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

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2020
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __ to ___

Commission file number: **001-14733**

LITHIA MOTORS, INC.

(Exact name of registrant as specified in its charter)

Oregon	**93-0572810**
(State or other jurisdiction of incorporation or organization)	(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

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 such files). Yes X No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "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 Exchange Act). Yes ☐ No X

As of October 23, 2020, there were 26,124,291 shares of the registrant's Class A common stock outstanding and 400,000 shares of the registrant's Class B common stock outstanding.

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

	September 30, 2020	December 31, 2019
Assets		
Current Assets:		
Cash and cash equivalents	$ 57.1	$ 84.0
Accounts receivable, net of allowance for doubtful accounts of $6.3 and $7.3	511.7	505.0
Inventories, net	2,128.7	2,433.7
Other current assets	52.9	47.8
Total Current Assets	2,750.4	3,070.5
Property and equipment, net of accumulated depreciation of $326.1 and $284.3	1,798.3	1,611.7
Operating lease right-of-use assets	266.5	251.9
Goodwill	592.2	454.6
Franchise value	355.5	306.7
Other non-current assets	632.8	388.5
Total Assets	$ 6,395.7	$ 6,083.9
Liabilities and Stockholders' Equity		
Current Liabilities:		
Floor plan notes payable	$ 310.3	$ 425.2
Floor plan notes payable: non-trade	1,293.2	1,642.4
Current maturities of long-term debt	56.5	39.3
Trade payables	150.2	125.3
Accrued liabilities	402.2	336.9
Total Current Liabilities	2,212.4	2,569.1
Long-term debt, less current maturities	1,799.0	1,430.6
Deferred revenue	150.7	137.9
Deferred income taxes	135.7	131.1
Non-current operating lease liabilities	250.7	238.5
Other long-term liabilities	152.8	109.0
Total Liabilities	4,701.3	4,616.2
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 22.4 and 22.6	5.9	20.5
Class B common stock - no par value; authorized 25.0 shares; issued and outstanding 0.4 and 0.6	0.1	0.1
Additional paid-in capital	36.4	46.0
Accumulated other comprehensive loss	(6.8)	(0.7)
Retained earnings	1,658.8	1,401.8
Total Stockholders' Equity	1,694.4	1,467.7
Total Liabilities and Stockholders' Equity	$ 6,395.7	$ 6,083.9

See accompanying condensed notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenues:				
New vehicle retail	$ 1,883.3	$ 1,824.8	$ 4,624.6	$ 4,993.3
Used vehicle retail	1,093.2	916.3	2,889.7	2,632.4
Used vehicle wholesale	98.8	74.4	216.8	233.5
Finance and insurance	160.5	136.3	407.2	382.7
Service, body and parts	359.5	340.5	964.9	993.3
Fleet and other	24.9	40.1	79.3	168.6
Total revenues	3,620.2	3,332.4	9,182.5	9,403.8
Cost of sales:				
New vehicle retail	1,743.2	1,724.8	4,314.2	4,711.9
Used vehicle retail	948.4	816.6	2,556.8	2,355.0
Used vehicle wholesale	91.2	73.3	206.5	229.7
Service, body and parts	163.6	169.0	456.5	492.2
Fleet and other	22.2	37.8	71.6	159.8
Total cost of sales	2,968.6	2,821.5	7,605.6	7,948.6
Gross profit	651.6	510.9	1,576.9	1,455.2
Asset impairments	—	—	7.9	0.5
Selling, general and administrative	389.1	343.2	1,039.6	1,021.5
Depreciation and amortization	22.9	20.9	67.3	60.9
Operating income	239.6	146.8	462.1	372.3
Floor plan interest expense	(6.1)	(17.9)	(28.3)	(55.5)
Other interest expense, net	(16.6)	(14.8)	(50.4)	(45.0)
Other income, net	2.2	3.3	8.2	8.9
Income before income taxes	219.1	117.4	391.6	280.7
Income tax provision	(60.3)	(32.2)	(108.9)	(77.2)
Net income	$ 158.8	$ 85.2	$ 282.7	$ 203.5
Basic net income per share	$ 6.95	$ 3.67	$ 12.30	$ 8.77
Shares used in basic per share calculations	22.9	23.2	23.0	23.2
Diluted net income per share	$ 6.86	$ 3.64	$ 12.18	$ 8.72
Shares used in diluted per share calculations	23.1	23.4	23.2	23.3
Cash dividends paid per Class A and Class B share	$ 0.31	$ 0.30	$ 0.91	$ 0.89

See accompanying condensed notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net income	$ 158.8	$ 85.2	$ 282.7	$ 203.5
Other comprehensive loss, net of tax:				
Gain (loss) on cash flow hedges, net of tax (expense) benefit of ($0.1), $0.4, $2.2, and $0.7, respectively	0.4	(1.0)	(6.1)	(1.9)
Comprehensive income	$ 159.2	$ 84.2	$ 276.6	$ 201.6

See accompanying condensed notes to consolidated financial statements.

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

Three and Nine Months Ended September 30, 2020

	Common Stock							
	Class A		Class B					
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Gain (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2019	22.6	$ 20.5	0.6	$ 0.1	$ 46.0	$ (0.7)	$ 1,401.8	$ 1,467.7
Net income	—	—	—	—	—	—	46.2	46.2
Loss on cash flow hedges, net of tax benefit of $1.8	—	—	—	—	—	(5.1)	—	(5.1)
Issuance of stock in connection with employee stock plans	—	2.6	—	—	—	—	—	2.6
Issuance of restricted stock to employees	0.1	—	—	—	—	—	—	—
Repurchase of Class A common stock	(0.5)	(32.0)	—	—	(16.2)	—	—	(48.2)
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	8.9	—	—	(3.8)	—	—	5.1
Dividends paid	—	—	—	—	—	—	(7.0)	(7.0)
Adjustment to adopt ASC 326	—	—	—	—	—	—	(4.8)	(4.8)
Balance at March 31, 2020	22.2	—	0.6	0.1	26.0	(5.8)	1,436.2	1,456.5
Net income	—	—	—	—	—	—	77.7	77.7
Loss on cash flow hedges, net of tax benefit of $0.5	—	—	—	—	—	(1.4)	—	(1.4)
Issuance of stock in connection with employee stock plans	—	3.5	—	—	—	—	—	3.5
Repurchase of Class A common stock	—	(2.3)	—	—	—	—	—	(2.3)
Class B common stock converted to Class A common stock	0.2	—	(0.2)	—	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	0.9	—	—	4.1	—	—	5.0
Dividends paid	—	—	—	—	—	—	(6.8)	(6.8)
Balance at June 30, 2020	22.4	2.1	0.4	0.1	30.1	(7.2)	1,507.1	1,532.2
Net income	—	—	—	—	—	—	158.8	158.8
Gain on cash flow hedges, net of tax expense of $0.1	—	—	—	—	—	0.4	—	0.4
Issuance of stock in connection with employee stock plans	—	3.1	—	—	—	—	—	3.1
Repurchase of Class A common stock	—	(0.1)	—	—	—	—	—	(0.1)
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	0.8	—	—	6.3	—	—	7.1
Dividends paid	—	—	—	—	—	—	(7.1)	(7.1)
Balance at September 30, 2020	22.4	$ 5.9	0.4	$ 0.1	$ 36.4	$ (6.8)	$ 1,658.8	$ 1,694.4

See accompanying condensed notes to consolidated financial statements.

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

Three and Nine Months Ended September 30, 2019

	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, 2018	22.0	$ —	1.0	$ 0.1	$ 35.0	$ —	$ 1,162.1	$ 1,197.2
Net income	—	—	—	—	—	—	56.4	56.4
Issuance of stock in connection with employee stock plans	—	2.3	—	—	—	—	—	2.3
Issuance of restricted stock to employees	0.1	—	—	—	—	—	—	—
Repurchase of Class A common stock	—	(3.1)	—	—	—	—	—	(3.1)
Class B common stock converted to Class A common stock	0.2	—	(0.2)	—	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	10.5	—	—	(7.0)	—	—	3.5
Dividends paid	—	—	—	—	—	—	(6.7)	(6.7)
Adjustment to adopt ASC 842	—	—	—	—	—	—	0.9	0.9
Balance at March 31, 2019	22.3	9.7	0.8	0.1	28.0	—	1,212.7	1,250.5
Net income	—	—	—	—	—	—	61.9	61.9
Loss on cash flow hedges, net of tax benefit of $0.3	—	—	—	—	—	(0.9)	—	(0.9)
Issuance of stock in connection with employee stock plans	0.1	2.8	—	—	—	—	—	2.8
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	0.5	—	—	3.4	—	—	3.9
Option premiums paid	—	—	—	—	(31.4)	—	(5.1)	(36.5)
Dividends paid	—	—	—	—	—	—	(7.0)	(7.0)
Balance at June 30, 2019	22.4	13.0	0.8	0.1	—	(0.9)	1,262.5	1,274.7
Net income	—	—	—	—	—	—	85.2	85.2
Loss on cash flow hedges, net of tax benefit of $0.4	—	—	—	—	—	(1.0)	—	(1.0)
Issuance of stock in connection with employee stock plans	—	2.9	—	—	—	—	—	2.9
Class B common stock converted to Class A common stock	0.2	—	(0.2)	—	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	1.0	—	—	3.4	—	—	4.4
Dividends paid	—	—	—	—	—	—	(7.0)	(7.0)
Balance at September 30, 2019	22.6	$ 16.9	0.6	$ 0.1	$ 3.4	$ (1.9)	$ 1,340.7	$ 1,359.2

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net income	$ 282.7	$ 203.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairments	7.9	0.5
Depreciation and amortization	67.3	60.9
Stock-based compensation	17.2	11.8
Gain on disposal of other assets	(0.5)	—
Gain on disposal of franchise	(1.4)	(9.1)
Deferred income taxes	6.8	39.5
(Increase) decrease (net of acquisitions and dispositions):		
Accounts receivable, net	(11.3)	69.7
Inventories	457.0	(4.1)
Other assets	7.8	22.3
Increase (decrease) (net of acquisitions and dispositions):		
Floor plan notes payable	(128.0)	83.1
Trade payables	25.0	0.1
Accrued liabilities	23.6	(36.5)
Other long-term liabilities and deferred revenue	46.5	11.8
Net cash provided by operating activities	800.6	453.5
Cash flows from investing activities:		
Capital expenditures	(125.6)	(91.9)
Proceeds from sales of assets	5.1	0.8
Cash paid for other investments	(9.9)	(6.7)
Cash paid for acquisitions, net of cash acquired	(609.5)	(142.8)
Proceeds from sales of stores	11.6	40.9
Net cash used in investing activities	(728.3)	(199.7)
Cash flows from financing activities:		
Repayments on floor plan notes payable, net: non-trade	(317.8)	(114.0)
Borrowings on lines of credit	1,740.5	2,147.0
Repayments on lines of credit	(1,485.0)	(2,209.6)
Principal payments on long-term debt and capital leases, scheduled	(20.7)	(18.0)
Principal payments on long-term debt and capital leases, other	(6.3)	(11.0)
Proceeds from issuance of long-term debt	56.5	—
Payments of debt issuance costs	(4.1)	(0.4)
Proceeds from issuance of common stock	9.2	8.0
Repurchase of common stock	(50.6)	(3.1)
Dividends paid	(20.9)	(20.7)
Other financing activity	—	(36.5)
Net cash used in financing activities	(99.2)	(258.3)
Decrease in cash and cash equivalents	(26.9)	(4.5)
Cash and cash equivalents at beginning of period	84.0	31.6
Cash and cash equivalents at end of period	$ 57.1	$ 27.1
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 82.7	$ 107.6
Cash paid during the period for income taxes, net	74.1	13.8
Floor plan debt paid in connection with store disposals	22.0	12.3
Supplemental schedule of non-cash activities:		
Debt issued in connection with acquisitions	$ —	$ 26.4
Contingent consideration in connection with acquisitions	9.7	—
ROU assets obtained in exchange for lease liabilities [1]	44.1	260.3
Acquisition of finance leases in connection with acquisitions	103.1	—

[1] The amount for the nine months ended September 30, 2019 includes the transition adjustment for the adoption of Topic 842.

See accompanying condensed notes to consolidated financial statements.

Note 1. Interim Financial Statements

Basis of Presentation

These condensed Consolidated Financial Statements contain unaudited information as of September 30, 2020, and for the three and nine months ended September 30, 2020 and 2019. The unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America for annual financial statements are not included herein. In management's opinion, these unaudited financial statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the information when read in conjunction with our 2019 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2019, is derived from our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2020. The unaudited interim condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our 2019 Annual Report on Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

In 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)," which replaces the existing incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, Topic 326 made changes to the accounting for available-for-sale debt securities. We adopted Topic 326 using a modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2020 are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. We recorded a decrease to retained earnings, net of tax, of $4.8 million as of January 1, 2020 for the cumulative effect of adopting Topic 326. The transition adjustment is related to updating our allowance for loan loss methodology related to our auto loan receivables. Our methodology incorporates a combination of historical loan loss experience, current conditions and forecasts, as well as the value of any underlying assets securing the receivables.

In April 2019, the FASB issued ASU 2019-04, "Codification Improvements," which provides guidance on accounting for credit losses on accrued interest receivable balances and guidance on including recoveries when estimating the allowance. In May 2019, the FASB issued ASU 2019-05, "Targeted Transition Relief," which allows entities with an option to elect fair value for certain instruments upon adoption of Topic 326.

The impact of adopting Topic 326 on the accompanying Consolidated Balance Sheets as of January 1, 2020 was as follows (in millions):

Impact on Consolidated Balance Sheets	December 31, 2019	Adjustments	January 1, 2020
CECL Adoption:			
Accounts receivable, net of allowance for doubtful accounts of $7.3	$ 505.0	$ (0.5)	$ 504.5
Other non-current assets	388.5	(6.0)	382.5
Total Assets	6,083.9	(6.5)	6,077.4
Deferred income taxes	131.1	(1.7)	129.4
Total Liabilities	4,616.2	(1.7)	4,614.5
Retained earnings	1,401.8	(4.8)	1,397.0
Total Liabilities and Stockholders' Equity	6,083.9	(6.5)	6,077.4

Reclassifications

Certain immaterial reclassifications of amounts previously reported have been made to the accompanying condensed Consolidated Financial Statements to maintain consistency and comparability between periods presented.

Note 2. Contract Liabilities and Assets

Contract Liabilities

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 $187.8 million and $171.5 million as of September 30, 2020, and December 31, 2019, respectively; and we recognized $7.7 million and $23.8 million of revenue in the three and nine months ended September 30, 2020, related to our contract liability balance at December 31, 2019. Our contract liability balance is included in accrued liabilities and deferred revenue.

Contract Assets

Revenue from finance and insurance sales is recognized, net of estimated charge-backs, at the time of the sale of the related 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. Our contract asset balances associated with future estimated variable consideration were $8.2 million and $8.9 million as of September 30, 2020 and December 31, 2019, respectively; and are included in trade receivables and other non-current assets.

Note 3. Accounts Receivable and Contract Assets

Accounts receivable consisted of the following (in millions):

	September 30, 2020	December 31, 2019
Contracts in transit	$ 235.9	$ 269.7
Trade receivables	56.7	52.8
Vehicle receivables	55.3	50.9
Manufacturer receivables	107.1	112.4
Auto loan receivables	95.8	62.2
Other receivables	33.5	19.4
	584.3	567.4
Less: Allowance for doubtful accounts	(6.3)	(7.3)
Less: Long-term portion of accounts receivable, net	(66.3)	(55.1)
Total accounts receivable, net	$ 511.7	$ 505.0

Accounts receivable classifications include the following:

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

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

The balance of auto loan receivables is made up primarily of sub-prime loans secured by the related vehicle. More than 95% of the portfolio is aged less than 60 days past due with less than 5% on non-accrual status. As of September 30, 2020, the allowance for credit losses related to auto loan receivables was $13.9 million and included in allowance for doubtful accounts and other non-current assets. In accordance with Topic 326, the allowance for loan losses is estimated based on our historical write-off experience, current conditions and forecasts as well as the value of any underlying assets securing these loans and is reviewed monthly. Consideration is given to recent delinquency trends and recovery rates. Account balances are charged against the allowance upon reaching 120 days past due status. The annual activity for charges and subsequent recoveries is immaterial. The remainder of our receivables are due primarily from manufacturer partners and various third-party lenders. The historical losses related to these balances are immaterial.

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

Note 4. Inventories

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

	September 30, 2020	December 31, 2019
New vehicles	$ 1,271.0	$ 1,704.1
Used vehicles	765.2	638.1
Parts and accessories	92.5	91.5
Total inventories	$ 2,128.7	$ 2,433.7

Note 5. Goodwill and Franchise Value

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

	Domestic	Import	Luxury	Consolidated
Balance as of December 31, 2018 [1]	$ 164.5	$ 188.9	$ 81.5	$ 434.9
Adjustments to purchase price allocations [2]	1.6	1.6	1.9	5.1
Additions through acquisitions [2]	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
Additions through acquisitions [3]	32.0	92.9	17.0	141.9
Reductions through divestitures	(0.1)	(0.7)	—	(0.8)
Reductions from impairments	(0.5)	(3.0)	—	(3.5)
Balance as of September 30, 2020	$ 203.2	$ 286.5	$ 102.5	$ 592.2

[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 2018 acquisitions were finalized in 2019. As a result, we added $22.5 million of goodwill.
[3] Our purchase price allocation for a portion of the 2019 acquisitions was finalized in 2020. As a result, we added $141.9 million of goodwill. Our purchase price allocation for the remaining 2019 and 2020 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 13.

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

	Franchise Value
Balance as of December 31, 2018	$ 288.7
Adjustments to purchase price allocations [1]	3.5
Additions through acquisitions [1]	20.9
Reductions through divestitures	(6.0)
Reductions from impairments	(0.4)
Balance as of December 31, 2019	306.7
Additions through acquisitions [2]	53.9
Reductions through divestitures	(0.7)
Reductions from impairments	(4.4)
Balance as of September 30, 2020	$ 355.5

[1] Our purchase price allocation for the 2018 acquisitions were finalized in 2019. As a result, we added $24.4 million of franchise value.
[2] Our purchase price allocation for a portion of the 2019 acquisitions was finalized in 2020. As a result, we added $53.9 million of franchise value. Our purchase price allocation for the remaining 2019 and 2020 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 13.

Note 6. Credit Facilities and Long-term Debt

On July 14, 2020, we entered into a five-year real-estate backed facility with eight financial institutions, including two manufacturer affiliated finance companies, maturing in July 2025. The real-estate backed credit facility provides a total financing commitment of up to $254.7 million in working capital financing for general corporate purposes, including acquisitions and working capital, collateralized by real estate and certain other assets owned by us. The interest rate on this credit facility uses one-month LIBOR plus a margin ranging from 2.00% to 2.50% based on our leverage ratio, or a base rate of 0.75% plus a margin. The facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. Financial covenants include requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, consistent with those under the our existing syndicated credit facility with U.S. Bank National Association as administrative agent. As of September 30, 2020, no amounts were outstanding on the real-estate backed facility.

On July 31, 2020, we entered into a securitization facility which provides initial commitments for borrowings of up to $100 million, which may be increased to $150 million in certain circumstances, and matures in July 2022. As of September 30, 2020, we had $12.5 million drawn on the securitization facility, which is recorded as part of Long-term debt, less current maturities in the Consolidated Balance Sheets.

Note 7. Stockholders' Equity

Repurchases of Class A Common Stock
Repurchases of our Class A Common Stock occurred under a repurchase authorization 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 an additional $250 million repurchase authorization of our Class A common stock, increasing our total share repurchase authorization to $500 million. Share repurchases under this authorization were as follows:

	Repurchases Occurring in 2020		Cumulative Repurchases as of September 30, 2020	
	Shares	Average Price	Shares	Average Price
Share Repurchase Authorization	563,953	$ 81.71	3,719,048	$ 84.02

As of September 30, 2020, we had $187.5 million available for repurchases pursuant to our share repurchase authorization.

In addition, during 2020, we repurchased 30,143 shares at an average price of $147.12 per share, for a total of $4.4 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.

ATM Equity Offering
On July 24, 2020, we entered into an ATM Equity Offering Sales Agreement, which allows us to offer and sell, from time to time, shares of our Class A common stock, no par value, having an aggregate gross sales price of up to $400 million. The shares will be issued pursuant to a registration statement on Form S-3 (File No. 333-239969), which became effective upon its filing on July 21, 2020. Under this agreement, we may enter into forward share purchase transactions. As of September 30, 2020, no amounts have been issued in relation to the ATM Equity Offering Sales Agreement.

Note 8. 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 that 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 September 30, 2020, our real estate mortgages and other debt, which includes capital leases, had maturity dates between October 31, 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 nine-month period ended September 30, 2020.

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

Fair Value at September 30, 2020	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Derivative contract, net	$ —	$ 9.2	$ —

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):

	September 30, 2020	**December 31, 2019**
Carrying value		
5.250% Senior notes due 2025	$ 300.0	$ 300.0
4.625% Senior notes due 2027	400.0	400.0
Real estate mortgages and other debt	605.9	466.6
	$ 1,305.9	$ 1,166.6
Fair value		
5.250% Senior notes due 2025	$ 309.0	$ 315.0
4.625% Senior notes due 2027	406.5	412.0
Real estate mortgages and other debt	603.7	468.7
	$ 1,319.2	$ 1,195.7

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. During the second quarter of 2020, there were indications of a triggering event at certain locations. We tested the goodwill and franchise value for these locations. As a result, 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 $3.5 million and $4.4 million, which was equal to the difference between the fair value and the carrying value for goodwill and franchise value, respectively. The impairment charges for both goodwill and franchise value reduced the carrying value to zero at these locations. 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 9. 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 common shares underlying equity awards that are unvested or subject to forfeiture. 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 common shares issuable upon the net exercise of stock options and unvested RSUs and is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

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

The 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):

Three Months Ended September 30,	**2020**		**2019**	
(in millions, except per share data)	**Class A**	**Class B**	**Class A**	**Class B**
Net income applicable to common stockholders - basic	$ 156.0	$ 2.8	$ 83.0	$ 2.2
Reallocation of net income due to conversion of Class B to Class A common shares outstanding	0.2	—	0.2	—
Conversion of Class B common shares into Class A common shares	2.6	—	2.0	—
Net income applicable to common stockholders - diluted	$ 158.8	$ 2.8	$ 85.2	$ 2.2
Weighted average common shares outstanding – basic	22.5	0.4	22.6	0.6
Conversion of Class B common shares into Class A common shares	0.4	—	0.6	—
Effect of dilutive stock options on weighted average common shares	0.2	—	0.2	—
Weighted average common shares outstanding – diluted	23.1	0.4	23.4	0.6
Net income per common share - basic	$ 6.95	$ 6.95	$ 3.67	$ 3.67
Net income per common share - diluted	$ 6.86	$ 6.86	$ 3.64	$ 3.64

The effect of antidilutive securities on Class A and Class B common stock was evaluated for the three-month periods ended September 30, 2020, and 2019 and was determined to be immaterial.

Nine Months Ended September 30,	2020		2019	
(in millions, except per share data)	**Class A**	**Class B**	**Class A**	**Class B**
Net income applicable to common stockholders - basic	$ 276.4	$ 6.3	$ 198.2	$ 5.3
Reallocation of net income due to conversion of Class B to Class A common shares outstanding	0.5	—	0.6	—
Conversion of Class B common shares into Class A common shares	5.8	—	4.7	—
Net income applicable to common stockholders - diluted	$ 282.7	$ 6.3	$ 203.5	$ 5.3
Weighted average common shares outstanding – basic	22.5	0.5	22.6	0.6
Conversion of Class B common shares into Class A common shares	0.5	—	0.6	—
Effect of employee stock purchases and restricted stock units on weighted average common shares	0.2	—	0.1	—
Weighted average common shares outstanding – diluted	23.2	0.5	23.3	0.6
Net income per common share - basic	$ 12.29	$ 12.29	$ 8.77	$ 8.77
Net income per common share - diluted	$ 12.18	$ 12.18	$ 8.72	$ 8.72

The effect of antidilutive securities on Class A and Class B common stock was evaluated for the nine-month periods ended September 30, 2020, and 2019 and was determined to be immaterial.

Note 10. Segments

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 and Lexus. The franchises in each segment also sell used vehicles, parts and automotive services, as well as automotive finance and insurance products.

Corporate and other revenue and income includes the results of operations of our stand-alone body shops 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 reportable 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 who 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 does not regularly review capital expenditures on a reporting unit level. Performance measurement of each reportable segment by the CODM are based on several metrics, including earnings from operations. The CODM uses these results, in part, to evaluate the performance of and to allocate resources, mainly associated with expected inventory and working capital requirements, to each of the reportable segments.

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Revenues:				
Domestic				
New vehicle retail	$ 621.3	$ 613.0	$ 1,591.0	$ 1,682.7
Used vehicle retail	378.8	328.1	1,096.4	949.6
Used vehicle wholesale	31.9	30.3	77.7	89.5
Finance and insurance	53.2	48.1	149.2	137.2
Service, body and parts	118.0	122.8	337.5	359.2
Fleet and other	11.5	15.5	35.1	47.6
	1,214.7	1,157.8	3,286.9	3,265.8
Import				
New vehicle retail	822.9	824.8	1,995.9	2,198.1
Used vehicle retail	451.9	380.9	1,152.6	1,085.7
Used vehicle wholesale	42.2	28.4	88.6	85.3
Finance and insurance	81.1	65.2	195.0	180.9
Service, body and parts	141.3	129.2	371.3	374.2
Fleet and other	11.1	9.2	28.9	38.1
	1,550.5	1,437.7	3,832.3	3,962.3
Luxury				
New vehicle retail	440.8	387.0	1,039.0	1,110.2
Used vehicle retail	261.8	206.7	642.5	596.0
Used vehicle wholesale	24.8	16.4	50.3	59.0
Finance and insurance	25.6	19.2	60.2	54.1
Service, body and parts	96.0	84.9	244.8	248.0
Fleet and other	1.9	15.2	13.9	81.7
	850.9	729.4	2,050.7	2,149.0
	3,616.1	3,324.9	9,169.9	9,377.1
Corporate and other	4.1	7.5	12.6	26.7
	$ 3,620.2	$ 3,332.4	$ 9,182.5	$ 9,403.8
Segment income[1]:				
Domestic	$ 81.1	$ 37.9	$ 168.3	$ 94.1
Import	102.6	48.3	176.2	117.8
Luxury	39.2	13.0	53.1	36.5
Total segment income for reportable segments	$ 222.9	$ 99.2	$ 397.6	$ 248.4

[1]Segment income for each of the segments is defined as income before income taxes, depreciation and amortization, other interest expense and other income, net.

Reconciliation of total segment income for reportable segments to our consolidated income before income taxes.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total segment income for reportable segments	$ 222.9	$ 99.2	$ 397.6	$ 248.4
Corporate and other	33.5	50.6	103.5	129.3
Depreciation and amortization	(22.9)	(20.9)	(67.3)	(60.9)
Other interest expense	(16.6)	(14.8)	(50.4)	(45.0)
Other income, net	2.2	3.3	8.2	8.9
Income before income taxes	$ 219.1	$ 117.4	$ 391.6	$ 280.7

	September 30, 2020	December 31, 2019
Total assets:		
Domestic	$ 1,249.9	$ 1,467.6
Import	1,477.7	1,306.5
Luxury	869.3	945.2
Corporate and other	2,798.8	2,364.6
	$ 6,395.7	$ 6,083.9

Note 11. Leases

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 nonlease 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 25 years or more. 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 no contain any material residual value guarantees or material restrictive covenants.

In the third quarter of 2020, $103.1 million in finance leases were added to long-term debt, with the current portion included in current maturities of long-term debt. The related assets are included in property, plant and equipment, net of accumulated amortization. These amounts are related to leases entered into as part of certain 2020 acquisitions, and valuations are still preliminary. We expect additional finance leases to be recorded in the fourth quarter related to certain third quarter 2020 acquisitions. These amounts are included in other non-current assets until we finalize our purchase accounting

We rent or sublease certain real estate to third parties.

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 $1.3 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 September 30, 2020, we have had a total loss of $9.2 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 offsets in our deferred tax liability and AOCI. As of September 30, 2020, the amount of net losses we expect to reclassify from AOCI into interest expense in earnings within the next twelve months is $2.7 million. The actual amount reclassified could vary due to future changes in the fair value of the derivative. We reclassified $0.7 million and $1.1 million from AOCI for the three and nine months ended September 30, 2020, respectively. No amounts were reclassified from AOCI in 2019.

Note 13. Acquisitions

In the first nine months of 2020, we completed the following acquisitions:

- In February 2020, Sacramento Lexus and Roseville Lexus in California.
- In June 2020, Hank's Body Shop in Billings, Montana.
- In June 2020, Chrysler Dodge Jeep Ram of Bend and Nissan of Bend in Oregon.
- In July 2020, Subaru of Thousand Oaks in California.
- In July 2020, BMW of San Francisco in California.
- In August 2020, John Eagle Auto Group, a ten store platform in Texas.
- In September 2020, Knoxville Chrysler Dodge Jeep Ram in Tennessee.

Revenue and operating income contributed by the 2020 acquisitions subsequent to the date of acquisition were as follows (in millions):

Nine Months Ended September 30,		**2020**
Revenue	$	261.3
Operating income		9.2

In the first nine months of 2019, we completed the following acquisitions:

- In May 2019, Hamilton Honda in Hamilton Township, New Jersey.
- In May 2019, Ford Lincoln of Morgantown in Morgantown, West Virginia.
- In July 2019, Mission Viejo Jaguar Land Rover in Mission Viejo, California.
- In August 2019, Hazleton Honda in Hazleton, Pennsylvania.

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 for the 2020 acquisitions and the amount of identified assets acquired and liabilities assumed as of the acquisition date (in millions):

		Consideration
Cash paid, net of cash acquired	$	609.5

The purchase price allocations for the Sacramento Lexus, Roseville Lexus, Chrysler Dodge Jeep Ram of Bend, Nissan of Bend, Subaru of Thousand Oaks, BMW of San Francisco, the John Eagle Auto Group, and Knoxville Chrysler Dodge Jeep Ram acquisitions are preliminary, and we have not obtained and evaluated all of the detailed information necessary to finalize the opening balance sheet amounts in all respects. We recorded the purchase price allocations based upon information that is currently available. Unallocated items are recorded as a component of other non-current assets in the Consolidated Balance Sheets. The following table details the preliminary purchase price allocations for the 2020 acquisitions (in millions):

	Assets Acquired and Liabilities Assumed
Accounts receivable	$ 0.2
Inventories, net	189.3
Property and equipment, net	125.8
Other non-current assets	416.5
Floor plan notes payable	(13.1)
Debt and finance lease obligations	(103.1)
Other long-term liabilities	(6.1)
	$ 609.5

We expect substantially all of the goodwill related to acquisitions completed in 2020 to be deductible for federal income tax purposes.

In the three and nine-month periods ended September 30, 2020, we recorded $0.6 million and $1.6 million, respectively, in acquisition-related expenses as a component of selling, general and administrative expense. Comparatively, we recorded $0.2 million and $1.9 million of acquisition-related expenses in each of the same periods in 2019.

The following unaudited pro forma summary presents consolidated information as if all acquisitions in the three and nine-month periods ended September 30, 2020 and 2019, had occurred on January 1, 2019 (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	$ 3,745.3	$ 3,738.3	$ 10,000.7	$ 10,548.8
Net income	160.1	92.3	291.9	220.4
Basic net income per share	7.01	3.97	12.71	9.50
Diluted net income per share	6.92	3.94	12.58	9.44

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 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 nonrecurring proforma adjustments directly attributable to the acquisitions are included in the reported proforma revenues and earnings.

Note 14. Recent Accounting Pronouncements

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 15. Subsequent Events

Issuance of Common Stock

On October 5, 2020, we completed the public offering of 3,659,091 shares of our Class A common stock, no par value per share, which included the exercise in full by the underwriters of their option to purchase up to 477,272 additional shares of our Class A common stock, for total net proceeds of approximately $777 million.

4.375% Senior Notes Due 2031

On October 9, 2020, we issued $550 million in aggregate principal amount of 4.375% Senior Notes due 2031 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 October 9, 2020 and is payable semiannually on January 15 and July 15. We may redeem the Senior Notes in whole or in part, on or after October 15, 2025, at the redemption prices set forth in the Indenture. Prior to October 15, 2025, 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 October 15, 2025, 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.

Investment in Shift Technologies, Inc.

On October 13, 2020, Shift Technologies, Inc. ("Shift") merged with Insurance Acquisition Corp., a publicly listed company. Shift was the surviving company that was subsequently listed on the NYSE. Our investment in Shift will be converted to a minority equity investment and will have a readily determinable fair value. The fair value will be updated at each reporting period and will be based upon the quoted price in active markets for the identical asset (Level 1). As of September 30, 2020, our investment in Shift was $64.0 million and was included as a component of other non-current assets in the Consolidated Balance Sheets.

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

Forward-Looking Statements and Risk Factors
Certain statements under the sections entitled "Management’s Discussion and Analysis of Financial Condition and Results of Operations” and "Risk Factors” and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of the "Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Generally, you can identify forward-looking statements by terms such as "project”, "outlook”, "target”, "may”, "will”, "would”, "should”, "seek”, "expect”, "plan”, "intend”, "forecast”, "anticipate”, "believe”, "estimate”, "predict”, "potential”, "likely”, "goal”, "strategy”, "future”, "maintain”, and "continue” or the negative of these terms or other comparable terms. Examples of forward-looking statements in this Form 10-Q include, among others, statements we make regarding:

- Future market conditions, including anticipated car sales levels;
- Anticipated impacts on consumer demand or governmental restrictions related to the COVID-19 pandemic or otherwise;
- Expected level of business interruption due to shelter in place policies or lifting of those restrictions, and when volumes and consumer demand will return;
- Continuation of our sales and services, including in-store appointments and home deliveries;
- Expectations regarding our inventory levels and manufacturer and lender incentives;
- Expected growth from our ecommerce home solutions and digital strategies;
- Expected operating results, such as improved store performance; continued improvement of selling, general and administrative expenses ("SG&A”) as a percentage of gross profit and all projections;
- Anticipated integration, success and growth of acquired stores;
- Anticipated ability to capture additional market share;
- Anticipated ability to find accretive acquisitions;
- Expected revenues from acquired stores;
- Anticipated synergies, ability to monetize our investment in digital innovation;
- Anticipated additions of dealership locations to our portfolio in the future;
- Anticipated financial condition and liquidity, including from our cash, availability on our credit facility and unfinanced real estate;
- Anticipated use of proceeds from our financings;
- Anticipated allocations, uses and levels of capital expenditures in the future;
- Expectations regarding compliance with financial and restrictive covenants in our credit facility and other debt agreements;
- Statements regarding furloughed employees and cost reductions; and
- Our strategies for customer retention, growth, market position, financial results and risk management.

The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our actual results to materially differ from the results expressed or implied by these statements. Certain important factors that could cause actual results to differ from our expectations are discussed in Part II - Other Information, Item 1A in this Form 10-Q and in the Risk Factors section of our 2019 Annual Report on Form 10-K, as supplemented and amended from time to time in Quarterly Reports on Form 10-Q and our other filings with the Securities and Exchange Commission ("SEC”).

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

Overview
Lithia Motors, Inc. is a growth company powered by people and innovation with a long-term plan to profitably consolidate the largest retail sector in our country. As a leading provider of personal transportation solutions reaching 92% of the United States, we are among the fastest growing companies in the Fortune 500 (#252-2020). As of September 30, 2020, we operated 201 locations representing 30 brands in 21 states. We increase market share and optimize profitability by focusing on the consumer experience and applying proprietary performance measurement systems fueled by data science. This unique growth model generates significant cash flows, which funds innovation and the expansion of our nationwide network, creating personal transportation solutions wherever, whenever and however consumers desire.

We offer a wide array of products and services fulfilling the entire vehicle ownership lifecycle including new and used vehicles, finance and insurance products and automotive repair and maintenance. We strive for diversification in our products, services, brands and geographic locations to reduce dependence on any one manufacturer, reduce susceptibility to changing consumer preferences, manage market risk and maintain profitability. Our diversification along with our operating structure provides a resilient and nimble business model.

We seek to provide customers a seamless, blended online and physical retail experience with broad selection and access to specialized expertise and knowledge. Our physical network enables us to provide convenient touch points for customers and provide services throughout the vehicle life cycle. In July 2020, we introduced Driveway, a convenient, simple and transparent platform that will serve as our ecommerce home solution and allow us to deliver proprietary and differentiated digital experiences. Driveway will allow us to further activate our physical network and capture additional earnings.

Our long-term strategy and value creation for our customers, employees and shareholders remains consistent with the following elements:

Driving operational excellence, innovation and diversification
We remain focused on improving performance through increasing market share and profitability at each of our locations. By promoting an entrepreneurial model, we build strong businesses responsive to each of our local markets. Utilizing performance-based action plans, we strive to increase market share, drive operational performance, develop high-performing teams and foster manufacturer relationships.

In response to evolving consumer preferences, we invest in modernization that supports and expands our core business. These digital strategies combine our experienced, knowledgeable workforce with our owned inventory and physical network of stores, enabling us to be agile and adapt to consumer preferences and market specific conditions. Our investments in modernization are well under way and are taking hold with our teams as they provide digital shopping experiences, contactless test drives and home delivery or curbside pickup for vehicle purchases. Our people and these engines will be powering our future national brands overlaying our physical footprint to attract a larger population of digital consumers seeking transparent, empowered, flexible and simple buying and servicing experiences.

Our performance-based culture is geared toward an incentive-based compensation structure for a majority of our personnel. We develop pay plans that are measured based upon various factors such as customer satisfaction, profitability and individual performance metrics. These plans serve to reward team members for creating customer loyalty, achieving store potential, developing high-performing talent, meeting and exceeding manufacturer requirements and living our core values.

We have centralized many administrative functions to drive efficiencies and streamline store-level operations. The reduction of administrative functions at our stores allows our local managers to focus on customer-facing opportunities to increase revenues and gross profit. Our operations are supported by regional and corporate management, as well as dedicated training and personnel development programs which allow us to share best practices across our network and develop management talent.

Growth through acquisition and network optimization
Our disciplined approach focuses on acquiring new vehicle franchises, which operate in markets ranging from mid-sized regional markets to metropolitan markets. Acquisition of these businesses increase our proximity to the consumer throughout the six regions of the United States. While we target an annual after tax return of more than 15% for our acquisitions, we have averaged over a 25% return by the third year of ownership due to a disciplined approach focusing on accretive, cash flow positive targets at reasonable valuations. Culturally, we have a greater than 95% employee retention rate, demonstrating the valuable career opportunities we provide to our employees. In addition to being financially accretive, our acquisitions drive network growth that improves our ability to serve customers through wider selection, greater density and access to customers and ability to leverage national branding and advertising. We regularly optimize and balance our network through strategic divestitures to ensure continued high performance. We believe our disciplined approach provides us with attractive acquisition opportunities and expanded coast-to-coast coverage.

Thoughtful capital allocation
Our capital deployment strategy continues to target a 65% investment in acquisitions, 25% investment in capital expenditures, modernization and diversification and 10% in shareholder return in the form of dividends and share repurchases. This disciplined approach, combined with our ability to successfully integrate newly-acquired locations, drives growth and profitability.

Key Revenue and Gross Profit Metrics
Key performance metrics for revenue and gross profit were as follows (dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Revenues						
New vehicle retail	$ 1,883.3	$ 1,824.8	3.2 %	$ 4,624.6	$ 4,993.3	(7.4) %
Used vehicle retail	1,093.2	916.3	19.3	2,889.7	2,632.4	9.8
Finance and insurance	160.5	136.3	17.8	407.2	382.7	6.4
Service, body and parts	359.5	340.5	5.6	964.9	993.3	(2.9)
Total Revenues	3,620.2	3,332.4	8.6	9,182.5	9,403.8	(2.4)
Gross profit						
New vehicle retail	$ 140.1	$ 100.0	40.1 %	$ 310.4	$ 281.4	10.3 %
Used vehicle retail	144.8	99.7	45.2	332.9	277.4	20.0
Finance and insurance	160.5	136.3	17.8	407.2	382.7	6.4
Service, body and parts	195.9	171.5	14.2	508.4	501.1	1.5
Total Gross Profit	651.6	510.9	27.5	1,576.9	1,455.2	8.4
Gross profit margins						
New vehicle retail	7.4%	5.5%	190 bps	6.7%	5.6%	110 bps
Used vehicle retail	13.2	10.9	230	11.5	10.5	100
Finance and insurance	100.0	100.0	—	100.0	100.0	—
Service, body and parts	54.5	50.5	400	52.7	50.4	230
Total Gross Profit Margin	18.0	15.3	270	17.2	15.5	170
Retail units sold						
New vehicles	47,923	48,508	(1.2) %	118,699	134,090	(11.5) %
Used vehicles	49,363	44,143	11.8	135,499	127,683	6.1
Average selling price per retail unit						
New vehicles	$ 39,298	$ 37,618	4.5 %	$ 38,960	$ 37,238	4.6 %
Used vehicles	22,145	20,756	6.7	21,326	20,617	3.4
Average gross profit per retail unit						
New vehicles	$ 2,922	$ 2,061	41.8 %	$ 2,615	$ 2,098	24.6 %
Used vehicles	2,932	2,258	29.8	2,457	2,173	13.1
Finance and insurance	1,649	1,471	12.1	1,602	1,462	9.6
Total vehicle[1]	4,655	3,638	28.0	4,173	3,611	15.6

[1] Includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

Same Store Operating Data

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

Same store measures reflect results for stores that were operating in each comparison period and only include the months when operations occurred in both periods. For example, a store acquired in August 2019 would be included in same store operating data beginning in September 2020, after its first full complete comparable month of operation. The third quarter operating results for the same store comparisons would include results for that store in only the month of September for both comparable periods.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Revenues						
New vehicle retail	$ 1,714.1	$ 1,793.7	(4.4) %	$ 4,265.0	$ 4,886.6	(12.7) %
Used vehicle retail	998.3	897.9	11.2	2,693.9	2,566.4	5.0
Finance and insurance	142.5	133.7	6.6	372.9	373.7	(0.2)
Service, body and parts	324.3	334.1	(2.9)	891.5	966.4	(7.8)
Total Revenues	3,294.7	3,272.7	0.7	8,501.1	9,185.4	(7.4)
Gross profit						
New vehicle retail	$ 130.0	$ 98.9	31.4 %	$ 287.8	$ 276.5	4.1 %
Used vehicle retail	133.9	98.7	35.7	309.6	273.0	13.4
Finance and insurance	142.5	133.7	6.6	372.9	373.7	(0.2)
Service, body and parts	174.9	168.3	3.9	467.7	488.4	(4.2)
Total Gross Profit	591.0	503.1	17.5	1,455.4	1,424.2	2.2
Gross profit margins						
New vehicle retail	7.6%	5.5%	210 bps	6.7%	5.7%	100 bps
Used vehicle retail	13.4	11.0	240	11.5	10.6	90
Finance and insurance	100.0	100.0	—	100.0	100.0	—
Service, body and parts	53.9	50.4	350	52.5	50.5	200
Total Gross Profit Margin	17.9	15.4	250	17.1	15.5	160
Retail units sold						
New vehicles	43,029	47,548	(9.5) %	108,370	130,721	(17.1) %
Used vehicles	45,066	43,180	4.4	126,160	124,147	1.6
Average selling price per retail unit						
New vehicles	$ 39,836	$ 37,725	5.6 %	$ 39,356	$ 37,382	5.3 %
Used vehicles	22,151	20,794	6.5	21,353	20,672	3.3
Average gross profit per retail unit						
New vehicles	$ 3,022	$ 2,079	45.4 %	$ 2,656	$ 2,115	25.6 %
Used vehicles	2,971	2,286	30.0	2,454	2,199	11.6
Finance and insurance	1,617	1,473	9.8	1,590	1,466	8.5
Total vehicle[1]	4,690	3,663	28.0	4,178	3,637	14.9

[1] Includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

During the three months ended September 30, 2020, we had net income of $158.8 million, or $6.86 per share on a diluted basis, compared to net income of $85.2 million, or $3.64 per share on a diluted basis, during the same period of 2019. During the nine months ended September 30, 2020, we had net income of $282.7 million, or $12.18 per share on a diluted basis, compared to net income of $203.5 million, or $8.72 per share on a diluted basis, during the same period of 2019.

New Vehicles
We believe that our new vehicle sales create incremental profit opportunities through certain manufacturer incentive programs, arranging of third party financing, vehicle service and insurance contracts, future resale of used vehicles acquired through trade-in, and parts and service work. Same store new vehicle revenues decreased 4.4% and 12.7%, respectively, for the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019. This was due to a decrease in unit volume of 9.5% and 17.1%, offset by an increase in average selling prices of 5.6% and 5.3%, in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019.

Throughout the year, the impact of the COVID-19 pandemic on each of our markets varied. We experienced initial declines in new vehicle unit sales in the first half of the year, but have seen continued incremental improvement each month since then, with our September same store new vehicle unit sales returning to prior year levels.

Same store new vehicle gross profit per unit increased 45.4% and 25.6%, increasing new vehicle gross profit margins 210 bps and 100 bps in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019. Pent-up demand and reduced inventory levels related to short-term production closures combined with increased manufacturer partner incentives contributed to these improvements in gross profit per unit.

Total new vehicle gross profit per unit, which includes the finance and insurance revenue generated from the sales of new vehicles, increased $1,073 to $4,715 and $695 to $4,353 for the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019.

Used Vehicles
Used vehicle retail sales are a strategic focus for organic growth. We offer three categories of used vehicles: manufacturer certified pre-owned ("CPO") vehicles; core vehicles, or late-model vehicles with lower mileage; and value autos, or vehicles with over 80,000 miles. We have established a company-wide target of achieving a per store average of 100 used retail units per month. Strategies to achieve this target include reducing wholesale sales and selling the full spectrum of used units, from late model CPO models to vehicles over ten years old. During the nine months ended September 30, 2020, our stores sold an average of 78 used vehicles per store per month, compared to 74 used vehicles per store per month for the same period of 2019.

Similar to new vehicles, used vehicle sales volumes were impacted by the COVID-19 pandemic. Initial declines were similar to new vehicles in the beginning of the year; however, we experienced significant improvements in used vehicle unit sales during the second and third quarters of 2020.

Used vehicle revenues for the three and nine-month periods ended September 30, 2020, increased 19.3% and 9.8%, respectively, compared to the same periods of 2019. On a same store basis, used vehicle sales for the three and nine-month periods ended September 30, 2020, increased 11.2% and 5.0% as compared to the respective periods of 2019, driven by increases in our core vehicle category of 14.6% and 9.1%, respectively. Our core vehicle category had growth in unit sales of 6.6% and 5.1%, with improvements in average selling price per vehicle of 7.5% and 3.7%, offset by decreases in our CPO vehicle category of 0.8% and 7.7%, respectively, for the three and nine-month periods ended September 30, 2020, as compared to the same periods of 2019.

Our used vehicle operations provide an opportunity to generate sales to customers unable or unwilling to purchase a new vehicle, sell brands other than the store’s new vehicle franchise(s) and increase sales from finance and insurance and parts and service.

Total used vehicle gross profit per unit, which includes the finance and insurance revenue generated from the sales of retail used vehicles, increased $835 to $4,442 and $409 to $3,940 for the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019.

Finance and Insurance
We believe that arranging timely vehicle financing is an important part of our ability to sell vehicles, and we attempt to arrange financing for every vehicle we sell. We also offer related products such as extended warranties, insurance contracts and vehicle and theft protection.

The 17.8% and 6.4% increase, respectively, in finance and insurance revenue for the three and nine-month periods ended September 30, 2020, compared to the same periods of 2019, were primarily due to increased revenue of third-party extended warranty contracts. Same store finance and insurance revenues increased 6.6% and remained flat for the three and nine-month periods ended September 30, 2020, respectively, as compared to the same periods of 2019. The increase in the three-month period was also due to increased revenue of third-party extended warranty contracts. On a same store basis, our finance and insurance revenues per retail unit increased $144 to $1,617 and $124 to $1,590 in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019, primarily due to increases in service contract penetration rates of 20 bps and 90 bps, respectively.

Service, body and parts

We provide service, body and parts for the new vehicle brands sold by our stores, as well as service and repairs for most other makes and models. Our parts and service operations are an integral part of our customer retention and the largest contributor to our overall profitability. Earnings from service, body and parts continue to prove to be more resilient during economic downturns, when owners tend to repair their existing vehicles rather than buy new vehicles.

Our service, body, and parts revenue increased in the three-month period ended September 30, 2020, compared to the same period of 2019. The increase was driven by increases in customer pay and warranty revenues, offset by decreases in parts wholesale and body shop revenues. Service, body, and parts revenue increased in all areas in the nine-month period ended September 30, 2020, compared to the same period of 2019. The decreases were primarily related to decreases in parts wholesale and body shop revenues. Throughout the third quarter of 2020, we experienced incremental improvement each month in all areas. We believe the increased number of units in operation will continue to benefit our service, body and parts revenue in the coming years as more late-model vehicles age, necessitating repairs and maintenance.

We focus on retaining customers by offering competitively-priced routine maintenance and through our marketing efforts. In the three and nine-month periods ended September 30, 2020, the largest contribution to our service, body and parts revenue was same store customer pay revenue of $181.9 million and $485.2 million, respectively.

Same store service, body and parts gross profit increased 3.9% and decreased 4.2% in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019. The increase in the three-month period was primarily due to increased customer pay gross margin, offset by decreased customer pay revenue. The decrease in the nine-month period was primarily due to decreased customer pay revenue. Overall same store service, body, and parts gross margins increased 350 and 200 bps in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019, primarily as a result of our mix continuing to shift towards customer pay, which has higher margins than other service work. Same store customer pay gross margins increased 480 and 300 bps in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019.

Segments

Certain financial information by segment is as follows:

	Three Months Ended September 30,		Increase	
(Dollars in millions)	**2020**	**2019**	**(Decrease)**	**% Increase**
Revenues:				
Domestic	$ 1,214.7	$ 1,157.8	$ 56.9	4.9%
Import	1,550.5	1,437.7	112.8	7.8
Luxury	850.9	729.4	121.5	16.7
	3,616.1	3,324.9	291.2	8.8
Corporate and other	4.1	7.5	(3.4)	NM
	$ 3,620.2	$ 3,332.4	$ 287.8	8.6%

NM - not meaningful

(Dollars in millions)	Nine Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Revenues:				
Domestic	$ 3,286.9	$ 3,265.8	$ 21.1	0.6 %
Import	3,832.3	3,962.3	(130.0)	(3.3)
Luxury	2,050.7	2,149.0	(98.3)	(4.6)
	9,169.9	9,377.1	(207.2)	(2.2)
Corporate and other	12.6	26.7	(14.1)	NM
	$ 9,182.5	$ 9,403.8	$ (221.3)	(2.4)%

NM - not meaningful

(Dollars in millions)	Three Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Segment income[1]:				
Domestic	$ 81.1	$ 37.9	$ 43.2	114.0 %
Import	102.6	48.3	54.3	112.4
Luxury	39.2	13.0	26.2	201.5
	222.9	99.2	123.7	124.7
Corporate and other	33.5	50.6	(17.1)	(33.8)
	$ 256.4	$ 149.8	$ 106.6	71.2

[1]Segment income, a non-GAAP measure, is defined as income before income taxes, depreciation and amortization, other interest expense and other expense, net. See Note 10 of the Condensed Notes to the Consolidated Financial Statements for additional information.

(Dollars in millions)	Nine Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Segment income[1]:				
Domestic	$ 168.3	$ 94.1	$ 74.2	78.9 %
Import	176.2	117.8	58.4	49.6
Luxury	53.1	36.5	16.6	45.5
	397.6	248.4	149.2	60.1
Corporate and other	103.5	129.3	(25.8)	(20.0)
	$ 501.1	$ 377.7	$ 123.4	32.7

[1]Segment income, a non-GAAP measure, is defined as income before income taxes, depreciation and amortization, other interest expense and other expense, net. See Note 10 of the Condensed Notes to the Consolidated Financial Statements for additional information.

	Three Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Retail new vehicle unit sales:				
Domestic	13,319	14,284	(965)	(6.8)%
Import	26,598	26,994	(396)	(1.5)
Luxury	8,174	7,342	832	11.3
	48,091	48,620	(529)	(1.1)
Allocated to management	(168)	(112)	56	NM
	47,923	48,508	(585)	(1.2)%

NM – Not meaningful

	Nine Months Ended September 30,		Increase	
	2020	2019	(Decrease)	% Decrease
Retail new vehicle unit sales:				
Domestic	34,834	39,569	(4,735)	(12.0)%
Import	65,082	74,180	(9,098)	(12.3)
Luxury	19,083	20,566	(1,483)	(7.2)
	118,999	134,315	(15,316)	(11.4)
Allocated to management	(300)	(225)	75	NM
	118,699	134,090	(15,391)	(11.5)%

NM – Not meaningful

Domestic

A summary of financial information for our Domestic segment follows:

	Three Months Ended September 30,		Increase	% Increase
(Dollars in millions)	2020	2019	(Decrease)	(Decrease)
Revenue:				
New vehicle retail	$ 621.3	$ 613.0	$ 8.3	1.4 %
Used vehicle retail	378.8	328.1	50.7	15.5
Used vehicle wholesale	31.9	30.3	1.6	5.3
Finance and insurance	53.2	48.1	5.1	10.6
Service, body and parts	118.0	122.8	(4.8)	(3.9)
Fleet and other	11.5	15.5	(4.0)	NM
	$ 1,214.7	$ 1,157.8	$ 56.9	4.9
Segment income	$ 81.1	$ 37.9	$ 43.2	114.0
Retail new vehicle unit sales	13,319	14,284	(965)	(6.8)

NM - not meaningful

	Nine Months Ended September 30,		Increase	% Increase
(Dollars in millions)	2020	2019	(Decrease)	(Decrease)
Revenue:				
New vehicle retail	$ 1,591.0	$ 1,682.7	$ (91.7)	(5.4)%
Used vehicle retail	1,096.4	949.6	146.8	15.5
Used vehicle wholesale	77.7	89.5	(11.8)	(13.2)
Finance and insurance	149.2	137.2	12.0	8.7
Service, body and parts	337.5	359.2	(21.7)	(6.0)
Fleet and other	35.1	47.6	(12.5)	NM
	$ 3,286.9	$ 3,265.8	$ 21.1	0.6 %
Segment income	$ 168.3	$ 94.1	$ 74.2	78.9 %
Retail new vehicle unit sales	34,834	39,569	(4,735)	(12.0)%

NM - not meaningful

Our Domestic segment revenue increased 4.9% and 0.6% in the three and nine-month periods ended September 30, 2020 compared to the respective periods of 2019 primarily due to increases in used vehicle retail and finance and insurance revenues, offset by decreases in service, body, and parts revenues.

Our Domestic segment income increased 114.0% and 78.9% in the three and nine-month periods ended September 30, 2020 compared to the same periods of 2019, due to gross profit growth of 22.0% and 10.1% and decreases in floor plan interest expense of 55.9% and 41.7%, respectively. Total Domestic SG&A as a percentage of gross profit decreased from 71.3% to 60.1% and from

73.4% to 65.7% for the three and nine-month periods ended September 30, 2020, compared to the same periods of 2019, respectively. The decreases for the three and nine-month periods ended September 30, 2020 were primarily driven by decreases in personnel and advertising costs. Floor plan interest expense for Domestic stores decreased due to lower interest rates and decreased volume for the three and nine-month periods ended September 30, 2020, compared to the same periods of 2019.

Import
A summary of financial information for our Import segment follows:

(Dollars in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Increase (Decrease)	% Increase (Decrease)
Revenue:				
New vehicle retail	$ 822.9	$ 824.8	$ (1.9)	(0.2)%
Used vehicle retail	451.9	380.9	71.0	18.6
Used vehicle wholesale	42.2	28.4	13.8	48.6
Finance and insurance	81.1	65.2	15.9	24.4
Service, body and parts	141.3	129.2	12.1	9.4
Fleet and other	11.1	9.2	1.9	NM
	$ 1,550.5	$ 1,437.7	$ 112.8	7.8
Segment income	$ 102.6	$ 48.3	$ 54.3	112.4
Retail new vehicle unit sales	26,598	26,994	(396)	(1.5)

NM - not meaningful

(Dollars in millions)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Increase (Decrease)	% Increase (Decrease)
Revenue:				
New vehicle retail	$ 1,995.9	$ 2,198.1	$ (202.2)	(9.2)%
Used vehicle retail	1,152.6	1,085.7	66.9	6.2
Used vehicle wholesale	88.6	85.3	3.3	3.9
Finance and insurance	195.0	180.9	14.1	7.8
Service, body and parts	371.3	374.2	(2.9)	(0.8)
Fleet and other	28.9	38.1	(9.2)	NM
	$ 3,832.3	$ 3,962.3	$ (130.0)	(3.3)%
Segment income	$ 176.2	$ 117.8	$ 58.4	49.6 %
Retail new vehicle unit sales	65,082	74,180	(9,098)	(12.3)%

NM - not meaningful

Our Import segment revenue increased 7.8% and decreased 3.3% in the three and nine-month periods ended September 30, 2020, respectively, compared to the respective periods of 2019. Increases in the three-month period were seen in all major business lines except new vehicle retail, while decreases in the nine-month period were primarily related to decreased new vehicle retail revenue.

Import segment income increased 112.4% and 49.6% in the three and nine-month periods ended September 30, 2020 compared to the same periods of 2019, due to gross profit growth of 29.3% and 9.6% and decreases in floor plan interest expense of 42.0% and 32.0%, respectively. Total Import SG&A as a percentage of gross profit decreased from 73.8% to 62.8% and from 76.0% to 71.2% for the three and nine-month periods ended September 30, 2020, compared to the same periods of 2019, respectively. The decreases for the three and nine-month periods ended September 30, 2020 were primarily driven by decreases in personnel and advertising costs. Floor plan interest expense for Import stores decreased due to lower interest rates and decreased volume for the three and nine-month periods ended September 30, 2020, compared to the respective periods of 2019.

Luxury

A summary of financial information for our Luxury segment follows:

(Dollars in millions)	Three Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Revenue:				
New vehicle retail	$ 440.8	$ 387.0	$ 53.8	13.9%
Used vehicle retail	261.8	206.7	55.1	26.7
Used vehicle wholesale	24.8	16.4	8.4	51.2
Finance and insurance	25.6	19.2	6.4	33.3
Service, body and parts	96.0	84.9	11.1	13.1
Fleet and other	1.9	15.2	(13.3)	NM
	$ 850.9	$ 729.4	$ 121.5	16.7
Segment income	$ 39.2	$ 13.0	$ 26.2	201.5
Retail new vehicle unit sales	8,174	7,342	832	11.3

NM - not meaningful

(Dollars in millions)	Nine Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Revenue:				
New vehicle retail	$ 1,039.0	$ 1,110.2	$ (71.2)	(6.4)%
Used vehicle retail	642.5	596.0	46.5	7.8
Used vehicle wholesale	50.3	59.0	(8.7)	(14.7)
Finance and insurance	60.2	54.1	6.1	11.3
Service, body and parts	244.8	248.0	(3.2)	(1.3)
Fleet and other	13.9	81.7	(67.8)	NM
	$ 2,050.7	$ 2,149.0	$ (98.3)	(4.6)%
Segment income	$ 53.1	$ 36.5	$ 16.6	45.5 %
Retail new vehicle unit sales	19,083	20,566	(1,483)	(7.2)%

NM - not meaningful

Our Luxury segment revenue increased 16.7% and decreased 4.6% in the three and nine-month periods ended September 30, 2020, respectively, compared to the respective periods of 2019. Increases in the three-month period were seen in all major business lines, while the decrease in the nine-month period was primarily related to decreased new vehicle retail revenue.

Our Luxury segment income increased 201.5% and 45.5% for the three and nine-month periods ended September 30, 2020 compared to the same periods of 2019, due to gross profit growth of 34.2% and 4.7% and decreases in floor plan interest expense of 38.9% and 27.7%, respectively. Total Luxury SG&A as a percentage of gross profit decreased from 80.5% to 68.5% and from 80.6% to 78.2% for the three and nine-month periods ended September 30, 2020, respectively, compared to the respective periods of 2019. The decreases for the three and nine-month periods ended September 30, 2020 were primarily driven by decreases in personnel and advertising costs. Floor plan interest expense for Luxury stores decreased due to lower interest rates for the three and nine-month periods ended September 30, 2020, compared to the respective periods of 2019.

Corporate and Other

Revenues attributable to Corporate and other include the results of operations of our stand-alone body shops, offset by certain unallocated reserves and elimination adjustments related to vehicle sales.

(Dollars in millions)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019		Decrease		% Decrease
Revenue, net	$	4.1	$	7.5	$	(3.4)	NM
Segment income	$	33.5	$	50.6	$	(17.1)	(33.8)%

NM - not meaningful

(Dollars in millions)	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019		Decrease		% Decrease
Revenue, net	$	12.6	$	26.7	$	(14.1)	NM
Segment income	$	103.5	$	129.3	$	(25.8)	(20.0)%

NM - not meaningful

The decreases in Corporate and other revenue in the three and nine-month periods ended September 30, 2020, compared to the same periods of 2019 were primarily related to decreased finance and insurance incentives received that were not specifically related to any particular segment, and changes to certain reserves that were not specifically identified with our Domestic, Import or Luxury segment revenue, such as our reserve for revenue reversals associated with unwound vehicle sales, and elimination of revenues associated with internal corporate vehicle purchases and leases with our stores.

Segment income attributable to Corporate and other includes amounts associated with the operating income from our stand-alone body shops and certain internal corporate expense allocations that reduce reportable segment income but increase Corporate and other income. 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 who perform certain dealership functions. Segment income attributable to Corporate and other also includes gains on the divestiture of stores.

Corporate and other segment income decreased $17.1 million and $25.8 million for the three and nine-month periods ended September 30, 2020 compared to the same periods of 2019, primarily due to a gain on sale of stores recognized in the prior year and decreases in internal floor plan financing charges.

Asset Impairments

Asset impairments consist of the following:

(Dollars in millions)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019		Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
Long-lived assets	$	—	$	—	$	—	$	0.5
Franchise value		—		—		4.4		—
Goodwill		—		—		3.5		—
	$	—	$	—	$	7.9	$	0.5

In the second quarter of 2020, we recognized asset impairments of $7.9 million related to the franchise value and goodwill associated with certain dealership locations. See Note 5 and Note 8 of the Condensed Notes to the Consolidated Financial Statements for additional information.

During the first quarter of 2019, we recorded an asset impairment of $0.5 million associated with certain real properties which were under contract to sell, and were ultimately sold in the same year.

Selling, General and Administrative Expense ("SG&A")
SG&A includes salaries and related personnel expenses, advertising (net of manufacturer cooperative advertising credits), rent, facility costs, and other general corporate expenses.

(Dollars in millions)	Three Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Personnel	$ 271.1	$ 236.2	$ 34.9	14.8 %
Advertising	24.0	28.4	(4.4)	(15.5)
Rent	10.6	10.4	0.2	1.9
Facility costs[1]	19.8	19.4	0.4	2.1
Gain on sale of assets	(0.2)	(9.4)	9.2	NM
Other	63.8	58.2	5.6	9.6
Total SG&A	$ 389.1	$ 343.2	$ 45.9	13.4 %

[1] Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.
NM - not meaningful

As a % of gross profit	Three Months Ended September 30, 2020	2019	Increase (Decrease)
Personnel	41.6%	46.2 %	(460)bps
Advertising	3.7	5.5	(180)
Rent	1.6	2.0	(40)
Facility costs	3.0	3.8	(80)
Gain on sale of assets	—	(1.8)	180
Other	9.8	11.5	(170)
Total SG&A	59.7%	67.2 %	(750)bps

(Dollars in millions)	Nine Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Personnel	$ 703.3	$ 678.2	$ 25.1	3.7 %
Advertising	69.2	82.9	(13.7)	(16.5)
Rent	30.5	31.1	(0.6)	(1.9)
Facility costs[1]	57.7	57.4	0.3	0.5
Gain on sale of assets	(1.8)	(9.1)	7.3	NM
Other	180.7	181.0	(0.3)	(0.2)
Total SG&A	$ 1,039.6	$ 1,021.5	$ 18.1	1.8 %

[1] Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.
NM - not meaningful

As a % of gross profit	Nine Months Ended September 30, 2020	2019	Increase (Decrease)
Personnel	44.6 %	46.6 %	(200)bps
Advertising	4.4	5.7	(130)
Rent	1.9	2.1	(20)
Facility costs	3.7	3.9	(20)
Gain on sale of assets	(0.1)	(0.6)	50
Other	11.4	12.5	(110)
Total SG&A	65.9 %	70.2 %	(430)bps

SG&A as a percentage of gross profit was 59.7% and 65.9% for the three and nine-month periods ended September 30, 2020 compared to 67.2% and 70.2% for the same periods of 2019, respectively. SG&A expense increased 13.4% and 1.8% in the three and nine-month periods ended September 30, 2020, respectively, compared to the respective periods of 2019. Overall, SG&A expense increased primarily due to increased personnel costs with an offsetting decrease in advertising costs in the three and nine-month periods ended September 30, 2020 compared to the same periods of 2019. Our performance-based culture is geared towards an incentive-based compensation structure for the majority of personnel. This approach allows us to maintain a responsive cost structure in relation to fluctuations in vehicle sales and service volumes and general economic conditions.

On a same store basis and excluding non-core charges, SG&A as a percentage of gross profit was 59.1% and 65.3% for the three and nine-month periods ended September 30, 2020 compared to 68.2% and 69.4% for the same periods of 2019, respectively. The decreases for the three and nine-month periods ended September 30, 2020 were primarily related to increased gross profit and decreased personnel and advertising costs as a percentage of gross profit.

SG&A expense adjusted for non-core charges was as follows (in millions):

(Dollars in millions)	Three Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Personnel	$ 271.1	$ 236.2	$ 34.9	14.8 %
Advertising	24.0	28.4	(4.4)	(15.5)
Rent	10.6	10.4	0.2	1.9
Facility costs[1]	19.8	19.4	0.4	2.1
Adjusted gain on sale of assets	(0.2)	—	(0.2)	NM
Adjusted other	62.9	56.9	6.0	10.5
Adjusted total SG&A	$ 388.2	$ 351.3	$ 36.9	10.5 %

[1] Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.
NM - not meaningful

As a % of gross profit	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Decrease
Personnel	41.6%	46.2%	(460)bps
Advertising	3.7	5.5	(180)
Rent	1.6	2.0	(40)
Facility costs	3.0	3.8	(80)
Adjusted gain on sale of assets	—	—	—
Adjusted other	9.7	11.3	(160)
Adjusted total SG&A	59.6%	68.8%	(920)bps

(Dollars in millions)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Increase (Decrease)	% Increase (Decrease)
Personnel	$ 703.3	$ 678.2	$ 25.1	3.7 %
Advertising	69.2	82.9	(13.7)	(16.5)%
Rent	30.5	31.1	(0.6)	(1.9)%
Facility costs[1]	57.7	57.4	0.3	0.5 %
Adjusted gain on sale of assets	(0.4)	—	(0.4)	NM
Adjusted other	173.0	169.6	3.4	2.0 %
Adjusted total SG&A	$ 1,033.3	$ 1,019.2	$ 14.1	1.4 %

[1] Includes variable lease costs related to the reimbursement of actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased property.
NM - not meaningful

As a % of gross profit	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Decrease
Personnel	44.6%	46.6%	(200)bps
Advertising	4.4	5.7	(130)
Rent	1.9	2.1	(20)
Facility costs	3.7	3.9	(20)
Adjusted gain on sale of assets	—	—	—
Adjusted other	10.9	11.7	(80)
Adjusted total SG&A	65.5%	70.0%	(450)bps

Adjusted SG&A excludes $0.3 million in storm insurance reserve charges and $0.6 million in acquisition-related expenses in the three-month period ended September 30, 2020. For the nine months ended September 30, 2020, Adjusted SG&A excludes $6.1 million in storm insurance reserve charges, $1.6 million in acquisition-related expenses, and a $1.4 million net gain on store disposals.

Adjusted SG&A excludes $1.1 million in storm insurance reserve charges, $0.2 million in acquisition-related expenses, and a $9.4 million net gain on store disposals in the three-month period ended September 30, 2019. For the nine months ended September 30, 2019, Adjusted SG&A excludes $9.5 million in storm insurance reserve charges, $1.9 million in acquisition-related expenses, and a $9.1 million net gain on store disposals.

See "Non-GAAP Reconciliations" for more details.

Depreciation and Amortization
Depreciation and amortization is comprised of depreciation expense related to buildings, significant remodels or improvements, furniture, tools, equipment, signage, and amortization of certain intangible assets, including customer lists.

	Three Months Ended September 30,						
(Dollars in millions)	**2020**		**2019**		**Increase**		**% Increase**
Depreciation and amortization	$	22.9	$	20.9	$	2.0	9.6%

	Nine Months Ended September 30,						
(Dollars in millions)	**2020**		**2019**		**Increase**		**% Increase**
Depreciation and amortization	$	67.3	$	60.9	$	6.4	10.5%

The increases of 9.6% and 10.5% in depreciation and amortization for the three and nine-month periods ended September 30, 2020 compared to the same periods of 2019, respectively, were primarily due to capital expenditures. For the nine-months ended September 30, 2020, we invested $125.6 million in capital expenditures. These investments increased the amount of depreciation expense in the three and nine-month period ended September 30, 2020. See the discussion under "Liquidity and Capital Resources" for additional information.

Operating Margin
Operating income as a percentage of revenue, or operating margin, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Operating margin	6.6%	4.4%	5.0%	4.0%
Operating margin adjusted for non-core charges [1]	6.6%	4.2%	5.2%	4.0%

[1] See "Non-GAAP Reconciliations" for more details.

Operating margin increased 220 bps and 100 bps in the three and nine-month periods ended September 30, 2020, respectively compared to the same periods in 2019. The increases in operating margin for the three and nine-month periods ended September 30, 2020, were primarily due to increases in gross profit of 27.5% and 8.4%, with offsetting increases to SG&A of only 10.5% and 1.4% compared to the same periods in 2019.

Floor Plan Interest Expense and Floor Plan Assistance

	Three Months Ended September 30,					Nine Months Ended September 30,				
(Dollars in millions)	**2020**		**2019**		**% Change**	**2020**		**2019**		**% Change**
Floor plan interest expense (new vehicles)	$	6.1	$	17.9	(65.9)%	$	28.3	$	55.5	(49.0)%

Floor plan interest expense decreased $11.8 million and $27.2 million in the three and nine-month periods ended September 30, 2020, respectively, compared to the same periods of 2019. The 65.9% and 49.0% decrease in floor plan interest expense for the three and nine-month periods ended September 30, 2020, compared to the same periods in 2019, include decreases of 29.6% for both periods related to decreases in same store inventory levels; a 1.9% and 1.8% increase related to acquisition volume; and a 38.2% and 21.2% decrease related to decreased LIBOR rates as compared to the same periods of 2019, respectively.

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

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

(Dollars in millions)	Three Months Ended September 30, 2020	2019	Change	% Change
Floor plan interest expense (new vehicles)	$ 6.1	$ 17.9	$ (11.8)	(65.9)%
Floor plan assistance (included as an offset to cost of sales)	(19.8)	(18.3)	(1.5)	8.2
Net new vehicle carrying costs	$ (13.7)	$ (0.4)	$ (13.3)	NM

NM - not meaningful

(Dollars in millions)	Nine Months Ended September 30, 2020	2019	Change	% Change
Floor plan interest expense (new vehicles)	$ 28.3	$ 55.5	$ (27.2)	(49.0)%
Floor plan assistance (included as an offset to cost of sales)	(49.5)	(50.7)	1.2	(2.4)
Net new vehicle carrying costs	$ (21.2)	$ 4.8	$ (26.0)	NM

NM - Not meaningful

Other Interest Expense

Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages, our used and service loaner vehicle inventory financing commitments, and our revolving line of credit.

(Dollars in millions)	Three Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Mortgage interest	$ 6.3	$ 6.9	$ (0.6)	(8.7)
Other interest	10.7	8.5	2.2	25.9
Capitalized interest	(0.4)	(0.6)	(0.2)	NM
Total other interest expense	$ 16.6	$ 14.8	$ 1.8	12.2 %

NM - not meaningful

(Dollars in millions)	Nine Months Ended September 30, 2020	2019	Increase (Decrease)	% Increase (Decrease)
Mortgage interest	$ 19.0	$ 20.8	$ (1.8)	(8.7)%
Other interest	32.6	26.1	6.5	24.9
Capitalized interest	(1.2)	(1.9)	(0.7)	NM
Total other interest expense	$ 50.4	$ 45.0	$ 5.4	12.0 %

NM - not meaningful

Other interest expense for the three and nine-month periods ended September 30, 2020 increased $1.8 million and $5.4 million, primarily related to the additional interest expense associated with the senior notes issued in 2019.

Income Tax Provision

Our effective income tax rate was as follows:

	Three Months Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
Effective income tax rate	27.5%	27.4%	27.8%	27.5%
Effective income tax rate excluding other non-core items	27.5%	27.3%	28.0%	27.5%

Our effective income tax rate for the three and nine-month periods ended September 30, 2020 was positively affected by excess tax benefits on stock awards vesting in current periods and negatively affected by increases in the current state effective tax rate, primarily due to enactment of the Oregon Corporate Activity Tax beginning January 1, 2020. Additionally, our effective income tax rate was favorably affected by an increase in forecasted pre-tax income. We estimate our annual effective tax rate, excluding non-core charges, to be between 28.5% - 29.0%.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other items, includes modifications to federal net operating loss rules, the business interest deduction limitation, and the bonus depreciation eligibility of qualified improvement property. An analysis of bonus depreciation eligibility of qualified improvement property was completed and recorded during the three-month period ended September 30, 2020. We will continue to monitor the potential impacts of this legislation on future periods.

Non-GAAP Reconciliations

Non-GAAP measures do not have definitions under GAAP and may be defined differently by and not comparable to similarly titled measures used by other companies. As a result, we review any non-GAAP financial measures in connection with a review of the most directly comparable measures calculated in accordance with GAAP. We caution you not to place undue reliance on such non-GAAP measures, but also to consider them with the most directly comparable GAAP measures. We believe each of the non-GAAP financial measures below improves the transparency of our disclosures, provides a meaningful presentation of our results from the core business operations because they exclude items not related to our ongoing core business operations and other non-cash items, and improves the period-to-period comparability of our results from the core business operations. We use these measures in conjunction with GAAP financial measures to assess our business, including our compliance with covenants in our credit facility and in communications with our Board of Directors concerning financial performance. These measures should not be considered an alternative to GAAP measures.

The following tables reconcile certain reported non-GAAP measures, which we refer to as "adjusted," to the most comparable GAAP measure from our Consolidated Statements of Operations.

	Three Months Ended September 30, 2020			
(Dollars in millions, except per share amounts)	**As reported**	**Insurance reserves**	**Acquisition expenses**	**Adjusted**
Selling, general and administrative	$ 389.1	$ (0.3)	$ (0.6)	$ 388.2
Operating income	239.6	0.3	0.6	240.5
Income before income taxes	$ 219.1	$ 0.3	0.6	$ 220.0
Income tax provision	(60.3)	—	(0.1)	(60.4)
Net income	$ 158.8	$ 0.3	$ 0.5	$ 159.6
Diluted net income per share	$ 6.86	$ 0.01	$ 0.02	$ 6.89
Diluted share count	23.1			

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2019 As reported	Net disposal gain on sale of stores	Insurance reserves	Acquisition expenses	Adjusted
Selling, general and administrative	$ 343.2	$ 9.4	$ (1.1)	$ (0.2)	$ 351.3
Operating income (loss)	146.8	(9.4)	1.1	0.2	138.7
Income (loss) before income taxes	$ 117.4	$ (9.4)	$ 1.1	$ 0.2	$ 109.3
Income tax (provision) benefit	(32.2)	2.7	(0.3)	(0.1)	(29.9)
Net income (loss)	$ 85.2	$ (6.7)	$ 0.8	$ 0.1	$ 79.4
Diluted net income (loss) per share	$ 3.64	$ (0.28)	$ 0.03	$ —	$ 3.39
Diluted share count	23.4				

(Dollars in millions, except per share amounts)	Nine Months Ended September 30, 2020 As reported	Net disposal gain on sale of stores	Asset impairments	Insurance reserves	Acquisition expenses	Tax attribute	Adjusted
Asset impairment	$ 7.9	$ —	$ (7.9)	$ —	$ —	$ —	$ —
Selling, general and administrative	1,039.6	1.4	—	(6.1)	(1.6)	—	1,033.3
Operating income (loss)	462.1	(1.4)	7.9	6.1	1.6	—	476.3
Income (loss) before income taxes	$ 391.6	$ (1.4)	$ 7.9	$ 6.1	$ 1.6	$ —	$ 405.8
Income tax (provision) benefit	(108.9)	0.4	(2.3)	(1.6)	(0.4)	(0.8)	(113.6)
Net income (loss)	$ 282.7	$ (1.0)	$ 5.6	$ 4.5	$ 1.2	$ (0.8)	$ 292.2
Diluted net income (loss) per share	$ 12.18	$ (0.04)	$ 0.24	$ 0.19	$ 0.05	$ (0.03)	$ 12.59
Diluted share count	23.2						

(Dollars in millions, except per share amounts)	Nine Months Ended September 30, 2019 As reported	Net disposal gain on sale of stores	Asset impairment	Insurance reserves	Acquisition expenses	Adjusted
Asset impairment	$ 0.5	$ —	$ (0.5)	$ —	$ —	$ —
Selling, general and administrative	1,021.5	9.1	—	(9.5)	(1.9)	1,019.2
Operating income (loss)	372.3	(9.1)	0.5	9.5	1.9	375.1
Income (loss) before income taxes	$ 280.7	$ (9.1)	$ 0.5	$ 9.5	$ 1.9	$ 283.5
Income tax (provision) benefit	(77.2)	2.6	(0.1)	(2.6)	(0.5)	(77.8)
Net income (loss)	$ 203.5	$ (6.5)	$ 0.4	$ 6.9	$ 1.4	$ 205.7
Diluted net income (loss) per share	$ 8.72	$ (0.28)	$ 0.02	$ 0.29	$ 0.06	$ 8.81
Diluted share count	23.3					

Liquidity and Capital Resources
We manage our liquidity and capital resources by relying primarily on cash flows from operations and borrowings under our credit facilities or in capital markets as the main sources for liquidity. We use those funds to invest in capital expenditures, increase working capital and fulfill contractual obligations. Remaining funds are used for acquisitions, investment in innovation, debt retirement, cash dividends, share repurchases and general business purposes.

Available Sources
Cash flows generated by operating activities and borrowings under our credit facility and other types of debt are our most significant sources of liquidity. As of September 30, 2020, we had $57.1 million in cash, $565.6 million in availability under revolving lines of credit, and $72.0 million in availability under our used and service loaner vehicle financing commitments. In addition, we also have the ability to raise funds through mortgaging real estate; however, no assurances can be provided that the appraised value of these operating properties will match or exceed their book values or that this capital source will be available on terms acceptable to us.

In October 2020, we raised additional capital through the issuance of $550 million aggregate principal amount of 4.375% Senior Notes due 2031 and gross proceeds of $805 million from the issuance of Class A Common stock. These transactions provided for an additional $1.3 billion of available liquidity, net of applicable transaction costs.

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

Information about our cash flows, by category, is presented in our Consolidated Statements of Cash Flows. The following table summarizes our cash flows:

	Nine Months Ended September 30,		Increase (Decrease)
(Dollars in millions)	**2020**	**2019**	**in Cash Flow**
Net cash provided by operating activities	$ 800.6	$ 453.5	$ 347.1
Net cash used in investing activities	(728.3)	(199.7)	(528.6)
Net cash used in financing activities	(99.2)	(258.3)	159.1

Operating Activities
Cash provided by operating activities for the nine-month period ended September 30, 2020, increased $347.1 million compared to the same period of 2019, primarily related to a decrease in inventories, offset by a decrease in borrowings of floor plan notes payable, compared to the same period of 2019.

Borrowings from and repayments to our syndicated credit facility related to our new vehicle inventory floor plan financing are presented as financing activities. To better understand the impact of changes in inventory and the associated financing, we also consider our adjusted net cash provided by operating activities to include borrowings or repayments associated with our new vehicle floor plan commitment.

Adjusted net cash provided by operating activities is presented below (in millions):

	Nine Months Ended September 30,		Increase (Decrease)
(Dollars in millions)	**2020**	**2019**	**in Cash Flow**
Net cash provided by operating activities – as reported	$ 800.6	$ 453.5	$ 347.1
Less: Net repayments on floor plan notes payable, non-trade	(317.8)	(114.0)	(203.8)
Less: Borrowings on floor plan notes payable, non-trade associated with acquired new vehicle inventory	(133.6)	(46.0)	(87.6)
Net cash provided by operating activities – adjusted	$ 349.2	$ 293.5	$ 55.7

Investing Activities
Net cash used in investing activities totaled $728.3 million and $199.7 million, respectively, for the nine-month periods ended September 30, 2020 and 2019.

Below are highlights of significant activity related to our cash flows from investing activities:

(Dollars in millions)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Decrease in Cash Flow
Capital expenditures	$ (125.6)	$ (91.9)	$ (33.7)
Cash paid for acquisitions, net of cash acquired	(609.5)	(142.8)	(466.7)
Cash paid for other investments	(9.9)	(6.7)	(3.2)
Proceeds from sales of stores	11.6	40.9	(29.3)

Capital Expenditures
Below is a summary of our capital expenditure activities:

(Dollars in millions)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Post-acquisition capital improvements	$ 26.4	$ 27.6
Purchase of facilities for existing operations	29.6	2.5
Existing facility improvements	30.5	39.4
Maintenance	39.1	22.4
Total capital expenditures	$ 125.6	$ 91.9

Many manufacturers provide assistance in the form of additional incentives or assistance if facilities meet specified standards and requirements. We expect that certain facility upgrades and remodels will generate additional manufacturer incentive payments. Also, tax laws allowing accelerated deductions for capital expenditures reduce the overall investment needed and encourage accelerated project timeliness.

We expect to use a portion of our future capital expenditures to upgrade facilities that we recently acquired. This additional capital investment is contemplated in our initial evaluation of the investment return metrics applied to each acquisition and is usually associated with manufacturer standards and requirements.

The increase in capital expenditures for the nine-month period ended September 30, 2020, compared to the same period of 2019 related primarily to higher post-acquisition capital improvements due to an increase in acquisitions in the prior year. We have currently deferred approximately $65 million in planned discretionary capital expenditures. We will continue to evaluate our plans for future capital expenditures to appropriately manage capital and liquidity levels.

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

Acquisitions
We focus on acquiring stores at attractive purchase prices that meet our return thresholds and strategic objectives. We look for acquisitions that diversify our brand and geographic mix as we continue to evaluate our portfolio to minimize exposure to any one manufacturer and achieve financial returns.

We are able to subsequently floor new vehicle inventory acquired as part of an acquisition; however, the cash generated by this transaction is recorded as borrowings on floor plan notes payable, non-trade.

Adjusted net cash paid for acquisitions, as well as certain other acquisition-related information is presented below:

	Nine Months Ended September 30,	
	2020	2019
Number of stores acquired	17	4
Number of franchises added	—	2
(Dollars in millions)		
Cash paid for acquisitions, net of cash acquired	$ 609.5	$ 142.8
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(133.6)	(46.0)
Cash paid for acquisitions, net of cash acquired – adjusted	$ 475.9	$ 96.8

We evaluate potential capital investments primarily based on targeted rates of return on assets and return on our net equity investment.

Financing Activities

Net cash (used in) provided by financing activities, adjusted for borrowing on floor plan facilities: non-trade was as follows:

	Nine Months Ended September 30,		Increase
(Dollars in millions)	**2020**	**2019**	**in Cash Flow**
Cash used in financing activities, as reported	$ (99.2)	$ (258.3)	$ 159.1
Adjust: Repayments on floor plan notes payable: non-trade	317.8	114.0	203.8
Cash provided by (used in) financing activities – adjusted	$ 218.6	$ (144.3)	$ 362.9

Below are highlights of significant activity related to our cash flows from financing activities, excluding net repayments on floor plan notes payable: non-trade, which are discussed above:

	Nine Months Ended September 30,		Increase (Decrease)
(Dollars in millions)	**2020**	**2019**	**in Cash Flow**
Net borrowings (repayments) on lines of credit	$ 255.5	$ (62.6)	$ 318.1
Principal payments on long-term debt and capital leases, unscheduled	(6.3)	(11.0)	4.7
Proceeds from issuance of long-term debt	56.5	—	56.5
Repurchases of common stock	(50.6)	(3.1)	(47.5)
Dividends paid	(20.9)	(20.7)	(0.2)
Other financing activity	—	(36.5)	36.5

Equity Transactions

On October 22, 2018, our Board of Directors authorized the repurchase of up to $250 million of our Class A common stock, increasing our total share repurchase authorization to $500 million. We repurchased a total of 594,096 shares of our Class A common stock at an average price of $85.03 per share in the first nine months of 2020. This included 563,953 shares as part of the repurchase plan at an average price per share of $81.71 and 30,143 shares related to tax withholding on vesting RSUs at an average price of $147.12 per share. As of September 30, 2020, we had $187.5 million remaining available for repurchases and the authorization does not have an expiration date.

In the first nine months of 2020, we declared and paid dividends on our Class A and Class B common stock as follows:

Dividend paid:	Dividend amount per share	Total amount of dividend (in millions)
March 2020	$ 0.30	$ 7.0
May 2020	$ 0.30	$ 6.8
August 2020	$ 0.31	$ 7.1

We evaluate performance and make a recommendation to the Board of Directors on dividend payments on a quarterly basis.

On October 5, 2020, we completed the public offering of 3,659,091 shares of our Class A common stock, no par value per share, which included the exercise in full by the underwriters of their option to purchase up to 477,272 additional shares of our Class A common stock, for total net proceeds of approximately $777 million.

Summary of Outstanding Balances on Credit Facilities and Long-Term Debt
Below is a summary of our outstanding balances on credit facilities and long-term debt:

	As of September 30, 2020		
(Dollars in millions)	**Outstanding**	**Remaining Available**	
Floor plan note payable: non-trade	$ 1,293.2	$ —	1
Floor plan notes payable	310.3	—	
Used and service loaner vehicle inventory financing commitments	357.0	72.0	2
Revolving lines of credit	35.0	565.6	2, 3
5.250% Senior notes due 2025	300.0	—	
4.625% Senior notes due 2027	400.0	—	
Real estate mortgages	628.8	—	
Other debt	147.5	—	
Total debt outstanding	3,471.8	637.6	
Less: unamortized debt issuance costs	(12.8)	—	
Total debt	$ 3,459.0	$ 637.6	

[1] As of September 30, 2020, we had a $2.1 billion new vehicle floor plan commitment as part of our credit facility.
[2] The amount available on the credit facility is limited based on a borrowing base calculation and fluctuates monthly.
[3] Available credit is based on the borrowing base amount effective as of August 31, 2020. This amount is reduced by $15.7 million for outstanding letters of credit.

Credit Facility
Our syndicated credit facility ("credit facility") is comprised of 19 financial institutions, including seven manufacturer-affiliated finance companies, with a maturity date of January 2025.

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 of our subsidiaries. Under our credit facility, our obligations relating to new vehicle floor plan loans are secured only by collateral owned by borrowers of new vehicle floor plan loans under the credit facility.

The interest rate on the credit facility 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, 1.20% for service loaner 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 1.25% at September 30, 2020. The annual interest rate associated with our used vehicle floor plan commitment was 1.55% at September 30, 2020. The annual interest rate associated with our service loaner floor plan commitment was 1.35% at September 30, 2020. The annual interest rate associated with our revolving line of credit was 1.40% at September 30, 2020.

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 September 30, 2020
Current ratio	Not less than 1.10 to 1	1.38 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	3.33 to 1
Leverage ratio	Not more than 5.75 to 1	2.33 to 1

As of September 30, 2020, we were in compliance with all covenants. We expect to remain in compliance with the financial and restrictive covenants in our credit facility and other debt agreements. However, no assurances can be provided that we will continue to remain in compliance with the financial and restrictive covenants.

If we do not meet the financial and restrictive covenants and are unable to remediate or cure the condition or obtain a waiver from our lenders, a breach would give rise to remedies under the agreement, the most severe of which are the termination of the agreement, acceleration of the amounts owed and the seizure and sale of our assets comprising the collateral for the loans. A breach would also trigger cross-defaults under other debt agreements.

Although we refer to the lenders' obligations to make loans as "commitments," each lender's obligations to make any loan or other credit accommodations under the credit facility is subject to the satisfaction of the conditions precedent specified in the credit agreement including, for example, that our representations and warranties in the agreement are true and correct in all material respects as of the date of each credit extension. If we are unable to satisfy the applicable conditions precedent, we may not be able to request new loans or other credit accommodations under our credit facility.

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. The interest rates on these floor plan notes payable commitments vary by manufacturer and are variable rates. As of September 30, 2020, $310.3 million was outstanding on these agreements at interest rates ranging up to 4.75%. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Other Lines of Credit

Our other lines of credit include a commitment of up to $20.0 million, secured by certain assets from select Chrysler locations and a commitment of $60.0 million with Ford Motor Credit Company, secured by certain assets from all Ford locations. These other lines of credit mature in 2021 and have interest rates up to 5.70%. As of September 30, 2020, no amounts were outstanding on these other lines of credit.

On July 14, 2020, we entered into a five-year real-estate backed facility with eight financial institutions, including two manufacturer affiliated finance companies, maturing in July 2025. The real-estate backed credit facility provides a total financing commitment of up to $254.7 million in working capital financing for general corporate purposes, including acquisitions and working capital, collateralized by real estate and certain other assets owned by us. The interest rate on this credit facility uses one-month LIBOR plus a margin ranging from 2.00% to 2.50% based on our leverage ratio, or a base rate of 0.75% plus a margin. The facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. Financial covenants include requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, consistent with those under the our existing syndicated credit facility with U.S. Bank National Association as administrative agent. As of September 30, 2020, no amounts were outstanding on the real-estate backed facility.

On July 31, 2020, we entered into a securitization facility which provides initial commitments for borrowings of up to $100 million, which may be increased to $150 million in certain circumstances, and matures in July 2022. As of September 30, 2020, we had $12.5 million drawn on the securitization facility, which is included as part of "Other Debt" in the "Summary of Outstanding Balances on Credit Facilities and Long-Term Debt" table above.

5.250% Senior Notes Due 2025

On July 24, 2017, we issued $300 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. 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 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.

4.375% Senior Notes Due 2031
On October 9, 2020, we issued $550 million in aggregate principal amount of 4.375% Senior Notes due 2031 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 October 9, 2020 and is payable semiannually on January 15 and July 15. We may redeem the Senior Notes in whole or in part, on or after October 15, 2025, at the redemption prices set forth in the Indenture. Prior to October 15, 2025, 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 October 15, 2025, 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.

Real Estate Mortgages and Other Debt
We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 2.3% to 5.3% at September 30, 2020. The mortgages are payable in various installments through August 1, 2038. As of September 30, 2020, we had fixed interest rates on 75% of our outstanding mortgage debt.

Our other debt, which totaled $147.5 million at September 30, 2020, includes finance leases and sellers' notes. See Note 11 of the Condensed Notes to the Consolidated Financial Statements for additional information on finance leases.

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

Critical Accounting Policies and Use of Estimates
There have been no material changes in the critical accounting policies and use of estimates described in our 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2020.

See also Note 1 and Note 3 of the Condensed Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q for additional information including the impact of our January 1, 2020 adoption of Topic 326 - Measurement of Credit Losses on Financial Instruments and related updates.

Seasonality and Quarterly Fluctuations
Historically, our sales have been lower in the first quarter of each year due to consumer purchasing patterns and inclement weather in certain of our markets. As a result, financial performance is expected to be lower during the first quarter than during the second, third and fourth quarters of each fiscal year. We believe that interest rates, levels of consumer debt, consumer confidence and manufacturer sales incentives, as well as general economic conditions, also contribute to fluctuations in sales and operating results.

Off-Balance Sheet Arrangements
We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

With the exception of the impacts of COVID-19, which are discussed elsewhere in this document, including in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Part II - Other Information, Item 1A, there have been no material changes in our reported market risks or risk management policies since the filing of our 2019 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on February 21, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

The information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our 2019 Annual Report on Form 10-K, which was filed with the SEC on February 21, 2020. We have described in our 2019 Annual Report on Form 10-K, under "Risk Factors" in Item 1A, the primary risks related to our business and securities. We provide below the material changes to our risk factors described in that report.

The novel coronavirus could adversely affect our business, financial condition, results of operations and cash flows.

The novel coronavirus (COVID-19) pandemic has resulted in shelter in place orders and widespread travel and transportation restrictions and closures of commercial spaces and industrial facilities in and across the United States and the world, including in the states and regions in which we operate. In connection with the COVID-19 pandemic, we initially saw significant decline in all revenue levels as shelter in place restrictions were enacted. As those restrictions have eased in our various markets, we noted improvements to our business. We have modified certain business practices to conform to government restrictions and best practices encouraged by government and regulatory authorities, and implemented risk mitigation plans for critical items and services required to continue our operations. We are monitoring and managing our cash flows and have enacted cost saving measures to respond to the volatile environment. In addition, we continue to assess our capital deployment strategy. However, these measures may not be sufficient to prevent adverse impacts on our business and financial condition from COVID-19.

The declines in sales and service revenue and ongoing disruptions in our operations due to the COVID-19 pandemic have adversely impacted, and may continue to adversely impact, our business, results of operations, financial condition and cash flows. The degree to which COVID-19 may impact our results of operations and financial condition is unknown at this time and will depend on future developments, including the ultimate geographic spread of COVID-19, the severity and the duration of the pandemic, and further actions that may be taken by governmental authorities or businesses or individuals on their own initiatives in response to the pandemic.

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

We repurchased the following shares of our Class A common stock during the third quarter of 2020:

	Total number of shares purchased [2]	Average price paid per share	Total number of shares purchased as part of publicly announced plans [1]	Maximum dollar value of shares that may yet be purchased under publicly announced plan (in thousands) [1]
July	102	$ 151.33	—	$ 187,522
August	184	229.15	—	187,522
September	—	—	—	187,522
	286	$ 201.40	—	$ 187,522

[1] On October 22, 2018, our Board of Directors approved a $250 million repurchase authorization, increasing our total share repurchase authorization to $500 million. This authorization does not have an expiration date.
[2] Of the shares repurchased in the third quarter of 2020, all were related to tax withholdings on vesting RSUs.

Item 6. Exhibits

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

3.1	Restated Articles of Incorporation of Lithia Motors, Inc. (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 October 9, 2020, among Lithia Motors, Inc., the Guarantors and the Trustee (incorporated by reference to exhibit 4.1 to Form 8-K dated October 9, 2020 and filed with the Securities and Exchange Commission on October 9, 2020).
4.2	Form of 4.375% Senior Notes due 2031 (included as part of Exhibit 4.1) (incorporated by reference to exhibit 4.1 to Form 8-K dated October 9, 2020 and filed with the Securities and Exchange Commission on October 9, 2020).
10.1	Credit Agreement, dated July 14, 2020, among Lithia Motors, Inc., the subsidiaries of Lithia Motors Inc. party thereto from time to time, the lenders party thereto from time to time, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to Form 8-K filed July 16, 2020).
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 Principal 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 Principal 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.

SIGNATURE

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

Date: October 23, 2020	LITHIA MOTORS, INC.
	By: /s/ Tina Miller
	Tina Miller
	Senior Vice President and Chief Financial Officer
	(Duly Authorized Officer and Principal Financial and Accounting Officer)

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 quarterly report on Form 10-Q 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: October 23, 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 quarterly report on Form 10-Q 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: October 23, 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 Quarterly Report of Lithia Motors, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 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.
October 23, 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 Quarterly Report of Lithia Motors, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 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.
October 23, 2020