UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K/A
(Amendment No. 1)

X **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended: December 31, 2019
OR

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

Commission File Number: 001-14733

LITHIA MOTORS INC
(Exact name of registrant as specified in its charter)

Oregon	**001-14733**	**93-0572810**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

150 N. Bartlett Street	**Medford**	**Oregon**	**97501**
(Address of principal executive offices)			(Zip Code)

(541) 776-6401
(Registrant's telephone number including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock without par value	LAD	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No X

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 X No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	X	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $2,659,094,000 computed by reference to the last sales price ($118.78) as reported by the New York Stock Exchange for the Registrant's Class A common stock, as of the last business day of the Registrant's most recently completed second fiscal quarter (June 30, 2019).

As of February 21, 2020, there were 22,724,919 shares of the registrant's Class A common stock outstanding and 600,000 shares of the registrant's Class B common stock outstanding.

Documents Incorporated by Reference

The Registrant has incorporated into Part III of Form 10-K, by reference, portions of its Proxy Statement for its 2020 Annual Meeting of Shareholders.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of Lithia Motors, Inc. (the "Company") for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on February 21, 2020 (the "Original Form 10-K"), is being filed for the sole purpose of updating the Reports of Independent Registered Public Accounting Firm (the "Reports") and consent in Exhibit 23.1 to reflect the conformed signatures of KPMG LLP, the Company's independent auditor, which were inadvertently omitted from the Reports and consent filed electronically as part of the Original Form 10-K, although the Company had the signed Reports and consent at the time the Original Form 10-K was filed.

Except as otherwise expressly noted herein, this Amendment No. 1 does not modify or update in any way the financial position, results of operations, cash flows, or other disclosures in, or exhibits to, the Original Form 10-K, nor does it reflect events occurring after the filing of the Original Form 10-K. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Form 10-K.

Item 8. Financial Statements and Supplementary Financial Data

The financial statements and notes thereto required by this item begin on page F-1 as listed in Item 15. Exhibits and Financial Statement Schedules of Part IV of this document. Quarterly financial data for each of the eight quarters in the two-year period ended December 31, 2019 is included following the financial statements and notes thereto.

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Schedules

The Consolidated Financial Statements, together with the reports thereon of KPMG LLP, Independent Registered Public Accounting Firm, are included on the pages indicated below:

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There are no schedules required to be filed herewith.

Exhibit Index

The following exhibits are filed herewith. An asterisk (*) beside the exhibit number indicates the exhibits containing a management contract, compensatory plan or arrangement.

Exhibit	Description
3.1	Restated Articles of Incorporation of Lithia Motors, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q filed July 26, 2019).
3.2	Second Amended and Restated Bylaws of Lithia Motors, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed April 25, 2019).
4.1	Indenture, dated as of July 24, 2017, among Lithia Motors, Inc., the Guarantors and the Trustee (incorporated by reference to exhibit 4.1 to Form 8-K dated July 24, 2017 and filed with the Securities and Exchange Commission on July 24, 2017).

Exhibit	Description
4.2	Form of 5.250% Senior Notes due 2025 (included as part of Exhibit 4.1)(incorporated by reference to exhibit 4.1 to Form 8-K dated July 24, 2017 and filed with the Securities and Exchange Commission on July 24, 2017).
4.3	Indenture, dated as of December 9, 2019, among Lithia Motors, Inc., the Guarantors and the Trustee (incorporated by reference to exhibit 4.1 to Form 8-K dated December 9, 2019 and filed with the Securities and Exchange Commission on December 13, 2019).
4.4	Form of 4.625% Senior Notes due 2027 (included as part of Exhibit 4.1)(incorporated by reference to exhibit 4.1 to Form 8-K dated December 9, 2019 and filed with the Securities and Exchange Commission on December 13, 2019).
4.5	Description of the Registrant's Securities under Section 12 of the Exchange Act of 1934 (incorporated by reference to Exhibit 4.5 to Form 10-K dated February 21, 2019 and filed with the Securities and Exchange Commission on February 21, 2019)
10.1*	Amended and Restated 2009 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to Form 8-K dated April 25, 2019 and filed with the Securities and Exchange Commission on April 25, 2019)
10.2*	Lithia Motors, Inc. 2013 Amended and Restated Stock Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed May 2, 2013)
10.2.1*	RSU Deferral Plan (incorporated by reference to exhibit 10.3.1 to the Company's Form 10-K for the year ended December 31, 2011)
10.2.2*	Amendment to RSU Deferral Plan (incorporated by reference to exhibit 10.2.2 to the Company's Form 10-K for the year ended December 31, 2014)
10.2.3*	Restricted Stock Unit (RSU) Deferral Election Form (incorporated by reference to exhibit 10.2.3 to the Company's Form 10-K for the year ended December 31, 2014)
10.3*	Form of Restricted Stock Unit Agreement (2017 Performance- and Time-Vesting) (for Senior Executives) (incorporated by reference to exhibit 10.3.1 to the Company's Form 10-K for the year ended December 31, 2016)
10.3.1*	Form of Restricted Stock Unit Agreement (2018 Performance- and Time-Vesting) (for Senior Executives) (incorporated by reference to exhibit 10.3.2 to the Company's Form 10-K for the year ended December 31, 2017)
10.3.2*	Form of Restricted Stock Unit Agreement (2019 Performance- and Time-Vesting) (for Senior Executives)(incorporated by reference to exhibit 10.3.3 to the Company's Form 10-K for the year ended December 31, 2018)
10.3.3*	Form of Restricted Stock Unit Agreement (2020 Performance- and Time-Vesting) (for Senior Executives) (incorporated by reference to Exhibit 10.3.3 to Form 10-K dated February 21, 2019 and filed with the Securities and Exchange Commission on February 21, 2019)
10.3.4*	Form of Restricted Stock Unit Agreement (Time-Vesting) (incorporated by reference to Exhibit 10.3.4 to Form 10-K dated February 21, 2019 and filed with the Securities and Exchange Commission on February 21, 2019)
10.4*	Lithia Motors, Inc. 2013 Discretionary Support Services Variable Performance Compensation Plan (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed May 2, 2013)
10.5*	Form of Outside Director Nonqualified Deferred Compensation Agreement (incorporated by reference to exhibit 10.20 to the Company's Form 10-K for the year ended December 31, 2005)
10.6	Third Amended and Restated Loan Agreement, dated December 9, 2019, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed December 13, 2019)
10.7*	Amended and Restated Split-Dollar Agreement (incorporated by reference to exhibit 10.17 to the Company's Form 10-K for the year ended December 31, 2012)
10.8*	Form of Indemnity Agreement for each Named Executive Officer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed May 29, 2009)
10.9*	Form of Indemnity Agreement for each non-management Director (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed May 29, 2009)
10.10*	Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2016)

Exhibit	Description
10.10.1*	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award for Sidney DeBoer (incorporated by reference to exhibit 10.22.1 to the Company's Form 10-K for the year ended December 31, 2010)
10.10.2*	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award (incorporated by reference to exhibit 10.22.2 to the Company's Form 10-K for the year ended December 31, 2010)
10.10.3*	Amendment to Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (Executive Management Non-Qualified Deferred Compensation and Supplemental Executive Retirement Plan) (incorporated by reference to Exhibit 10.10.3 to Form 10-K dated February 21, 2019 and filed with the Securities and Exchange Commission on February 21, 2019)
10.11*	Transition Agreement dated September 14, 2015 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed September 17, 2015)
10.11.1*	Amendment to Transition Agreement dated January 22, 2019 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed January 25, 2019)
10.11.2*	Class B Conversion Agreement dated January 22, 2019 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed January 25, 2019)
10.12*	Director Service Agreement effective January 1, 2016 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed September 17, 2015)
10.13*	Form of Employment and Change in Control Agreement dated February 4, 2016 between Lithia Motors, Inc. and Bryan DeBoer (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed February 5, 2016)(1)
21	Subsidiaries of Lithia Motors, Inc. (incorporated by reference to Exhibit 21 to Form 10-K dated February 21, 2019 and filed with the Securities and Exchange Commission on February 21, 2019)
23	Consent of KPMG LLP, Independent Registered Public Accounting Firm
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover page formatted as Inline XBRL and contained in Exhibit 101.

(1) Substantially similar agreements exist between Lithia Motors, Inc. and each of Mark DeBoer, Tom Dobry, Scott Hillier, George Hines, Christopher S. Holzshu, Edward Impert, George Liang, Tina Miller, Bryan Osterhout, Eric Pitt, Jodi Rasor, and David Stork. The "Cash Change in Control Benefits" under the agreements with Mark DeBoer, Edward Impert, Eric Pitt, Jodi Rasor, and David Stork provide for 12 months of base salary rather than 24 months.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 28, 2020	LITHIA MOTORS, INC.
	By /s/ Tina Miller
	Tina Miller
	Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Lithia Motors, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Lithia Motors, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of *ASC Topic 842 - Leases*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the Company's impairment test over goodwill and franchise value

As described in Note 1 and Note 5 to the consolidated financial statements, the Company had goodwill and indefinite-lived franchise value intangible assets with a book value of $454.6 million and $306.7 million, respectively, at December 31, 2019. As of October 1, 2019, the Company tested its goodwill and franchise value intangibles assets for impairment using a qualitative assessment. The qualitative assessment was performed at each individual store level and the Company determined that a $2.1 million impairment was needed in 2019.

We identified the Company’s qualitative impairment test over goodwill and franchise value as a critical audit matter. The test included the evaluation of qualitative factors that required especially subjective auditor judgment for stores whose current operating results indicate a higher risk of potential impairment.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company’s goodwill and franchise value impairment assessment process, including controls related to the identification and development of relevant qualitative factors. We compared key financial metrics across stores with similar demographics, including historical and future dealership level selling, general and administrative expenses as a percent of gross profit, and evaluated differences for potential indicators of impairments. Additionally, we evaluated information about recent dealership sales to identify potential indicators of impairment.

/s/ KPMG LLP

We have served as the Company’s auditor since 1993.

Portland, Oregon
February 21, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Lithia Motors, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Lithia Motors, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired nine stores during 2019, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, all of these acquired stores' internal control over financial reporting. The total assets of these nine stores represented approximately 4% of consolidated total assets as of December 31, 2019 and approximately 2% of consolidated revenues for the year ended December 31, 2019. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of these nine stores.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Portland, Oregon
February 21, 2020

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

	December 31,	
	2019	**2018**
Assets		
Current Assets:		
Cash and cash equivalents	$ 84.0	$ 31.6
Accounts receivable, net of allowance for doubtful accounts of $7.3 and $7.2	505.0	529.4
Inventories, net	2,433.7	2,365.3
Other current assets	47.8	65.1
Total Current Assets	3,070.5	2,991.4
Property and equipment, net of accumulated depreciation of $284.3 and $240.5	1,611.7	1,448.0
Operating lease right-of-use assets	251.9	—
Goodwill	454.6	434.9
Franchise value	306.7	288.7
Other non-current assets	388.5	221.0
Total Assets	$ 6,083.9	$ 5,384.0
Liabilities and Stockholders' Equity		
Current Liabilities:		
Floor plan notes payable	$ 425.2	$ 324.4
Floor plan notes payable: non-trade	1,642.4	1,733.3
Current maturities of long-term debt	39.3	25.9
Trade payables	125.3	126.3
Accrued liabilities	336.9	283.6
Total Current Liabilities	2,569.1	2,493.5
Long-term debt, less current maturities	1,430.6	1,358.2
Deferred revenue	137.9	121.7
Deferred income taxes	131.1	91.2
Non-current operating lease liabilities	238.5	—
Other long-term liabilities	109.0	122.2
Total Liabilities	4,616.2	4,186.8
Stockholders' Equity:		
Preferred stock - no par value; authorized 15.0 shares; none outstanding	—	—
Class A common stock - no par value; authorized 100.0 shares; issued and outstanding 22.6 and 22.0	20.5	—
Class B common stock - no par value; authorized 25.0 shares; issued and outstanding 0.6 and 1.0	0.1	0.1
Additional paid-in capital	46.0	35.0
Accumulated other comprehensive loss	(0.7)	—
Retained earnings	1,401.8	1,162.1
Total Stockholders' Equity	1,467.7	1,197.2
Total Liabilities and Stockholders' Equity	$ 6,083.9	$ 5,384.0

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Revenues:			
New vehicle	$ 6,799.1	$ 6,602.8	$ 5,763.6
Used vehicle retail	3,527.2	3,079.0	2,544.4
Used vehicle wholesale	301.2	331.3	277.8
Finance and insurance	518.6	454.8	385.9
Service, body and parts	1,325.1	1,222.3	1,015.8
Fleet and other	201.5	131.2	99.0
Total revenues	12,672.7	11,821.4	10,086.5
Cost of sales:			
New vehicle	6,413.5	6,217.7	5,423.8
Used vehicle retail	3,159.6	2,756.1	2,257.6
Used vehicle wholesale	297.5	325.8	273.0
Service, body and parts	657.5	621.6	522.7
Fleet and other	190.8	123.2	93.3
Total cost of sales	10,718.9	10,044.4	8,570.4
Gross profit	1,953.8	1,777.0	1,516.1
Asset impairments	2.6	1.3	—
Selling, general and administrative	1,373.8	1,253.3	1,049.4
Depreciation and amortization	82.4	75.4	57.7
Operating income	495.0	447.0	409.0
Floor plan interest expense	(72.8)	(62.3)	(39.3)
Other interest expense	(60.6)	(56.0)	(34.8)
Other income, net	13.8	8.8	12.2
Income before income taxes	375.4	337.5	347.1
Income tax provision	(103.9)	(71.8)	(101.9)
Net income	$ 271.5	$ 265.7	$ 245.2
Basic net income per share	$ 11.70	$ 10.91	$ 9.78
Shares used in basic per share calculations	23.2	24.4	25.1
Diluted net income per share	$ 11.60	$ 10.86	$ 9.75
Shares used in diluted per share calculations	23.4	24.5	25.1
Cash dividends paid per Class A and Class B share	$ 1.19	$ 1.14	$ 1.06

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Net income	$ 271.5	$ 265.7	$ 245.2
Other comprehensive loss, net of tax:			
Loss on cash flow hedges, net of tax benefit of $0.3, $0 and $0	(0.7)	—	—
Comprehensive income	$ 270.8	$ 265.7	$ 245.2

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
(In millions)

	Common Stock							
	Class A		Class B					
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2016	23.3	$ 165.6	1.8	$ 0.2	$ 41.2	$ —	$ 703.8	$ 910.8
Adjustment to adopt ASU 718	—	—	—	—	(0.2)	—	0.2	—
Net income	—	—	—	—	—	—	245.2	245.2
Issuance of stock in connection with employee stock plans	0.1	7.5	—	—	—	—	—	7.5
Issuance of restricted stock to employees	0.1	—	—	—	—	—	—	—
Repurchase of Class A common stock	(0.4)	(33.8)	—	—	—	—	—	(33.8)
Class B common stock converted to Class A common stock	0.8	0.1	(0.8)	(0.1)	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	7.6	—	—	3.7	—	—	11.3
Option premiums paid	—	—	—	—	(33.4)	—	—	(33.4)
Dividends paid	—	—	—	—	—	—	(26.5)	(26.5)
Issuance of stock in connection with acquisitions	—	2.1	—	—	—	—	—	2.1
Balance at December 31, 2017	23.9	149.1	1.0	0.1	11.3	—	922.7	1,083.2
Net income	—	—	—	—	—	—	265.7	265.7
Issuance of stock in connection with employee stock plans	0.1	10.1	—	—	—	—	—	10.1
Issuance of restricted stock to employees	0.1	—	—	—	—	—	—	—
Repurchase of Class A common stock	(2.1)	(168.5)	—	—	19.6	—	—	(148.9)
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	9.3	—	—	4.1	—	—	13.4
Dividends paid	—	—	—	—	—	—	(27.7)	(27.7)
Adjustment to adopt ASC 606	—	—	—	—	—	—	1.4	1.4
Balance at December 31, 2018	22.0	—	1.0	0.1	35.0	—	1,162.1	1,197.2
Net income	—	—	—	—	—	—	271.5	271.5
Loss on cash flow hedges, net of tax benefit of $0.3	—	—	—	—	—	(0.7)	—	(0.7)
Issuance of stock in connection with employee stock plans	0.1	11.0	—	—	—	—	—	11.0
Issuance of restricted stock to employees	0.1	—	—	—	—	—	—	—
Repurchase of Class A common stock	—	(3.2)	—	—	—	—	—	(3.2)
Class B common stock converted to Class A common stock	0.4	—	(0.4)	—	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	12.7	—	—	3.5	—	—	16.2
Option premiums received (paid)	—	—	—	—	7.5	—	(5.1)	2.4
Dividends paid	—	—	—	—	—	—	(27.6)	(27.6)
Adjustment to adopt ASC 842	—	—	—	—	—	—	0.9	0.9
Balance at December 31, 2019	22.6	$ 20.5	0.6	$ 0.1	$ 46.0	$ (0.7)	$ 1,401.8	$ 1,467.7

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 271.5	$ 265.7	$ 245.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Asset impairments	2.6	1.3	—
Depreciation and amortization	82.4	75.4	57.7
Stock-based compensation	16.2	13.3	11.3
(Gain) loss on disposal of other assets	(0.1)	0.2	(0.4)
Gain from disposal activities	(9.7)	(15.1)	(5.1)
Deferred income taxes	40.1	33.0	(2.8)
(Increase) decrease (net of acquisitions and dispositions):			
Trade receivables, net	24.4	4.7	(57.4)
Inventories	(19.7)	(108.9)	(193.1)
Other assets	12.0	(16.0)	(3.1)
Increase (decrease) (net of acquisitions and dispositions):			
Floor plan notes payable	100.7	196.9	20.3
Trade payables	(1.8)	15.1	20.0
Accrued liabilities	(38.0)	28.9	37.2
Other long-term liabilities and deferred revenue	18.9	25.2	19.1
Net cash provided by operating activities	499.5	519.7	148.9
Cash flows from investing activities:			
Notes receivable issued	12.5	—	—
Capital expenditures	(124.9)	(158.0)	(105.4)
Proceeds from sales of assets	1.5	3.1	15.3
Cash paid for other investments	(7.2)	(62.7)	(8.6)
Cash paid for acquisitions, net of cash acquired	(366.6)	(373.8)	(460.4)
Proceeds from sales of stores	46.7	34.3	20.9
Net cash used in investing activities	(438.0)	(557.1)	(538.2)
Cash flows from financing activities:			
(Repayments) borrowings on floor plan notes payable: non-trade, net	(54.6)	(21.9)	241.5
Borrowings on lines of credit	3,167.0	2,691.4	1,754.5
Repayments on lines of credit	(3,481.6)	(2,499.6)	(1,836.2)
Principal payments on long-term debt, scheduled	(26.0)	(26.5)	(18.2)
Principal payments on long-term debt and finance lease liabilities, other	(11.0)	(26.1)	(50.3)
Proceeds from issuance of long-term debt	420.3	62.1	395.9
Payment of debt issuance costs	(5.8)	(0.4)	(4.7)
Proceeds from issuance of common stock	11.0	10.1	7.5
Repurchase of common stock	(3.2)	(148.9)	(33.8)
Dividends paid	(27.6)	(27.7)	(26.5)
Payments of contingent consideration related to acquisitions	—	(0.8)	—
Other financing activity	2.4	—	(33.4)
Net cash (used in) provided by financing activities	(9.1)	11.7	396.3
(Increase) decrease in cash and cash equivalents	52.4	(25.7)	7.0
Cash and cash equivalents at beginning of year	31.6	57.3	50.3
Cash and cash equivalents at end of year	$ 84.0	$ 31.6	$ 57.3
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 135.8	$ 117.1	$ 68.9
Cash paid during the period for income taxes, net	38.4	32.9	127.3
Floor plan debt paid in connection with store disposals	18.6	33.1	3.7
Supplemental schedule of non-cash activities:			
Debt issued in connection with acquisitions	$ 26.4	$ 125.1	$ 1.8
Debt assumed in connection with acquisitions	—	10.8	84.3
Issuance of Class A common stock in connection with acquisition	—	—	2.1
ROU assets obtained in exchange for lease liabilities[1]	260.3	—	—

[1] Amounts for the twelve months ended December 31, 2019 include the transition adjustment for the adoption of Topic 842.

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Organization and Business
We are one of the largest automotive retailers in the United States and are among the fastest growing companies in the Fortune 500 (#265-2019) with 187 stores representing 30 brands in 19 states. We offer vehicles online and through our nationwide retail network. Our "Growth Powered by People" strategy drives us to innovate and continuously improve the customer experience.

Basis of Presentation
The accompanying Consolidated Financial Statements reflect the results of operations, the financial position and the cash flows for Lithia Motors, Inc. and its directly and indirectly wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents
Cash and cash equivalents are defined as cash on hand and cash in bank accounts without restrictions.

Accounts Receivable
Accounts receivable classifications include the following:

- Contracts in transit are receivables from various lenders for the financing of vehicles that we have arranged on behalf of the customer and are typically received within five to 10 days of selling a vehicle.
- Trade receivables are comprised of amounts due from customers, lenders for the commissions earned on financing and others for commissions earned on service contracts and insurance products.
- Vehicle receivables represent receivables for the portion of the vehicle sales price paid directly by the customer.
- Manufacturer receivables represent amounts due from manufacturers, including holdbacks, rebates, incentives and warranty claims.
- Auto loan receivables include amounts due from customers related to retail sales of vehicles and certain finance and insurance products.

Receivables are recorded at invoice and do not bear interest until they are 60 days past due. The allowance for doubtful accounts represents an estimate of the amount of net losses inherent in our portfolio of accounts receivable as of the reporting date. We estimate an allowance for doubtful accounts based on our historical write-off experience and consider 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. See Note 2.

Inventories
Inventories are valued at the lower of net realizable value or cost, using the specific identification method for new vehicles, pooled approach for used vehicles, and the lower of cost (first-in, first-out) or market method for parts. The cost of new and used vehicle inventories includes the cost of any equipment added, reconditioning and transportation. Certain acquired inventories are valued using the last-in first-out (LIFO) method. The LIFO reserve associated with this inventory as of December 31, 2019 and 2018 was immaterial.

Manufacturers reimburse us for holdbacks, floor plan interest assistance and advertising assistance, which are reflected as a reduction in the carrying value of each vehicle purchased. We recognize advertising assistance, floor plan interest assistance, holdbacks, cash incentives and other rebates received from manufacturers that are tied to specific vehicles as a reduction to cost of sales as the related vehicles are sold.

Parts purchase discounts that we receive from the manufacturer are reflected as a reduction in the carrying value of the parts purchased from the manufacturer and are recognized as a reduction to cost of goods sold as the related inventory is sold. See Note 3.

Property and Equipment
Property and equipment are stated at cost and depreciated over their estimated useful lives on the straight-line basis. Leasehold improvements made at the inception of the lease or during the term of the lease are amortized on a straight-line basis over the shorter of the life of the improvement or the remaining term of the lease.

The range of estimated useful lives is as follows:

Buildings and improvements	5 to 40 years
Service equipment	5 to 15 years
Furniture, office equipment, signs and fixtures	3 to 10 years

The cost for maintenance, repairs and minor renewals is expensed as incurred, while significant remodels and betterments are capitalized. In addition, interest on borrowings for major capital projects, significant remodels, and betterments are capitalized. Capitalized interest becomes a part of the cost of the depreciable asset and is depreciated according to the estimated useful lives as previously stated. For the years ended December 31, 2019, 2018 and 2017, we recorded capitalized interest of $2.3 million, $1.3 million and $0.5 million, respectively.

When an asset is retired, or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income from operations.

Leased property meeting certain criteria are recorded as finance leases. We have finance leases for certain locations, expiring at various dates through August 1, 2037. Our finance lease right-of-use assets are included in property and equipment on our Consolidated Balance Sheets. Amortization of finance lease right-of-use assets is computed on a straight-line basis over the term of the lease, unless the lease transfers title or it contains a bargain purchase option, in which case, it is amortized over the asset's useful life and is included in depreciation expense. Finance lease liabilities are recorded as the lesser of the estimated fair market value of the leased property or the net present value of the aggregated future minimum payments and are included in current maturities of long-term debt and long-term debt on our Consolidated Balance Sheets. Interest associated with these obligations is included in other interest expense in the Consolidated Statements of Operations. See Note 7.

Long-lived assets held and used by us are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We consider several factors when evaluating whether there are indications of potential impairment related to our long-lived assets, including store profitability, overall macroeconomic factors and the impact of our strategic management decisions. If recoverability testing is performed, we evaluate assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows associated with the asset, including its disposition. If such assets are considered to be impaired, the amount by which the carrying amount of the assets exceeds the fair value of the assets is recognized as a charge to income from operations. See Note 4.

Goodwill
Goodwill represents the excess purchase price over the fair value of net assets acquired which is not allocable to separately identifiable intangible assets. Other identifiable intangible assets, such as franchise rights, are separately recognized if the intangible asset is obtained through contractual or other legal right or if the intangible asset can be sold, transferred, licensed or exchanged.

Goodwill is not amortized but tested for impairment at least annually, and more frequently if events or circumstances indicate the carrying amount of the reporting unit more likely than not exceeds fair value. We have the option to qualitatively or quantitatively assess goodwill for impairment, and we evaluated our goodwill using a qualitative assessment process. Goodwill is tested for impairment at the reporting unit level. Our reporting units are individual stores as this is the level at which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance.

We test our goodwill for impairment on October 1 of each year. In 2019, we evaluated our goodwill using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying amount, we would further evaluate for potential impairment. See Note 5 and Note 13.

Franchise Value
We enter into agreements ("Franchise Agreements") with our manufacturers. Franchise value represents a right received under Franchise Agreements with manufacturers and is identified on an individual store basis.

We evaluated the useful lives of our Franchise Agreements based on the following factors:

- certain of our Franchise Agreements continue indefinitely by their terms;
- certain of our Franchise Agreements have limited terms, but are routinely renewed without substantial cost to us;

- other than franchise terminations related to the unprecedented reorganizations of Chrysler and General Motors, and allowed by bankruptcy law, we are not aware of manufacturers terminating Franchise Agreements against the wishes of the franchise owners in the ordinary course of business. A manufacturer may pressure a franchise owner to sell a franchise when the owner is in breach of the franchise agreement over an extended period of time;
- state dealership franchise laws typically limit the rights of the manufacturer to terminate or not renew a franchise;
- we are not aware of any legislation or other factors that would materially change the retail automotive franchise system; and
- as evidenced by our acquisition and disposition history, there is an active market for most automotive dealership franchises within the United States. We attribute value to the Franchise Agreements acquired with the dealerships we purchase based on the understanding and industry practice that the Franchise Agreements will be renewed indefinitely by the manufacturer.

Accordingly, we have determined that our Franchise Agreements will continue to contribute to our cash flows indefinitely and, therefore, have indefinite lives.

As an indefinite-lived intangible asset, franchise value is tested for impairment at least annually, and more frequently if events or circumstances indicate the carrying value may exceed fair value. The impairment test for indefinite-lived intangible assets requires the comparison of estimated fair value to carrying value. An impairment charge is recorded to the extent the fair value is less than the carrying value. We have the option to qualitatively or quantitatively assess indefinite-lived intangible assets for impairment. We evaluated our indefinite-lived intangible assets using a qualitative assessment process. We have determined the appropriate unit of accounting for testing franchise value for impairment is each individual store.

We test our franchise value for impairment on October 1 of each year. In 2019, we evaluated our franchise value using a qualitative assessment process. If the qualitative factors discussed above determine that it is more likely than not that the fair value of the individual store's franchise value exceeds the carrying amount, the franchise value is not impaired and the second step is not necessary. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying value, then a quantitative valuation of our franchise value is performed and an impairment would be recorded. See Note 5 and Note 13.

Advertising
We expense production and other costs of advertising as incurred as a component of selling, general and administrative expense. Additionally, manufacturer cooperative advertising credits for qualifying, specifically-identified advertising expenditures are recognized as a reduction of advertising expense. Advertising expense and manufacturer cooperative advertising credits were as follows (in millions):

Year Ended December 31,	2019	2018	2017
Advertising expense, gross	$ 139.8	$ 134.2	$ 116.1
Manufacturer cooperative advertising credits	(27.9)	(25.5)	(22.8)
Advertising expense, net	$ 111.9	$ 108.7	$ 93.3

Contract Origination Costs
Contract origination commissions paid to our employees directly related to the sale of our self-insured lifetime lube, oil and filter service contracts are deferred and charged to expense in proportion to the associated revenue to be recognized.

Legal Costs
We are a party to numerous legal proceedings arising in the normal course of business. We accrue for certain legal costs, including attorney fees and potential settlement claims related to various legal proceedings that are estimable and probable. See Note 7.

Stock-Based Compensation
Compensation costs associated with equity instruments exchanged for employee and director services are measured at the grant date, based on the fair value of the award. If there is a performance-based element to the award, the expense is recognized based on the estimated attainment level, estimated time to achieve the attainment level and/or the vesting period. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The fair value of non-vested stock awards is based on the intrinsic value on the date of grant. Shares to be issued upon the exercise of stock options and the vesting of stock awards will come from newly issued shares. See Note 10.

Income and Other Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, their respective tax bases, operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

When there are situations with uncertainty as to the timing of the deduction, the amount of the deduction, or the validity of the deduction, we adjust our financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. Positions that meet this criterion are measured using the largest benefit that is more than 50% likely to be realized. Interest and penalties are recorded as income tax provision in the period incurred or accrued when related to an uncertain tax position. See Note 14.

We account for all taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use, value-added) on a net (excluded from revenues) basis.

Concentration of Risk and Uncertainties
We purchase substantially all of our new vehicles and inventory from various manufacturers at the prevailing prices charged by auto manufacturers to all franchised dealers. Our overall sales could be impacted by the auto manufacturers' inability or unwillingness to supply dealerships with an adequate supply of popular models.

We depend on our manufacturers to provide a supply of vehicles which supports expected sales levels. In the event that manufacturers are unable to supply the needed level of vehicles, our financial performance may be adversely impacted.

We depend on our manufacturers to deliver high-quality, defect-free vehicles. In the event that manufacturers experience future quality issues, our financial performance may be adversely impacted.

We are subject to a concentration of risk in the event of financial distress, including potential reorganization or bankruptcy, of a major vehicle manufacturer. Our sales volume could be materially adversely impacted by the manufacturers' or distributors' inability to supply the stores with an adequate supply of vehicles. We also receive incentives and rebates from our manufacturers, including cash allowances, financing programs, discounts, holdbacks and other incentives. These incentives are recorded as accounts receivable in our Consolidated Balance Sheets until payment is received. Our financial condition could be materially adversely impacted by the manufacturers' or distributors' inability to continue to offer these incentives and rebates at substantially similar terms, or to pay our outstanding receivables.

We enter into Franchise Agreements with the manufacturers. The Franchise Agreements generally limit the location of the dealership and provide the auto manufacturer approval rights over changes in dealership management and ownership. The auto manufacturers are also entitled to terminate the Franchise Agreement if the dealership is in material breach of the terms. Our ability to expand operations depends, in part, on obtaining consents of the manufacturers for the acquisition of additional dealerships. See also "Goodwill" and "Franchise Value" above.

We have a credit facility with a syndicate of 19 financial institutions, including seven manufacturer-affiliated finance companies. Several of these financial institutions also provide vehicle financing for certain new vehicles, vehicles that are designated for use as service loaners and mortgage financing. This credit facility is the primary source of floor plan financing for our new vehicle inventory and also provides used vehicle financing and a revolving line of credit. The term of the facility extends through January 2025. At maturity, our financial condition could be materially adversely impacted if lenders are unable to provide credit that has typically been extended to us or with terms unacceptable to us. Our financial condition could be materially adversely impacted if these providers incur losses in the future or undergo funding limitations. See Note 6.

We anticipate continued organic growth and growth through acquisitions. This growth will require additional credit which may be unavailable or with terms unacceptable to us. If these events were to occur, we may not be able to borrow sufficient funds to facilitate our growth.

Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and related notes to financial statements. Changes in such estimates may affect amounts reported in future periods.

Estimates are used in the calculation of certain reserves maintained for charge-backs on estimated cancellations of service contracts; life, accident and disability insurance policies; finance fees from customer financing contracts and uncollectible accounts receivable.

We also use estimates in the calculation of various expenses, accruals and reserves, including anticipated losses related to workers' compensation insurance; anticipated losses related to self-insurance components of our property and casualty and medical insurance; self-insured lifetime lube, oil and filter service contracts; discretionary employee bonuses, the Transition Agreement with Sidney B. DeBoer, our Chairman of the Board; warranties provided on certain products and services; legal reserves and stock-based compensation. We also make certain estimates regarding the assessment of the recoverability of long-lived assets, indefinite-lived intangible assets and deferred tax assets.

We offer a limited warranty on the sale of most retail used vehicles. This warranty is based on mileage and time. We also offer a mileage and time based warranty on parts used in our service repair work and on tire purchases. The cost that may be incurred for these warranties is estimated at the time the related revenue is recorded. A reserve for these warranty liabilities is estimated based on current sales levels, warranty experience rates and estimated costs per claim. The annual activity for reserve increases and claims is immaterial. As of December 31, 2019 and 2018, the accrued warranty balance was $0.6 million and $0.5 million, respectively.

Fair Value of Assets Acquired and Liabilities Assumed
We estimate the fair value of the assets acquired and liabilities assumed in a business combination using various assumptions. The most significant assumptions used relate to determining the fair value of property and equipment and intangible franchise rights.

We estimate the fair value of property and equipment 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.

We estimate the fair value of our franchise rights primarily using the Multi-Period Excess Earnings ("MPEE") model. The forecasted cash flows used in the MPEE model contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins, general operating expenses, and cost of capital. We use primarily internally-developed forecasts and business plans to estimate the future cash flows that each franchise will generate. We have determined that only certain cash flows of the store are directly attributable to the franchise rights. We estimate the appropriate interest rate to discount future cash flows to their present value equivalent taking into consideration factors such as a risk-free rate, a peer group average beta, an equity risk premium and a small stock risk premium. Additionally, we also may use a market approach to determine the fair value of our franchise rights. These market data points include our acquisition and divestiture experience and third-party broker estimates.

We use a relief-from-royalty method to determine the fair value of a trade name. Future cost savings associated with owning, rather than licensing, a trade name is estimated based on a royalty rate and management's forecasted sales projections. The discount rate applied to the future cost savings factors an equity market risk premium, small stock risk premium, an average peer group beta, a risk-free interest rate and a premium for forecast risk.

Revenue Recognition
The following describes our major product lines, which represent the disaggregation of our revenues to transactions that are similar in nature, amount, timing, uncertainties and economic factors.

New Retail Vehicle and Used Retail Vehicle Sales
Revenue from the retail sale of a vehicle is recognized at a point in time, as all performance obligations are satisfied when a contract is signed by the customer, financing has been arranged or collectibility is probable and the control of the vehicle is transferred to the customer. The transaction price for a retail vehicle sale is specified in the contract with the customer and includes all cash and non-cash consideration. In a retail vehicle sale, customers often trade in their current vehicle. The trade-in is measured at its stand-alone selling price in the contract, utilizing various third-party pricing sources. There are no other non-cash forms of consideration related to retail sales. All vehicle rebates are applied to the vehicle purchase price at the time of the sale and are therefore incorporated

into the price of the contract at the time of the exchange. We do not allow the return of new or used vehicles, except where mandated by state law.

Service, Body and Parts Sales
Revenue from service, body and parts sales is recognized upon the transfer of control of the parts or service to the customer. We allow for customer returns on sales of our parts inventory up to 30 days after the sale. Most parts returns generally occur within one to two weeks from the time of sale and are not significant.

We are the obligor on our lifetime oil contracts. Revenue is allocated to these performance obligations and is recognized over time as services are provided to the customer. The amount of revenue recognized is calculated, net of cancellations, using an input method, which most closely depicts performance of the contracts. Our contract liability balances were $171.5 million and $149.6 million as of December 31, 2019, and December 31, 2018, respectively; and we recognized $25.9 million and $21.9 million of revenue in the years ended December 31, 2019, and December 31, 2018, respectively, related to our opening contract liability balances. Our contract liability balance is included in accrued liabilities and deferred revenue.

Finance and Insurance Sales
Revenue from finance and insurance sales is recognized, net of estimated charge-backs, at the time of the sale of the related vehicle. As a part of the vehicle sale, we seek to arrange financing for customers and sell a variety of add-ons, such as extended warranty service contracts. These products are inherently attached to the governing vehicle and performance of the obligation cannot be performed without the underlying sale of the vehicle. We act as an agent in the sale of these contracts as the pricing is set by the third-party provider, and our commission is preset. A portion of the transaction price related to sales of finance and insurance contracts is considered variable consideration and is estimated and recognized upon the sale of the contract under the new standard. Our contract asset balance was $8.9 million and $9.2 million as of December 31, 2019, and December 31, 2018, respectively; and is included in trade receivables and other non-current assets.

Segment Reporting
While we have determined that each individual store is a reporting unit, we have aggregated our reporting units into three reportable segments based on their economic similarities: Domestic, Import and Luxury.

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

Corporate and other revenue and income include the results of operations of our stand-alone collision center offset by unallocated corporate overhead expenses, such as corporate personnel costs, and certain unallocated reserve and elimination adjustments. Additionally, certain internal corporate expense allocations increase segment income for Corporate and other while decreasing segment income for the other operating segments. These internal corporate expense allocations are used to increase comparability of our dealerships and reflect the capital burden a stand-alone dealership would experience. Examples of these internal allocations include internal rent expense, internal floor plan financing charges, and internal fees charged to offset employees within our corporate headquarters that perform certain dealership functions.

We define our chief operating decision maker ("CODM") to be certain members of our executive management group. Historical and forecasted operational performance is evaluated on a store-by-store basis and on a consolidated basis by the CODM. We derive the operating results of the segments directly from our internal management reporting system. The accounting policies used to derive segment results are substantially the same as those used to determine our consolidated results, excepted for the internal allocation within Corporate and other discussed above. Our CODM measures the performance of each reportable segment based on several metrics, including earnings from operations, and uses these results, in part, to evaluate the performance of, and to allocate resources to, each of the reportable segments. See Note 18.

Note 2. Accounts Receivable

Accounts receivable consisted of the following (in millions):

December 31,	2019	2018
Contracts in transit	$ 269.7	$ 294.0
Trade receivables	52.8	54.3
Vehicle receivables	50.9	51.6
Manufacturer receivables	112.4	105.5
Auto loan receivables	62.2	61.5
Other receivables	19.4	6.8
	567.4	573.7
Less: Allowance for doubtful accounts	(7.3)	(7.2)
Less: Long-term portion of accounts receivable, net	(55.1)	(37.1)
Total accounts receivable, net	$ 505.0	$ 529.4

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 consisted of the following (in millions):

December 31,	2019	2018
New vehicles	$ 1,704.1	$ 1,700.1
Used vehicles	638.1	576.8
Parts and accessories	91.5	88.4
Total inventories	$ 2,433.7	$ 2,365.3

The new vehicle inventory cost is generally reduced by manufacturer holdbacks and incentives, while the related floor plan notes payable are reflective of the gross cost of the vehicle.

Note 4. Property and Equipment

Property and equipment consisted of the following (in millions):

December 31,	2019	2018
Land	$ 473.0	$ 419.7
Building and improvements	948.0	821.6
Service equipment	113.3	106.3
Furniture, office equipment, signs and fixtures	327.0	283.5
	1,861.3	1,631.1
Less accumulated depreciation	(284.3)	(240.5)
	1,577.0	1,390.6
Construction in progress	34.7	57.4
	$ 1,611.7	$ 1,448.0

Long-lived Asset Impairment Charges

We recorded $0.5 million and $1.3 million of impairment charges associated with certain properties in 2019 and 2018, respectively. The long-lived assets were tested for recoverability and were determined to have a carrying value exceeding their fair value. We did not record any impairment charges associated with property and equipment in 2017.

Note 5. Goodwill and Franchise Value

The following is a roll-forward of goodwill (in millions):

	Domestic	Import	Luxury	Consolidated
Balance as of December 31, 2017 [1]	$ 114.0	$ 104.3	$ 38.0	$ 256.3
Adjustments to purchase price allocations [2]	51.4	85.8	43.5	180.7
Reductions through divestitures	(0.9)	(1.2)	—	(2.1)
Balance as of December 31, 2018 [1]	164.5	188.9	81.5	434.9
Adjustments to purchase price allocations [3]	1.6	1.6	1.9	5.1
Additions through acquisitions [3]	6.2	9.0	2.2	17.4
Reductions from impairments	(0.3)	(1.3)	(0.1)	(1.7)
Reductions through divestitures	(0.2)	(0.9)	—	(1.1)
Balance as of December 31, 2019 [1]	$ 171.8	$ 197.3	$ 85.5	$ 454.6

(1) Net of accumulated impairment losses of $299.3 million recorded during the year ended December 31, 2008.
(2) Our purchase price allocation for the 2017 acquisitions of the Baierl Auto Group, the Downtown LA Auto Group, Crater Lake Ford Lincoln, Crater Lake Mazda, Albany CJD Fiat and the 2018 acquisition of Broadway Ford were finalized in 2018. Also, our purchase price allocation for the 2018 acquisition of Prestige Auto Group was preliminary and was allocated to our segments in 2018. As a result, we added $180.7 million of goodwill.
(3) Our purchase price allocation for the 2018 acquisitions of the Ray Laks Honda, Ray Laks Acura, Day Auto Group, Prestige Auto Group, and Buhler Ford were finalized in 2019. As a result, we added $22.5 million of goodwill. Our purchase price allocation for the 2019 acquisitions are preliminary and goodwill is not yet allocated to our segments. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 15.

The following is a roll-forward of franchise value (in millions):

	Franchise Value
Balance as of December 31, 2017	$ 187.0
Additions through acquisitions	103.5
Adjustments to purchase price allocations [1]	(1.8)
Balance as of December 31, 2018	288.7
Additions through acquisitions [2]	20.9
Adjustments to purchase price allocations [2]	3.5
Reductions through divestitures	(6.0)
Reductions from impairments	(0.4)
Balance as of December 31, 2019	$ 306.7

(1) Our purchase price allocation for the 2017 acquisitions of the Baierl Auto Group, the Downtown LA Auto Group, Crater Lake Ford Lincoln, Crater Lake Mazda, Albany CJD Fiat and the 2018 acquisition of Broadway Ford were finalized in 2018.Also, our purchase price allocation for the 2018 acquisition of Prestige Auto Group was preliminary and was allocated to our segments in 2018. As a result, we added $103.5 million of franchise value.
(2) Our purchase price allocation for the 2018 acquisitions of the Ray Laks Honda, Ray Laks Acura, Day Auto Group, Prestige Auto Group, and Buhler Ford were finalized in 2019. As a result, we added $24.4 million of franchise value. Our purchase price allocation for the 2019 acquisitions are preliminary and franchise value is not yet allocated to our segments. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 15.

Note 6. Credit Facilities and Long-Term Debt

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

December 31,		2019		2018
Floor plan notes payable: non-trade	$	1,642.4	$	1,733.3
Floor plan notes payable		425.2		324.4
Total floor plan debt	$	2,067.6	$	2,057.7
Used and service loaner vehicle inventory financing commitments	$	149.0	$	332.0
Revolving lines of credit		—		131.6
Real estate mortgages		597.7		592.3
5.250% Senior notes due 2025		300.0		300.0
4.625% Senior notes due 2027		400.0		—
Other debt		33.6		34.2
Total long-term debt outstanding		1,480.3		1,390.1
Less: unamortized debt issuance costs		(10.4)		(6.0)
Less: current maturities (net of current debt issuance costs)		(39.3)		(25.9)
Long-term debt	$	1,430.6	$	1,358.2

Credit Facility

Effective December 9, 2019, we amended our syndicated credit facility ("credit facility") increasing the total financing commitment to $2.8 billion and extended the term to January 2025. Our credit facility is comprised of 19 financial institutions, including seven manufacturer-affiliated finance companies.

We have the option to reallocate the commitments, provided that the used vehicle inventory floor plan financing commitment does not exceed 16.5% of aggregate commitments, the revolving loan commitment does not exceed 18.75% of aggregate commitments, the service loaner floor plan financing commitment does not exceed $100 million, and the sum of these commitments plus the new vehicle inventory floor plan financing commitment does not exceed the aggregate total financing commitment of $2.8 billion. Additionally, we may request an increase in the aggregate new vehicle floor plan commitment of up to $400 million, provided that the aggregate commitment does not exceed $3.2 billion. All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

Our obligations under our credit facility are secured by a substantial amount of our assets, including our inventory (including new and used vehicles, parts and accessories), equipment, accounts receivable (and other rights to payment) and our equity interests in certain subsidiaries. Under our credit facility, our obligations relating to new vehicle floor plan loans are secured only be collateral owned by borrowers of new vehicle floor plan loans under the credit facility.

The interest rate on the credit facility, as amended, varies based on the type of debt, with the rate of one-month LIBOR plus 1.10% for new vehicle floor plan financing, one-month LIBOR plus 1.40% for used vehicle floor plan financing; and a variable interest rate on the revolving financing ranging from the one-month LIBOR plus 1.00% to 2.00%, depending on our leverage ratio. The annual interest rate associated with our new vehicle floor plan commitment was 2.88% at December 31, 2019. The annual interest rate associated with both our used vehicle inventory financing commitment and our revolving line of credit was 3.18% at December 31, 2019.

Under the terms of our credit facility, we are subject to financial covenants and restrictive covenants that limit or restrict our incurring additional indebtedness, making investments, selling or acquiring assets and granting security interests in our assets.

Under our credit facility, we are required to maintain the ratios detailed in the following table:

Debt Covenant Ratio	Requirement	As of December 31, 2019
Current ratio	Not less than 1.10 to 1	1.31 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	2.88 to 1
Leverage ratio	Not more than 5.75 to 1	2.62 to 1

Other Lines of Credit
During 2019 we entered into a revolving line of credit agreement with Chrysler Capital, a program of Chrysler Group LLC and Santander Consumer USA. The revolving line of credit includes a commitment of up to $20.0 million, secured by certain assets from select Chrysler locations. The interest rate on this revolving line is equal to the one-month LIBOR rate plus 1.50%. Along with this new line with Chrysler Capital, we have a revolving line of credit with Ford Motor Credit Company, bringing our other lines of credit to a total financing commitment of $80.0 million. These other lines of credit mature in 2021 and have interest rates up to 7.33%. As of December 31, 2019, no amounts were outstanding on these other lines of credit.

Floor Plan Notes Payable
We have floor plan agreements with manufacturer-affiliated finance companies for certain new vehicles and vehicles that are designated for use as service loaners. As discussed above in "Operating Activities” in "Liquidity and Capital Resources”, during 2019 we entered a floor plan agreement with Chrysler Capital. This facility provides floor plan financing for new vehicle inventory at select Chrysler stores. This facility adds to our existing facility with Ford Motor Credit Company. The interest rates on these floor plan notes payable commitments vary by manufacturer and are variable rates. As of December 31, 2019, $425.2 million was outstanding on these agreements at interest rates ranging up to 6.25%. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Real Estate Mortgages and Other Debt
We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 3.0% to 5.3% at December 31, 2019. The mortgages are payable in various installments through August 1, 2038. As of December 31, 2019, we had fixed interest rates on 72.5% of our outstanding mortgage debt.

Our other debt includes finance lease liabilities and sellers’ notes. The interest rates associated with our other debt ranged from 2.5% to 8.5% at December 31, 2019. This debt, which totaled $33.6 million at December 31, 2019, is due in various installments through August 2037.

5.250% Senior Notes Due 2025
On July 24, 2017, we issued $300.0 million in aggregate principal amount of 5.250% Senior Notes due 2025 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the Notes from July 24, 2017 and is payable semiannually on February 1 and August 1. The first interest payment was paid on February 1, 2018. We may redeem the Notes in whole or in part at any time prior to August 1, 2020 at a price equal to 100% of the principal amount plus a make-whole premium set forth in the Indenture and accrued and unpaid interest. After August 1, 2020, we may redeem some or all of the Notes subject to the redemption prices set forth in the Indenture. If we experience specific kinds of changes of control, as described in the Indenture, we must offer to repurchase the Notes at 101% of their principal amount plus accrued and unpaid interest to the date of purchase.

4.625% Senior Notes Due 2027
On December 9, 2019, we issued $400.0 million in aggregate principal amount of 4.625% Senior Notes due 2027 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the Senior Notes from December 9, 2019 and is payable semiannually on June 15 and December 15. We may redeem the Senior Notes in whole or in part, on or after December 15, 2022, at the redemption prices set forth in the Indenture. Prior to December 15, 2022, we may redeem the Senior Notes, in whole or in part, at a price equal to 100% of the principal amount thereof plus a make-whole premium set forth in the Indenture. In addition, prior to December 15, 2022, we may redeem up to 40% of the Senior Notes from the proceeds of certain equity offerings. Upon certain change of control events (as set forth in the Indenture), the holders of the Senior Notes may require us to repurchase all or a portion of the Senior Notes at a purchase price of 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase.

Future Principal Payments
The schedule of future principal payments associated with real estate mortgages, our Senior Notes and other debt as of December 31, 2019 was as follows (in millions):

Year Ending December 31,		
2020	$	41.9
2021		49.5
2022		65.8
2023		60.4
2024		77.6
Thereafter		1,036.1
Total principal payments	$	1,331.3

Note 7. Commitments and Contingencies

Leases
As described further in Note 21, we adopted Topic 842 as of January 1, 2019, using the modified retrospective approach. This allows adjustment with a cumulative-effect adjustment as of January 1, 2019. Prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 840. See Note 11 for future minimum operating lease payments after December 31, 2019, as presented under Topic 842.

Charge-Backs for Various Contracts
We have recorded a liability of $57.0 million as of December 31, 2019 for our estimated contractual obligations related to potential charge-backs for vehicle service contracts, lifetime oil change contracts and other various insurance contracts that are terminated early by the customer. We estimate that the charge-backs will be paid out as follows (in millions):

Year Ending December 31,		
2020	$	31.2
2021		16.3
2022		6.8
2023		2.2
2024		0.5
Thereafter		—
Total	$	57.0

Lifetime Lube, Oil and Filter Contracts
We retain the obligation for lifetime lube, oil and filter service contracts sold to our customers and assumed the liability of certain existing lifetime lube, oil and filter contracts. These amounts are recorded as a contract liability. At the time of sale, we defer the full sale price and recognize the revenue based on the rate we expect future costs to be incurred. As of December 31, 2019, we had a contract liability balance of $172.0 million associated with these contracts and estimate the contract liability will be recognized as follows (in millions):

Year Ending December 31,		
2020	$	34.3
2021		27.4
2022		21.9
2023		18.2
2024		15.4
Thereafter		54.8
Total	$	172.0

The contract liability balance is recorded as components of deferred revenue and accrued liabilities in our Consolidated Balance Sheets.

We periodically evaluate the estimated future costs of these assumed contracts and record a charge if future expected claim and cancellation costs exceed the contract liability to be recognized. As of December 31, 2019, we had a reserve balance of $2.9 million recorded as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets. The charges associated with this reserve were recognized in 2011 and earlier.

Self-insurance Programs
We self-insure a portion of our property and casualty insurance, vehicle open lot coverage, medical insurance and workers' compensation insurance. Third parties are engaged to assist in estimating the loss exposure related to the self-retained portion of the risk associated with these insurances. Additionally, we analyze our historical loss and claims experience to estimate the loss exposure associated with these programs. As of December 31, 2019 and 2018, we had liabilities associated with these programs of $34.4 million and $39.9 million, respectively, recorded as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

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

Note 8. Stockholders' Equity

Class A and Class B Common Stock
The shares of Class A common stock are not convertible into any other series or class of our securities. Each share of Class B common stock, however, is freely convertible into one share of Class A common stock at the option of the holder of the Class B common stock. All shares of Class B common stock automatically convert to shares of Class A common stock (on a share-for-share basis, subject to adjustment) on the earliest record date for an annual meeting of our shareholders on which the number of shares of Class B common stock outstanding is less than 1% of the total number of shares of common stock outstanding. Shares of Class B common stock may not be transferred to third parties, except for transfers to certain family members and in other limited circumstances.

Holders of Class A common stock are entitled to one vote for each share held of record and holders of Class B common stock are entitled to ten votes for each share held of record. The Class A common stock and Class B common stock vote together as a single class on all matters submitted to shareholders.

At a special meeting of shareholders held on January 21, 2019, Sidney B. DeBoer and the Company executed a Class B Conversion Agreement pursuant to which Mr. DeBoer agreed to cause all of the remaining 1,000,000 shares of our Class B common stock to be converted into shares of our Class A common stock by December 31, 2025. The Class B Conversion Agreement will require the conversion of at least 15% of the 1,000,000 Class B shares by the end of every two years, with the first 15% to be converted by December 31, 2020, a total of 30% by December 31, 2022, a total of 45% by December 31, 2024, and the balance by December 31, 2025. As of December 31, 2019, Lithia Holding Company, L.L.C., held 600,000 shares of our Class B common stock.

Repurchases of Class A Common Stock
Repurchases of our Class A Common Stock occurred under repurchase authorizations granted by our Board of Directors and related to shares withheld as part of the vesting of restricted stock units ("RSUs").

On October 22, 2018, our Board of Directors approved a $250 million repurchase authorization. Share repurchases under our authorizations were as follows:

	Repurchases Occurring in 2019		Cumulative Repurchases as of December 31, 2019	
	Shares	Average Price	Shares	Average Price
Share Repurchase Authorization	—	$ —	3,155,095	$ 84.43

As of December 31, 2019, we had $233.6 million available for repurchases pursuant to our share repurchase authorization.

In addition, during 2019, we repurchased 40,356 shares at an average price of $80.39 per share, for a total of $3.2 million, related to tax withholdings associated with the vesting of RSUs. The repurchase of shares related to tax withholdings associated with stock awards does not reduce the number of shares available for repurchase as approved by our Board of Directors.

The following is a summary of our repurchases in the years ended December 31, 2019, 2018 and 2017:

Year Ended December 31,	2019	2018	2017
Shares repurchased pursuant to repurchase authorizations	—	2,112,370	329,000
Total purchase price (in millions)	$ —	$ 179.0	$ 30.5
Average purchase price per share	$ —	$ 84.72	$ 92.79
Shares repurchased in association with tax withholdings on the vesting of RSUs	40,356	30,119	32,457

In the second quarter of 2019, we entered into a structured repurchase agreement involving the use of capped call options for the purchase of our Class A common stock. We paid a fixed sum of $36.5 million upon execution of the agreement in exchange for the right to receive either a pre-determined amount of cash or stock. As of December 31, 2019, the capped call options had expired, and we received $38.9 million in cash.

Dividends

We declared and paid dividends on our Class A and Class B Common Stock as follows:

Quarter declared	Dividend amount per Class A and Class B share	Total amount of dividends paid (in millions)
2017		
First quarter	$ 0.25	$ 6.3
Second quarter	0.27	6.8
Third quarter	0.27	6.7
Fourth quarter	0.27	6.7
2018		
First quarter	$ 0.27	$ 6.7
Second quarter	0.29	7.2
Third quarter	0.29	7.0
Fourth quarter	0.29	6.8
2019		
First quarter	$ 0.29	$ 6.7
Second quarter	0.30	7.0
Third quarter	0.30	7.0
Fourth quarter	0.30	6.9

Note 9. 401(k) Profit Sharing, Deferred Compensation and Long-Term Incentive Plans

We have a defined contribution 401(k) plan and trust covering substantially all full-time employees. The annual contribution to the plan is at the discretion of our Board of Directors. Contributions of $9.8 million, $5.7 million, and $5.8 million were recognized for the years ended December 31, 2019, 2018 and 2017, respectively. Employees may contribute to the plan if they meet certain eligibility requirements.

We offer a non-qualified deferred compensation and supplemental executive retirement plan (the "SERP") to provide certain employees the ability to accumulate assets for retirement on a tax deferred basis. We may, depending on position, also make discretionary contributions to the SERP. These discretionary contributions could vest immediately or up to seven years based on the employee's age. Additionally, a participant may defer a portion of his or her compensation and receive the deferred amount upon certain events, including termination or retirement.

The following is a summary related to our SERP (in millions):

Year Ended December 31,	2019	2018	2017
Compensation expense	$ 0.9	$ 1.3	$ 1.1
Total discretionary contribution	$ 0.3	$ 0.8	$ 1.7
Guaranteed annual return	5.00%	5.00%	5.00%

As of December 31, 2019 and 2018, the balance due to participants was $37.9 million and $32.9 million, respectively, and was included as a component of other long-term liabilities in the Consolidated Balance Sheets.

Note 10. Stock-Based Compensation

2009 Employee Stock Purchase Plan

During 2019, we registered an additional 1,500,000 shares to the 2009 Employee Stock Purchase Plan (the "2009 ESPP"), now allowing for the issuance of 3,000,000 shares of our Class A common stock. The 2009 ESPP is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended, and is administered by the Compensation Committee of the Board of Directors.

Eligible employees are entitled to defer up to 10% of their base pay for the purchase of stock, up to $25,000 of fair market value of our Class A common stock annually. The purchase price is equal to 85% of the fair market value at the end of the purchase period.

Following is information regarding our 2009 ESPP:

Year Ended December 31,	2019
Shares purchased pursuant to 2009 ESPP	112,138
Weighted average per share price of shares purchased	$ 101.03
Weighted average per share discount from market value for shares purchased	$ 17.83

As of December 31,	2019
Shares available for purchase pursuant to 2009 ESPP	1,526,505

Compensation expense related to our 2009 ESPP is calculated based on the 15% discount from the per share market price on the date of grant.

2013 Stock Incentive Plan

Our 2013 Stock Incentive Plan, as amended, (the "2013 Plan") allows for the grant of a total of 3.8 million shares in the form of stock appreciation rights, qualified stock options, nonqualified stock options, restricted share awards and restricted stock unit awards ("RSUs") to our officers, key employees, directors and consultants. The 2013 Plan is administered by the Compensation Committee of the Board of Directors and permits accelerated vesting of outstanding awards upon the occurrence of certain changes in control. As of December 31, 2019, 1,100,660 shares of Class A common stock were available for future grants. As of December 31, 2019, there were no stock appreciation rights, qualified stock options, nonqualified stock options or restricted share awards outstanding.

Restricted Stock Unit Awards
RSU grants vest over a period of time up to four years from the date of grant. RSU activity was as follows:

	RSUs	Weighted average grant date fair value
Balance, December 31, 2018	409,865	$ 99.72
Granted	288,761	75.73
Vested	(117,873)	92.00
Forfeited	(84,071)	87.53
Balance, December 31, 2019	496,682	90.00

We granted 67,152 time-vesting RSUs to members of our Board of Directors and employees in 2019. Each grant entitles the holder to receive shares of our Class A common stock upon vesting. A portion of the RSUs vest over four years, beginning on the second anniversary of the grant date, for employees and vests quarterly for our Board of Directors, over their service period.

Certain key employees were granted 221,609 performance and time-vesting RSUs in 2019. Of these, 167,808 shares were earned based on attaining various target levels of operational performance. Based on the levels of performance achieved in 2019, a weighted average attainment level of 75.7% for these RSUs was met. These RSUs will vest over four years from the grant date.

Stock-Based Compensation
As of December 31, 2019, unrecognized stock-based compensation related to outstanding, but unvested RSUs was $14.2 million, which will be recognized over the remaining weighted average vesting period of 2.2 years.

Certain information regarding our stock-based compensation was as follows:

Year Ended December 31,	**2019**	**2018**	**2017**
Per share intrinsic value of non-vested stock granted	$ 75.73	$ 86.84	$ 99.24
Weighted average per share discount for compensation expense recognized under the 2009 ESPP	17.83	13.10	15.20
Fair value of non-vested stock that vested during the period (in millions)	92.0	92.0	69.6
Stock-based compensation recognized in Consolidated Statements of Operations, as a component of selling, general and administrative expense (in millions)	16.2	13.4	11.3
Tax benefit recognized in Consolidated Statements of Operations (in millions)	2.7	3.5	3.5
Cash received from options exercised and shares purchased under all share-based arrangements (in millions)	11.3	10.6	7.8
Tax deduction realized related to stock options exercised (in millions)	9.8	9.0	9.0

Note 11. Leases

Lease Accounting
We lease certain dealerships, office space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. We have elected not to bifurcate lease and non-lease components related to leases of real property.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 26 or more years. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We rent or sublease certain real estate to third parties.

As described further in "Note 21. Changes in Accounting Policies," we adopted Topic 842 as of January 1, 2019. Prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 840.

The table below presents the lease-related liabilities recorded on the balance sheet (in millions):

	December 31, 2019	December 31, 2018
Operating lease liabilities:		
Current portion included in accrued liabilities	$ 25.2	$ —
Noncurrent operating lease liabilities	238.5	—
Total operating lease liabilities	263.7	—
Finance lease liabilities:		
Current portion included in current maturities of long-term debt	1.1	2.0
Long-term portion of lease liabilities in long-term debt	29.5	28.8
Total finance lease liabilities [1]	30.6	30.8
Total lease liabilities	$ 294.3	$ 30.8
Weighted-average remaining lease term:		
Operating leases	13 years	
Finance leases	13 years	
Weighted-average discount rate:		
Operating leases	5.81%	
Finance leases	5.08%	

[1] Corresponding finance lease right-of-use assets are not material and are included in property and equipment, net of accumulated depreciation.

The components of lease costs, which were included in selling, general and administrative in our Consolidated Statements of Operations, were as follows (in millions):

	Year Ended December 31, 2019
Operating lease cost [1]	$ 48.5
Variable lease cost [2]	1.4
Sublease income	(4.6)
Total lease costs	$ 45.3

[1] Includes short-term and month-to-month lease costs, which are immaterial.
[2] Variable lease cost generally includes reimbursement for actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased real estate.

Rent expense, net of sublease income, for all operating leases was $43.3 million and $33.4 million for the years ended December 31, 2018 and 2017, respectively. These amounts are included as a component of selling, general and administrative expenses in our Consolidated Statements of Operations.

As of December 31, 2019, the maturities of our operating lease liabilities were as follows (in millions):

		Operating Leases
Year Ending December 31,		
2020	$	37.7
2021		35.1
2022		33.1
2023		28.2
2024		25.7
Thereafter		210.3
Total minimum lease payments		370.1
Less:		
Present value adjustment		(106.4)
Operating lease liabilities	$	263.7

Note 12. Derivative Financial Instruments

We account for derivative financial instruments by recording the fair value as either an asset or liability in our Consolidated Balance Sheets and recognize the resulting gains or losses as adjustments to accumulated other comprehensive income (loss). We do not hold or issue derivative financial instruments for trading or speculative purposes. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive loss ("AOCI") in stockholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

In the second quarter of 2019, to hedge the business exposure to rising interest rates on a portion of our variable rate debt, we entered into a 5-year, zero-cost interest rate collar, with an aggregate notional amount of $300 million. This instrument hedges interest rate risk related to a portion of our $1.6 billion of non-trade floor plan notes payable.

The gains and losses from the cash flow hedge are recorded in AOCI and released to interest expense in the same period that the hedged interest expense on the floor plan is recognized. As of December 31, 2019, we had a loss of $1.0 million recorded associated with the fair value of our derivative instrument, included as a component of accrued liabilities and other long-term liabilities with the offset in AOCI. As of December 31, 2019, the amount of net losses we expect to reclassify from AOCI into interest expense in earnings within the next twelve months is immaterial. However, the actual amount reclassified could vary due to future changes in the fair value of these derivatives. No amounts were reclassified from AOCI in the twelve months ended December 31, 2019.

See Note 13 for information on the fair value of the derivative contract. We did not have any activity related to the effect of derivative instruments in 2018 or 2017.

Note 13. Fair Value Measurements

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

- Level 1 - quoted prices in active markets for identical securities;
- Level 2 - other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment spreads, credit risk; and
- Level 3 - significant unobservable inputs, including our own assumptions in determining fair value.

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

We have fixed rate debt primarily consisting of amounts outstanding under our senior notes and real estate mortgages. We calculated the estimated fair value of the senior notes using quoted prices for the identical liability (Level 1) and calculated the estimated fair value of the fixed rate real estate mortgages using a discounted cash flow methodology with estimated current interest rates based

on a similar risk profile and duration (Level 2). The fixed cash flows are discounted and summed to compute the fair value of the debt. As of December 31, 2019, our real estate mortgages and other debt, which includes finance lease liabilities, had maturity dates between September 1, 2020 and August 31, 2038.

We have derivative instruments consisting of interest rate collars. The fair value of derivative liabilities is measured using observable Level 2 market expectations at each measurement date and is recorded as current liabilities and other long-term liabilities in the Consolidated Balance Sheets. See Note 12 for more details regarding our derivative contracts.

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

There were no changes to our valuation techniques during the year ended December 31, 2019.

Below are our derivative liabilities that are measured at fair value (in millions):

Fair Value at December 31, 2019	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative contract, net	$ —	$ 1.0	$ —

A summary of the aggregate carrying values, excluding unamortized debt issuance cost, and fair values of our long-term fixed interest rate debt is as follows (in millions):

December 31,	2019	2018
Carrying value		
5.250% Senior Notes due 2025	$ 300.0	$ 300.0
4.625% Senior Notes due 2027	400.0	—
Real Estate Mortgages and Other Debt	466.6	445.8
	$ 1,166.6	$ 745.8
Fair value		
5.250% Senior Notes due 2025	$ 315.0	$ 278.6
4.625% Senior Notes due 2027	412.0	—
Real Estate Mortgages and Other Debt	468.7	448.7
	$ 1,195.7	$ 727.3

Below are our goodwill and franchise value amounts measured at fair value (in millions):

Fair Value at December 31, 2019	Level 1	Level 2	Level 3
Measured on a non-recurring basis:			
Goodwill	$ —	$ —	$ 0.1

Goodwill and franchise value for our reporting units are tested for impairment annually as of October 1 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We elected to perform qualitative franchise value and goodwill impairment tests as of October 1, 2019. As a result of these tests, we identified certain reporting units where it was more likely than not the fair value was less than the carrying amount, and recorded non-cash impairment charges of $1.7 million and $0.4 million, which was equal to the difference between the fair value and the carrying value for goodwill and franchise value,

respectively. The non-cash impairment charges are included in "Asset impairments" in the accompanying Consolidated Statements of Operations and are reported in the "Corporate and Other" category of our segment information.

Note 14. Income Taxes

Income Tax Provision

The income tax provision was as follows (in millions):

Year Ended December 31,	2019	2018	2017
Current:			
Federal	$ 40.0	$ 30.3	$ 95.1
State	24.0	11.5	16.9
	64.0	41.8	112.0
Deferred:			
Federal	34.7	20.4	(14.2)
State	5.2	9.6	4.1
	39.9	30.0	(10.1)
Total	$ 103.9	$ 71.8	$ 101.9

At December 31, 2019 and 2018, we had income taxes payable of $10.1 million and income tax receivable of $17.1 million included as a component of accrued liabilities and other current assets, respectively, in our Consolidated Balance Sheets.

The reconciliation between amounts computed using the federal income tax rate of 21% in 2019 and 2018, and 35% in 2017 and our income tax provision is shown in the following tabulation (in millions):

Year Ended December 31,	2019	2018	2017
Federal tax provision at statutory rate	$ 78.8	$ 70.9	$ 121.5
State taxes, net of federal income tax benefit	23.6	16.1	13.3
Non-deductible items	2.6	1.5	1.3
Permanent differences related to stock compensation	0.2	(0.1)	(0.8)
Net change in valuation allowance	(0.5)	0.5	0.3
General business credits	(0.9)	(1.1)	(0.9)
Deferred remeasurement for change in statutory tax rate	—	(15.8)	(32.9)
Other	0.1	(0.2)	0.1
Income tax provision	$ 103.9	$ 71.8	$ 101.9

Deferred Taxes
Individually significant components of the deferred tax assets and (liabilities) are presented below (in millions):

December 31,	**2019**	**2018**
Deferred tax assets:		
Deferred revenue and cancellation reserves	$ 48.4	$ 47.2
Allowances and accruals, including state tax carryforward amounts	42.1	40.8
Lease Liability	69.7	—
Credits and other	0.3	0.3
Valuation allowance	(0.6)	(1.1)
Total deferred tax assets	159.9	87.2
Deferred tax liabilities:		
Inventories	(40.0)	(42.0)
Goodwill	(60.7)	(48.2)
Property and equipment, principally due to differences in depreciation	(113.6)	(78.0)
Right of Use Asset	(66.6)	—
Prepaid expenses and other	(10.1)	(10.2)
Total deferred tax liabilities	(291.0)	(178.4)
Total	$ (131.1)	$ (91.2)

We consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment.

As of December 31, 2019, we had a $0.6 million valuation allowance recorded associated with our deferred tax assets. The entire allowance is associated with state net operating losses generated in previous years. The valuation allowance decreased $0.5 million in the current year as a result of taxable income and the expected realization of these benefits.

As of December 31, 2019, we had state net operating loss (NOL) carryforward amounts totaling approximately $2.2 million, tax effected, with expiration dates through 2039. We believe that it is more likely than not that the benefit from certain state NOL carryforward amounts will not be realized. In recognition of this risk, we have recorded a valuation allowance of $0.6 million on the deferred tax assets relating to these state NOL carryforwards as discussed above. We had $0.2 million, tax effected, in state tax credit carryforwards with expiration dates through 2029. We believe it is more likely than not that the benefits from these state tax credit carryforwards will be realized.

Unrecognized Tax Benefits
We have no unrecognized tax benefits recorded as of December 31, 2019, 2018 and 2017.

Open tax years at December 31, 2019 included the following:

Federal	2016 - 2019
21 states	2015 - 2019

Note 15. Acquisitions

In 2019, we completed the following acquisitions:

- On May 1, 2019, Hamilton Honda in Hamilton Township, New Jersey.
- On May 20, 2019, Ford Lincoln of Morgantown in Morgantown, West Virginia.
- On July 1, 2019, Jaguar Landrover Mission Viejo in Mission Viejo, California.
- On August 19, 2019, Hazleton Honda in Hazle Township, PA.
- On October 7, 2019, Chrysler Dodge Jeep Ram Fiat of Morgantown and Subaru of Morgantown in Morgantown, West Virginia.

- On November 4, 2019, Wesley Chapel Toyota, Wesley Chapel Honda, and Tampa Honda in Florida.

Revenue and operating income contributed by the 2019 acquisitions subsequent to the date of acquisition were as follows (in millions):

Year Ended December 31,	**2019**
Revenue	$ 232.3
Operating income	3.1

In 2018, we completed the following acquisitions:

- On January 15, 2018, Ray Laks Honda in Orchard Park, New York and Ray Laks Acura in Buffalo, New York.
- On February 26, 2018, Day Auto Group, a seven store platform based in Pennsylvania.
- On March 1, 2018, Prestige Auto Group, a six store platform based in New Jersey and New York.
- On April 2, 2018, Broadway Ford in Idaho Falls, Idaho.
- On April 23, 2018, Buhler Ford in Eatontown, New Jersey.

All acquisitions were accounted for as business combinations under the acquisition method of accounting. The results of operations of the acquired stores are included in our Consolidated Financial Statements from the date of acquisition.

The following tables summarize the consideration paid in cash and equity securities for the acquisitions and the preliminary amount of identified assets acquired and liabilities assumed as of the acquisition date (in millions):

Consideration paid for the Year Ended December 31,	**2019**	**2018**
Cash paid, net of cash acquired	$ 366.6	$ 373.8
Debt issued	26.4	125.1
	$ 393.0	$ 498.9

Assets acquired and liabilities assumed for the Year Ended December 31,	**2019**	**2018**
Trade receivables, net	$ —	$ 0.7
Inventories	105.2	180.0
Franchise value	—	29.8
Property and equipment	124.0	179.7
Other assets	193.1	48.6
Floor plan notes payable	—	(10.8)
Other liabilities	(29.3)	(2.3)
	393.0	425.7
Goodwill	—	73.2
	$ 393.0	$ 498.9

The purchase price allocations for the 2019 acquisitions are preliminary as we have not obtained all of the detailed information to finalize the opening balance sheet related to real estate purchased, leases assumed and the allocation of franchise value to each reporting unit. Management has recorded the purchase price allocations based on the information that is currently available.

We expect substantially all of the goodwill related to acquisitions completed in 2019 to be deductible for federal income tax purposes.

We account for franchise value as an indefinite-lived intangible asset. We recognized $2.5 million and $4.3 million, respectively, in acquisition related expenses as a component of selling, general and administrative expenses in the Consolidated Statements of Operations in 2019 and 2018, respectively.

The following unaudited pro forma summary presents consolidated information as if the acquisitions had occurred on January 1 of the previous year (in millions, except for per share amounts):

Year Ended December 31,	2019	2018
Revenue	$ 13,193.4	$ 12,831.9
Net income	280.2	275.6
Basic net income per share	12.07	11.31
Diluted net income per share	11.98	11.26

These amounts have been calculated by applying our accounting policies and estimates. The results of the acquired stores have been adjusted to reflect the following: depreciation on a straight-line basis over the expected lives for property, plant and equipment; accounting for inventory on a specific identification method; and recognition of interest expense for real estate financing related to stores where we purchased the facility. No non-recurring pro forma adjustments directly attributable to the acquisitions are included in the reported pro forma revenues and earnings.

Note 16. Related Party Transactions

Transition Agreement

In September 2015, we entered into a transition agreement with Sidney B. DeBoer, our Chairman of the Board, which provided him certain benefits until his death. The agreement has an effective date of January 1, 2016 and the initial payment of these benefits began in the third quarter of 2016. On January 22, 2019, we amended the transition agreement to end the annual payments to Mr. DeBoer after 17 years, commencing January 1, 2019, or upon Mr. DeBoer's death, whichever occurs first.

We recorded a charge of $18.3 million in 2015 as a component of selling, general and administrative expense in our Consolidated Statement of Operations related to the present value of estimated future payments due pursuant to this agreement. We believe that this estimate is reasonable; however, actual cash flows could differ materially. We will periodically evaluate whether significant changes in our assumptions have occurred and record an adjustment if future expected cash flows are significantly different than the reserve recorded. As a result of the amendment to the agreement on January 22, 2019, no change was made to the reserve.

The balance associated with this agreement was $14.8 million and $15.7 million as of December 31, 2019 and 2018, respectively, and was included as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

Note 17. 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 limits amendments to our Articles of Incorporation that would alter the rights, powers or preferences of a given class of stock without the approval of the class of stock adversely affected by the proposed amendment. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. Because the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis.

Following is a reconciliation of net income and weighted average shares used for our basic earnings per share ("EPS") and diluted EPS (in millions, except per share amounts):

Year Ended December 31,	2019		2018		2017	
(in millions, except per share data)	**Class A**	**Class B**	**Class A**	**Class B**	**Class A**	**Class B**
Net income from continuing operations applicable to common stockholders	$ 264.5	$ 7.0	$ 254.8	$ 10.9	$ 233.4	$ 11.8
Reallocation of distributed net income due to conversion of Class B to Class A common shares outstanding	0.7	—	1.1	—	1.3	—
Conversion of Class B common shares into Class A common shares	6.3	—	9.8	—	10.5	—
Net income applicable to common stockholders - diluted	$ 271.5	$ 7.0	$ 265.7	$ 10.9	$ 245.2	$ 11.8
Weighted average common shares outstanding – basic	22.6	0.6	23.4	1.0	23.9	1.2
Conversion of Class B common shares into Class A common shares	0.6	—	1.0	—	1.2	—
Effect of employee stock purchases and restricted stock units on weighted average common shares	0.2	—	0.1	—	—	—
Weighted average common shares outstanding – diluted	23.4	0.6	24.5	1.0	25.1	1.2
Net income per common share - basic	$ 11.70	$ 11.70	$ 10.91	$ 10.91	$ 9.78	$ 9.78
Net income per common share - diluted	$ 11.60	$ 11.60	$ 10.86	$ 10.86	$ 9.75	$ 9.75
Antidilutive Securities						
Shares issuable pursuant to employee stock purchases not included since they were antidilutive	—	—	—	—	—	—

Note 18. Segments

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

Year Ended December 31,	2019	2018	2017
Revenues:			
Domestic	$ 4,382.4	$ 4,215.0	$ 3,845.8
Import	5,267.8	5,038.1	4,432.8
Luxury	2,991.9	2,560.3	1,810.1
	12,642.1	11,813.4	10,088.7
Corporate and other	30.6	8.0	(2.2)
	$ 12,672.7	$ 11,821.4	$ 10,086.5
Segment income*:			
Domestic	$ 123.4	$ 97.6	$ 105.2
Import	153.9	116.2	117.8
Luxury	57.1	43.9	37.0
	334.4	257.7	260.0
Corporate and other	170.2	202.4	167.4
Depreciation and amortization	(82.4)	(75.4)	(57.7)
Other interest expense	(60.6)	(56.0)	(34.8)
Other income, net	13.8	8.8	12.2
Income before income taxes	$ 375.4	$ 337.5	$ 347.1

*Segment income for each of the segments is defined as Income from operations before income taxes, depreciation and amortization, other interest expense and other income, net.

Year Ended December 31,	2019	2018	2017
Floor plan interest expense:			
Domestic	$ 53.6	$ 52.4	$ 37.2
Import	44.1	41.6	29.0
Luxury	30.2	25.6	15.8
	127.9	119.6	82.0
Corporate and other	(55.1)	(57.3)	(42.7)
	$ 72.8	$ 62.3	$ 39.3

December 31,	2019	2018
Total assets:		
Domestic	$ 1,467.6	$ 1,488.0
Import	1,306.5	1,224.2
Luxury	945.2	934.6
Corporate and other	2,364.6	1,737.2
	$ 6,083.9	$ 5,384.0

Note 19. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments." This pronouncement, along with subsequent ASUs issued to clarify provisions of ASU 2016-13, changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected

to be collected on the financial asset. In developing the estimate for lifetime expected credit loss, entities must incorporate historical experience, current conditions, and reasonable and supportable forecasts. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. We have designed an allowance for loan loss methodology to comply with these new requirements, which will be adopted for our fiscal year beginning January 1, 2020. Based on information as of December 31, 2019, we expect to record a $5.0 million to $8.0 million increase in the allowance for loan losses on our opening consolidated balance sheet as of January 1, 2020, with a corresponding net-of-tax adjustment to retained earnings. The final adoption impact may vary depending on the company's portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that time. We are finalizing testing of the effectiveness of our new allowance for loan loss methodology, as well as designing the relevant controls and governance structure.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if applicable. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The same impairment test also applies to any reporting unit with a zero or negative carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We do not expect the adoption of ASU 2017-04 to have a material effect on our financial position, results of operations or cash flows.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes". The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We are currently in the process of evaluating the effects of this pronouncement on our consolidated financial statements.

Note 20. Investments

As of December 31, 2019, we had $66.1 million in investments in various companies recorded as part of non-current assets on our Consolidated Balance Sheets. A predominant amount of this investment is with Shift Technologies, Inc., a San Francisco-based digital retail start-up company. We have determined that our investment in Shift does not meet the criteria for a variable interest entity, and we do not have control or significant influence over Shift.

As of December 31, 2019, there were no identified events or changes in circumstances that would have a significant effect on the value of any of these investments. We did not record any impairment charges associated with these investments in the years ended December 31, 2019, 2018, or 2017.

Note 21. Changes in Accounting Policies

In 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires leases with durations greater than twelve months to be recognized on the balance sheet, as right-of-use assets with corresponding operating lease liabilities. In July 2018, the FASB issued ASU No. 2018-11, "Targeted Improvements - Leases (Topic 842)." This update provides an optional transition method that allows entities to elect to apply the standard using the modified retrospective approach at its effective date, versus recasting the prior periods presented. If elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. We adopted the new standard as of January 1, 2019 using the transition method that provides for a cumulative-effect adjustment to retained earnings upon adoption. The Consolidated Financial Statements for the twelve months ended December 31, 2019 are presented under the new standard, while comparative years presented are not adjusted and continue to be reported in accordance with our historical accounting policy. We elected the package of practical expedients, which permits us to not reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We elected the short-term lease recognition exemption for all leases that qualify. We have both real estate leases and equipment leases that are impacted by the new guidance. Most of our leases do not provide an implicit rate, therefore we use our incremental borrowing rate at the commencement date in determining the present value of lease payments. Adoption of the new standard resulted in the derecognition of a deferred gain from prior completed sale-leaseback transactions. This adjustment, net of tax, was recorded as $0.9 million increase in retained earnings. See Note 11.

The impact of adopting Topic 842 on the accompanying Condensed Consolidated Balance Sheet as of January 1, 2019 was as follows (in millions):

Impact on Consolidated Balance Sheets	December 31, 2018	Adjustments	January 1, 2019
Operating lease right-of-use assets	$ —	$ 259.7	$ 259.7
Total Assets	5,384.0	259.7	5,643.7
Operating lease liabilities:			
Accrued liabilities	283.6	26.6	310.2
Deferred revenue	121.7	(1.3)	120.4
Noncurrent operating lease liabilities	—	243.9	243.9
Other long-term liabilities	122.2	(10.3)	111.9
Total Liabilities	4,186.8	258.8	4,445.6
Retained earnings	1,162.1	0.9	1,163.0
Total Liabilities and Stockholders' Equity	5,384.0	259.7	5,643.7

LITHIA MOTORS, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth our unaudited quarterly financial data (in millions, except per share amounts):(1)

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	2019	$ 2,849.7	$ 3,221.7	$ 3,332.4	$ 3,269.0
	2018	2,659.7	3,096.5	3,092.0	2,973.2
Gross profit	2019	450.7	493.6	510.9	498.6
	2018	408.1	460.7	466.2	441.9
Operating income	2019	108.6	116.9	146.8	122.8
	2018	93.8	108.6	137.6	107.1
Income before income taxes	2019	77.8	85.5	117.4	94.7
	2018	69.8	80.8	109.0	78.0
Net income	2019	56.4	61.9	85.2	68.0
	2018	52.1	60.7	93.1	59.9
Basic net income per share	2019	2.43	2.65	3.67	2.92
	2018	2.08	2.45	3.85	2.55
Diluted net income per share	2019	2.42	2.63	3.64	2.89
	2018	2.07	2.44	3.84	2.54

(1) Quarterly data may not add to yearly totals due to rounding.

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Lithia Motors, Inc.:

We consent to the incorporation by reference in the registration statement (Nos. 333-190192, 333-43593, 333-69169, 333-156410, 333-39092, 333-61802, 333-106686, 333-116839, 333-116840, 333-135350, 333-161590, 333-168737, 333-231255) on Forms S-8 of Lithia Motors, Inc. of our reports dated February 21, 2020, with respect to the consolidated balance sheets of Lithia Motors as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of Lithia Motors, Inc.

Our report on the effectiveness of internal control over financial reporting as of December 31, 2019 contains an explanatory paragraph stating that management excluded from its assessment of the effectiveness of Lithia Motors, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2019 nine acquired stores' internal control over financial reporting. The total assets of these nine stores represented approximately 4% of consolidated total assets as of December 31, 2019 and approximately 2% of consolidated revenues for the year ended December 31, 2019. Our audit of internal control over financial reporting for Lithia Motors, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of these nine stores.

/s/ KPMG LLP

Portland, Oregon
February 21, 2020

EXHIBIT 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

I, Bryan B. DeBoer, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2020

/s/ Bryan B. DeBoer
Bryan B. DeBoer
President and Chief Executive Officer
Lithia Motors, Inc.

EXHIBIT 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

I, Tina Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2020

/s/ Tina Miller
Tina Miller
Senior Vice President and Chief Financial Officer
Lithia Motors, Inc.

EXHIBIT 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**

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan B. DeBoer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bryan B. DeBoer
Bryan B. DeBoer
President and Chief Executive Officer
Lithia Motors, Inc.
February 28, 2020

EXHIBIT 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

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Miller, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tina Miller
Tina Miller
Senior Vice President and Chief Financial Officer
Lithia Motors, Inc.
February 28, 2020