25,901
Income tax expense	(9,973)	244	95	(494)	(10,128)
Net income from continuing operations	\$16,796	\$(380)	\$(149)	\$(494)	\$15,773
Diluted earnings (loss) per share from continuing operations	\$0.63	\$(0.01)	\$(0.01)	\$(0.01)	\$0.60
Diluted share count	26,478				

	Three Months Ended March 31, 2011			
	As reported	Asset impairment	Stock-based compensation tax shortfall	Adjusted
Asset impairments	\$382	\$(382)	\$-	\$-
Income from operations	19,988	382	-	20,370
Income from continuing operations before income taxes	\$14,311	\$382	\$-	\$14,693
Income tax expense	(5,923)	(153)	186	(5,890)
Net income from continuing operations	\$8,388	\$229	\$186	\$8,803
Diluted earnings per share from continuing operations	\$0.31	\$0.01	\$0.01	\$0.33
Diluted share count	26,694			

#### Liquidity and Capital Resources

We manage our liquidity and capital resources to be able to fund future capital expenditures, working capital requirements and contractual obligations. Additionally, we use capital resources to fund cash dividend payments, share repurchases and acquisitions.

#### Available Sources

We have relied primarily upon internally generated cash flows from operations, borrowings under our credit agreements, financing of real estate and the proceeds from equity and debt offerings to finance operations and

expansion. Based on these factors and our normal operational cash flow, we believe we have sufficient availability to accommodate both our short- and long-term capital needs.

Below is a summary and discussion of our available funds (in thousands):

	As of March 31, 2012	As of December 31, 2011	Increase (Decrease)	% Increase (Decrease)
Cash and cash equivalents	\$8,965	\$20,851	\$(11,886)	(57.0)%
Available credit on the				
Revolving line of credit	16,899	10,449	6,450	61.7
Unfinanced new vehicles	76,197	65,857	10,340	15.7
Total available funds	\$102,061	\$97,157	\$4,904	5.0%

Historically, we have raised capital through the sale of assets, sale of stores, issuance of stock and the issuance of debt. We may strategically use excess cash to reduce the amount of debt outstanding when appropriate. During the three months ended March 31, 2012, we generated \$12.0 million through the sale of assets and stores and the issuance of long-term debt (primarily related to the financing of certain real estate). During the three months ended March 31, 2011, we used proceeds from the sale of assets to repay outstanding debt, resulting in a net cash usage of \$8.8 million.

In addition to the above sources of liquidity, potential sources include the placement of subordinated debentures or loans, additional store sales or additional other asset sales. We will evaluate all of these options and may select one or more of them depending on overall capital needs and the availability and cost of capital, although no assurances can be provided that these capital sources will be available in sufficient amounts or with terms acceptable to us.

#### Summary of Outstanding Balances on Credit Facilities and Long-Term Debt

Below is a summary of our outstanding balances on credit facilities and long-term debt (in thousands):

	Outstanding as of March 31, 2012	Remaining Available as of March 31, 2012
Floor plan facilities	\$ 372,717	\$ - (1)
Revolving line of credit	80,000	16,899 (2),(3)
Real estate mortgages	200,552	-
Other debt	5,364	-
Total debt	\$ 658,633	\$ 16,899

(1) We have a \$100 million credit facility for floor plan financing with U.S. Bank National Association and JPMorgan Chase Bank, N.A. Certain of our lenders do not have formal limits on the new and program vehicle lines. We have approximately \$76.2 million in unfloored new vehicles at March 31, 2012.

(2) Reduced by \$3.1 million for outstanding letters of credit.

(3) The amount available on the line is limited based on a borrowing base calculation and fluctuates monthly.

#### New Credit Facility

On April 17, 2012, we executed a new five-year \$650 million Credit Facility, which is comprised of 10 financial institutions, including four manufacturer affiliated finance companies. This credit facility provides a \$500 million new vehicle floor plan commitment, \$100 million in used vehicle inventory financing and a \$50 million revolving line of credit for general corporate use including working capital and acquisitions. This credit facility may be expanded to \$800 million total availability. The interest rate on the credit facility varies based on the type of debt with the rate ranging from the 1-month LIBOR plus 1.50% to the 1-month LIBOR plus 2.50%.

New and Program Vehicle Floor Plan Lines

As of March 31, 2012, Mercedes-Benz Financial Services USA, LLC, Toyota Financial Services, Ford Motor Credit Company, American Honda Finance Corporation and BMW Financial Services NA, LLC provide new vehicle floor plan financing for their respective brands. As of March 31, 2012, our credit facility with U.S. Bank National Association and JPMorgan Chase Bank, N.A., as well as floor plan financing with Ally Bank, serve as the primary source of financing for all other brands.

The new credit facility, effective April 17, 2012, will be the source for all new vehicle brands going forward.

The new and program vehicle lines are secured by new and program vehicle inventory of the stores financed by that lender. The weighted average interest rate associated with our new and program vehicle lines, excluding the effects of our interest rate swaps, was 2.6% at March 31, 2012.

Vehicles financed by lenders not directly associated with the manufacturer are classified as floor plan notes payable: non-trade and are included as a financing activity in our Consolidated Statements of Cash Flows. Vehicles financed by lenders directly associated with the manufacturer are classified as floor plan notes payable and are included as an operating activity in our Consolidated Statements of Cash Flows.

To improve the visibility of cash flows related to vehicle financing, which is a core part of our business, the non-GAAP financial measures below demonstrate cash flows assuming all floor plan notes payable are included as an operating activity. We believe that this non-GAAP financial measure improves the transparency of our disclosure by considering all cash flows to finance our inventory.

(In thousands)	For the Three Months Ended	
	March 31,	
	2012	2011
Net cash (used in) provided by operating activities		
As reported	\$(40,987 )	\$(11,240 )
Change in floor plan notes payable: non-trade	39,401	39,262
Adjusted	\$(1,586 )	\$28,022
Net cash provided by (used in) financing activities		
As reported	\$35,593	\$15,313
Change in floor plan notes payable: non-trade	(39,401 )	(39,262 )
Adjusted	\$(3,808 )	\$(23,949 )

#### Real Estate Mortgages and Other Debt

We have mortgages associated with our owned real estate and leasehold improvements. Interest rates related to this debt ranged from 2.5% to 7.0% at March 31, 2012. The mortgages, which totaled \$200.6 million at March 31, 2012, are payable in various installments through May 2031. An acceleration clause in certain mortgages was triggered due to our new credit facility. As a result, we reclassified \$8.5 million in mortgage debt to current in the first quarter of 2012.

Our other debt includes various notes, capital leases and obligations assumed as a result of acquisitions and other agreements and had interest rates that ranged from 3.5% to 9.0% at March 31, 2012. The other debt, which totaled \$85.3 million at March 31, 2012, is due in various installments through October 2018.

#### Debt Covenants

Under the terms of our Credit Facility and other debt agreements, we are subject to certain financial and restrictive covenants. In addition, the covenants place limitations or restrictions on our incurring additional indebtedness, making investments, selling or acquiring assets and granting security interests in our assets.



Debt Covenant Ratio	Requirement	As of March 31, 2012
Current ratio	Not less than 1.20 to 1	1.40 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	1.74 to 1
Liabilities to tangible net worth ratio	Not more than 4.00 to 1	2.71 to 1
Funded debt restriction	Not to exceed \$310 million	\$205.9 million

Based on the information in the above table, we were in compliance with the financial covenants in our Credit Facility and other debt agreements as of March 31, 2012.

Under the new credit facility, executed April 17, 2012, we are required to maintain the ratios detailed in the following table. As of March 31, 2012, our debt covenant ratios under this agreement would have been as follows:

Debt Covenant Ratio	Requirement	As of March 31, 2012
Current ratio	Not less than 1.20 to 1	1.46 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	1.74 to 1
Leverage ratio	Not more than 5.00 to 1	3.02 to 1
Funded debt restriction	Not to exceed \$375 million	\$205.9 million

We expect to remain in compliance with the financial and restrictive covenants in our Credit Facility and other debt agreements. However, no assurances can be provided that we will continue to remain in compliance with the financial and restrictive covenants.

In the event that we are unable to meet the financial and restrictive covenants, we would enter into a discussion with the lender to remediate the condition. If we were unable to remediate or cure the condition, a breach would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed, including the triggering of cross-default provisions to other debt agreements.

#### Inventories

We calculate days supply based on current inventory levels, excluding in-transit vehicles, and a 30-day historical cost of sales level. As of March 31, 2012, our new vehicle days supply was 61, or 1 day higher than our days supply as of March 31, 2011. Our days supply of used vehicles was 48 days as of March 31, 2012, or 1 day higher than our days supply level as of March 31, 2011. We have continued to focus on managing our mix and maintaining an appropriate level of used vehicle inventory.

#### Capital Expenditures

We anticipate approximately \$43 million in capital expenditures for all of 2012. This amount is associated with improvements to, and purchases of, certain store facilities, replacement of equipment and future relocation to a new headquarters building.

Capital expenditures were \$8.5 million and \$2.3 million for the three months ended March 31, 2012 and 2011, respectively. The increase in capital expenditures in 2012 compared to the same period of 2011 was related to improvements at certain of our store facilities, the purchase of new store locations, replacement of equipment and the on-going construction of a new headquarters building.



Many manufacturers provide assistance in the form of additional vehicle incentives if facilities meet image standards and requirements. Accordingly, we believe it is an attractive time to invest in certain facility upgrades and remodels that will generate additional manufacturer incentive payments. Also, recently enacted tax law changes that accelerate deductions for capital expenditures have accelerated project timelines to ensure completion before the law expires.

In the event we undertake a significant capital commitment in the future, we expect to pay for the construction out of existing cash balances, construction financing and borrowings on our Credit Facility. Upon completion of the projects, we would anticipate securing long-term financing and general borrowings from third party lenders for 70% to 90% of the amounts expended, although no assurances can be provided that these financings will be available to us in sufficient amounts or on terms acceptable to us.

#### Dividends

In the first three months of 2012, we paid dividends on our Class A and Class B common stock totaling \$1.8 million. In addition, our Board of Directors approved a dividend of \$0.10 per share on our Class A and Class B common stock related to our first quarter 2012 financial results. The dividend will total approximately \$2.6 million and will be paid on May 25, 2012 to shareholders of record on May 11, 2012.

#### Share Repurchase Program

In August 2011, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our Class A common stock. Through March 31, 2012, we have purchased 379,055 shares under this program at an average price of \$17.99 per share.

As of March 31, 2012, 1,620,945 shares remained available for purchase pursuant to this program. We may continue to purchase shares from time to time in the future as conditions warrant.

#### Recent Accounting Pronouncements

See Note 14 of the Condensed Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

#### Critical Accounting Policies and Use of Estimates

There have been no material changes in our critical accounting policies and use of estimates as described in our 2011 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 24, 2012.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our reported market risks or risk management policies since the filing of our 2011 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on February 24, 2012.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

There have been no new proceedings or material changes to previously disclosed proceedings in our Annual Report on Form 10-K for the year ended December 31, 2011. See Note 4 of the Condensed Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The information in this Form 10-Q should be read in conjunction with the legal proceedings disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the Securities and Exchange Commission on February 24, 2012.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. Accordingly, the information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the Securities and Exchange Commission on February 24, 2012.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We repurchased the following shares of our Class A common stock during the first quarter of 2012:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum number of shares that may yet be purchased under the plans
January 1 to January 31	-	\$ -	-	1,702,945
February 1 to February 29	82,000	23.72	82,000	1,620,945
March 1 to March 31	28,173 (1)	25.14	-	1,620,945
Total	110,173	24.08	82,000	1,620,945

(1) These share repurchases relate to the payment of taxes associated with the exercise of stock options or the vesting of restricted stock units.

In August 2011, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our Class A common stock. Through March 31, 2012, we have repurchased 379,055 shares under this program at an average price of \$17.99 per share. This plan does not have an expiration date.

### Item 6. Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

- 3.1 Restated Articles of Incorporation of Lithia Motors, Inc., as amended May 13, 1999 (filed as Exhibit 3.1 to Form 10-K filed March 30, 2000 and incorporated herein by reference).
- 3.2

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Amended and Restated Bylaws of Lithia Motors, Inc. – Corrected (filed as Exhibit 3.2 to Form 10-K filed March 16, 2009 and incorporated herein by reference).

- 10.1 Loan Agreement dated as of April 17, 2012 between Lithia Motors, Inc., and U.S. Bank National Association, as administrative agent and agent (filed as exhibit 99.1 to Form 8-K filed April 20, 2012 and incorporated herein by reference).
- 10.2 Employment Agreement with Executive Vice President Brad Gray
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

101.INS XBRL Instance Document.  
101.SCH XBRL Taxonomy Extension Schema Document.  
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.  
101.DEF XBRL Taxonomy Extension Definition Linkbase Document.  
101.LAB XBRL Taxonomy Extension Label Linkbase Document.  
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 27, 2012

LITHIA MOTORS, INC.

By:/s/ Christopher S. Holzshu  
Christopher S. Holzshu  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ John F. North III  
John F. North III  
Vice President and  
Corporate Controller  
(Principal Accounting Officer)