

LITHIA MOTORS INC  
Form 10-Q  
July 29, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended **June 30, 2016**

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.)

**150 N. Bartlett Street, Medford, Oregon**

**97501**

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

(Address of principal executive offices)

(Zip Code)

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

---

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

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

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

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

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

<b>Class A common stock without par value</b>	<b>23,401,321</b>
<b>Class B common stock without par value</b>	<b>1,762,231</b>
(Class)	Outstanding at July 29, 2016

---

**LITHIA MOTORS, INC.**

**FORM 10-Q**

**INDEX**

<u>PART I - FINANCIAL INFORMATION</u>		<u>Page</u>
Item 1.	Financial Statements	2
	Consolidated Balance Sheets (Unaudited) - June 30, 2016 and December 31, 2015	2
	Consolidated Statements of Operations (Unaudited) – Three and Six Months Ended June 30, 2016 and 2015	3
	Consolidated Statements of Comprehensive Income (Unaudited) – Three and Six Months Ended June 30, 2016 and 2015	4
	Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended June 30, 2016 and 2015	5
	Condensed Notes to Consolidated Financial Statements (Unaudited)	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 4.	Controls and Procedures	44
<u>PART II - OTHER INFORMATION</u>		44
Item 1A.	Risk Factors	44
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 6.	Exhibits	45
	Signatures	46

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 15,044	\$45,008
Accounts receivable, net of allowance for doubtful accounts of \$3,972 and \$2,243	305,293	308,462
Inventories, net	1,582,274	1,470,987
Other current assets	38,192	54,408
Total Current Assets	1,940,803	1,878,865
Property and equipment, net of accumulated depreciation of \$152,048 and \$137,853	898,239	876,660
Goodwill	214,444	213,220
Franchise value	162,296	157,699
Other non-current assets	106,288	100,855
Total Assets	\$3,322,070	\$3,227,299
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Floor plan notes payable	\$56,767	\$48,083
Floor plan notes payable: non-trade	1,316,747	1,265,872
Current maturities of long-term debt	28,053	38,891
Trade payables	77,979	70,871
Accrued liabilities	184,160	167,108
Total Current Liabilities	1,663,706	1,590,825
Long-term debt, less current maturities	626,543	606,463
Deferred revenue	73,540	66,734
Deferred income taxes	54,647	53,129
Other long-term liabilities	86,173	81,984
Total Liabilities	2,504,609	2,399,135
Stockholders' Equity:		
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 23,416 and 23,676	168,950	258,410
	219	316

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Class B common stock - no par value; authorized 25,000 shares; issued and outstanding  
1,762 and 2,542

Additional paid-in capital	37,230	38,822
Accumulated other comprehensive loss	—	(277 )
Retained earnings	611,062	530,893
Total Stockholders' Equity	817,461	828,164
Total Liabilities and Stockholders' Equity	\$3,322,070	\$3,227,299

See accompanying condensed notes to consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:				
New vehicle	\$ 1,209,037	\$ 1,149,512	\$ 2,305,092	\$ 2,157,328
Used vehicle retail	553,647	488,801	1,086,373	951,732
Used vehicle wholesale	66,714	66,796	131,860	129,004
Finance and insurance	81,043	72,463	158,681	137,067
Service, body and parts	202,265	182,695	398,940	356,170
Fleet and other	20,633	36,680	35,254	54,824
Total revenues	2,133,339	1,996,947	4,116,200	3,786,125
Cost of sales:				
New vehicle	1,136,175	1,080,170	2,165,464	2,026,212
Used vehicle retail	486,422	426,108	954,871	829,597
Used vehicle wholesale	65,228	65,390	128,544	125,437
Service, body and parts	103,666	91,946	204,222	180,982
Fleet and other	19,812	35,684	33,881	52,873
Total cost of sales	1,811,303	1,699,298	3,486,982	3,215,101
Gross profit	322,036	297,649	629,218	571,024
Asset impairments	3,498	6,130	6,996	10,260
Selling, general and administrative	215,526	195,610	434,632	387,228
Depreciation and amortization	12,503	10,287	24,166	20,013
Operating income	90,509	85,622	163,424	153,523
Floor plan interest expense	(6,209 )	(4,655 )	(12,118 )	(9,304 )
Other interest expense, net	(5,502 )	(4,972 )	(10,961 )	(9,800 )
Other expense, net	(1,495 )	(356 )	(3,021 )	(724 )
Income before income taxes	77,303	75,639	137,324	133,695
Income tax provision	(25,875 )	(24,416 )	(45,626 )	(41,819 )
Net income	\$51,428	\$51,223	\$91,698	\$91,876
Basic net income per share	\$2.02	\$1.95	\$3.58	\$3.49
Shares used in basic per share calculations	25,462	26,332	25,639	26,310
Diluted net income per share	\$2.01	\$1.93	\$3.56	\$3.47
Shares used in diluted per share calculations	25,534	26,496	25,754	26,509

See accompanying condensed notes to consolidated financial statements.

3

---

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$51,428	\$51,223	\$91,698	\$91,876
Other comprehensive income, net of tax:				
Gain on cash flow hedges, net of tax expense of \$72, \$94, \$175 and \$181, respectively	114	165	277	304
Comprehensive income	\$51,542	\$51,388	\$91,975	\$92,180

See accompanying condensed notes to consolidated financial statements.



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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$91,698	\$91,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairments	6,996	10,260
Depreciation and amortization	24,166	20,013
Stock-based compensation	6,018	5,822
(Gain) loss on disposal of other assets	(4,512 )	44
Gain on disposal of franchise	(1,102 )	(5,919 )
Deferred income taxes	5,704	(1,145 )
Excess tax benefit from share-based payment arrangements	(4,384 )	(4,865 )
(Increase) decrease (net of acquisitions and dispositions):		
Trade receivables, net	6,564	7,570
Inventories	(114,052)	(122,660)
Other assets	5,688	(3,815 )
Increase (decrease) (net of acquisitions and dispositions):		
Floor plan notes payable	8,685	4,417
Trade payables	6,678	8,854
Accrued liabilities	17,595	7,717
Other long-term liabilities and deferred revenue	10,668	11,161
<b>Net cash provided by operating activities</b>	<b>66,410</b>	<b>29,330</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(43,247 )	(48,008 )
Proceeds from sales of assets	197	145
Cash paid for other investments	(16,690 )	(15,222 )
Cash paid for acquisitions, net of cash acquired	(18,807 )	(87 )
Proceeds from sales of stores	11,837	12,966
<b>Net cash used in investing activities</b>	<b>(66,710 )</b>	<b>(50,206 )</b>
<b>Cash flows from financing activities:</b>		
Borrowings on floor plan notes payable, net: non-trade	58,622	35,685
Borrowings on lines of credit	487,623	557,394
Repayments on lines of credit	(468,955)	(602,818)
Principal payments on long-term debt, scheduled	(8,062 )	(7,324 )
Principal payments on long-term debt and capital leases, other	(2,303 )	(9,189 )

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Proceeds from issuance of long-term debt	12,080	59,425
Proceeds from issuance of common stock	3,329	2,589
Repurchase of common stock	(104,858)	(16,773 )
Excess tax benefit from share-based payment arrangements	4,384	4,865
Dividends paid	(11,524 )	(9,482 )
<b>Net cash used in (provided by) financing activities</b>	<b>(29,664 )</b>	<b>14,372 )</b>
<b>Decrease in cash and cash equivalents</b>	<b>(29,964 )</b>	<b>(6,504 )</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>45,008</b>	<b>29,898</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 15,044</b>	<b>\$ 23,394</b>
 <b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$24,960	\$22,262
Cash paid during the period for income taxes, net	9,684	28,699
 <b>Supplemental schedule of non-cash activities:</b>		
Floor plan debt paid in connection with store disposals	\$5,284	\$4,400
Non-cash consideration given in connection with acquisitions	2,637	—

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 June 30, 2016 and for the three and six months ended June 30, 2016 and 2015. 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 2015 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2015 is derived from our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2016. The interim condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our 2015 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 condensed 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):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Contracts in transit	\$ 159,069	\$ 168,460
Trade receivables	38,524	33,749
Vehicle receivables	34,441	36,470

Edgar Filing: LITHIA MOTORS INC - Form 10-Q

Manufacturer receivables	61,109	59,215
Auto loan receivables	54,412	42,490
Other receivables	3,001	3,033
	350,556	343,417
Less: Allowances	(3,972 )	(2,243 )
Less: Long-term portion of accounts receivable, net	(41,291 )	(32,712 )
Total accounts receivable, net	\$ 305,293	\$ 308,462

Accounts receivable classifications include the following:

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

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

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

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

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

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

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

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

**Note 3. Inventories**

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
New vehicles	\$1,172,198	\$1,113,613
Used vehicles	354,420	302,911
Parts and accessories	55,656	54,463
Total inventories		