

LITHIA MOTORS INC
Form 8-K
February 22, 2005

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 18, 2005

Lithia Motors, Inc.

(Exact Name of Registrant as specified in its charter)

Oregon

(State or other jurisdiction
of incorporation)

0-21789

(Commission File Number)

93 - 0572810

(IRS Employer Identification
No.)

360 E. Jackson Street
Medford, Oregon 97501

(Address of Principal Executive Office)

Registrant's telephone number including area code 541-776-6868

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a -12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d -2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e -4(c))

Item 2.02 Results of Operations and Financial Condition.

On February 18, 2005, Lithia Motors, Inc. issued a press release with respect to financial results for the fourth quarter and year end 2004. A copy of the press release is attached as Exhibit 99.

Item 9.01 Financial Statements and Exhibits.

(a) Not applicable.

(b) Not applicable.

(c) Exhibits.
99 Press Release

SIGNATURES

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

LITHIA MOTORS, INC.
(Registrant)

Date: February 18, 2005

By: /s/ Kenneth E. Roberts
Kenneth E. Roberts
Assistant Secretary

LITHIA MOTORS REPORTS RECORD REVENUES AND RECORD NET INCOME FOR THE FULL-YEAR 2004

Lithia Motors' Highlights for continuing operations for period ended Dec. 31, 2004:

Full-Year 2004

| | |
|---------------------------|-------------------------|
| Operating Profits: | +21% |
| Net Income: | +20% |
| Operating Margin (EBIT) : | 3.5% (+30 basis points) |

MEDFORD, OREGON, February 18, 2005 (5:00 a.m. Pacific) - Lithia Motors, Inc. (NYSE: LAD) today announced that net income from continuing operations rose 20% to \$42.6 million for the full-year 2004 compared to \$35.6 million in 2003. Earnings per share from continuing operations, excluding the dilutive effect of the change in accounting for convertible notes, rose 16% to \$2.22 per share versus \$1.92 in the same period last year. Including the effect of the accounting change for convertible notes earnings per share from continuing operations were \$2.12 per fully diluted share.

Full-year 2004 revenues increased 9% to \$2.75 billion from \$2.51 billion in 2003. New vehicle sales increased 10%, used vehicle sales increased 4%, parts/service sales increased 16%, and finance/insurance sales increased 13%.

Sidney B. DeBoer, Lithia's Chairman and Chief Executive Officer, commented, "During 2004 we continued to grow our business and we were able increase margins across all business lines. The full-year operating margin improved 30 basis points to 3.5%, as compared to the same period last year."

The total gross profit margin for the year improved 80 basis points as compared to the same period last year. Sales general & administrative (SG&A) expense, as a percentage of gross profit, improved by 160 basis points as compared to last year.

"We owe our margin improvements for the year to a store network that runs on strong operating systems that are common to all stores, the improving strength of our workforce and a regional market focus. Our ability to integrate new stores, and improve the performance of existing stores is better today than ever before. We are building our company for long-term success," concluded Mr. DeBoer.

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For the fourth quarter, Lithia's net income from continuing operations was \$9.9 million equal to \$9.9 million in the same period last year. Earnings per share from continuing operations, excluding the dilutive effect of the change in accounting for convertible notes, were \$0.52, the same as in the fourth quarter of last year. Including the effect of the accounting change for convertible notes, earnings per share from continuing operations were \$0.48 per fully diluted share.

Fourth quarter total revenues increased 9% to \$669.8 million from \$612.2 million in the same period last year. New vehicle sales increased 8%, used vehicle sales increased 10%, parts/service sales increased 13%, and finance/insurance sales increased 15%.

Jeffrey B. DeBoer, Senior Vice President and CFO added, "In the fourth quarter, Lithia completed four acquisitions; Chrysler and Jeep franchises in Santa Rosa, California; BMW of Anchorage, Alaska; Lithia Chrysler Dodge Jeep of Santa Fe, New Mexico and Lithia Dodge of Helena, Montana. These

stores have combined annualized sales of approximately \$60 million. More recently, we acquired Chrysler and Jeep franchises in Concord, California that were added to our Dodge store in that market, a Chrysler franchise in Eugene, Oregon that was added to our Dodge store in that market and finally a Chrysler Dodge Jeep store in Omaha, Nebraska. So far this year we have completed acquisitions with approximately \$110 million in annualized sales. For the year, we acquired approximately \$340 million in annualized sales, which represents nearly 14% growth on our total revenues of \$2.5 billion in 2003."

"Our guidance for the first quarter and full-year 2005 is included in the table below. It includes the effect of the new accounting pronouncements for convertible notes and stock options," concluded Jeffrey B. DeBoer.

| EPS excluding new accounting | 1Q 2005 | 2005 | 2004 |
|---------------------------------|-----------------|-----------------|----------|
| pronouncements: | \$0.43 - \$0.45 | \$2.33 - \$2.43 | \$2.22 |
| Effect of Convertible Notes | (\$0.03) | (\$0.16) | (\$0.10) |
| Effect of FAS 123(R) (6 months) | - | (\$0.05) | N/A |
| EPS - Reportable | \$0.40 - \$0.42 | \$2.12 - \$2.22 | N/A |

In October of 2004, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) ratified Issue No. 04-8, requiring the company to include in its share count in determining diluted earnings per share, the shares potentially issuable to the holders of its \$85,000,000 in principle amount 2.875% Senior Subordinated Notes Due 2014, even though the holder of such notes cannot convert the notes into common stock except under certain limited circumstances and then only at a conversion price of approximately \$37.69 per share. Previously, the shares issuable would only have been included in the calculation of diluted EPS if the holders were then entitled to convert the notes. For purposes of calculating diluted EPS for the fourth quarter and full-year ended 2004, Lithia was required to increase its share count by the amount contingently issuable to the noteholders. This resulted in an additional 2.256 million shares for the fourth quarter and 1.485 million shares for the full-year. Adoption of the accounting statement change does not affect the cash flow of the company.

Also in December 2004, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Statement 123 (revised 2004) ("FAS 123 (R)") that will require that the value of all equity-based compensation arrangements, including stock options and employee stock purchase plans, be accounted for using a "fair value" method. Previously, the Company had accounted for such arrangements under the "intrinsic method" permitted by APB 25. The new rules, absent any change, will be effective for the Company commencing with the third quarter of 2005. Adoption of this accounting change does not affect the cash flow of the Company.

Conference Call Information

Lithia Motors will be providing more detailed information on the results for the fourth quarter and full-year 2004 in its conference call scheduled for 8 a.m. PT today. The call can be accessed live by calling 973-582-2700. To listen to a live webcast or hear a replay, log-on to: www.lithia.com - go to Investor Relations - and click on the Live Webcast icon.

About Lithia

Lithia Motors, Inc. is a Fortune 1000 and Russell 2000 Company that sells 25 brands of new vehicles and operates 87 stores and 171 franchises in 13 states in the Western United States and over the Internet through "Lithia.com-America's Car & Truck Store." Lithia also sells used vehicles; arranges finance, warranty, and credit insurance contracts; and provides vehicle parts, maintenance, and repair services at all of its locations. Lithia retailed 98,331 new and used vehicles and had \$2.7 billion in total revenue in 2004.

Forward Looking Statements

This press release includes forward looking statements within the meaning of the "Safe-Harbor" provisions of the Private Securities Litigation Reform Act of 1995, which management believes are a benefit to shareholders. These statements are necessarily subject to risk and uncertainty and actual results could differ materially due to certain risk factors, including without limitation economic

conditions, acquisition risk factors and others set forth from time to time in the company's filings with the SEC. Specific risks in this press release include the benefits or strength of Lithia's operating model, anticipated revenues of recently acquired stores and projected first quarter and full-year 2005 earnings per share guidance, and potential changes in accounting standards.

Additional Information

For additional information on Lithia Motors, contact the Investor Relations Department: (541) 776-6591 or log-on to: www.lithia.com - go to [Investor Relations](#).

LITHIA MOTORS, INC.

(In Thousands except per share and unit data)

Unaudited

| | Twelve Months Ended December 31, | | \$Increase (Decrease) | % Increase (Decrease) |
|-------------------------------|---|------------------|----------------------------------|----------------------------------|
| | 2004 | 2003 | | |
| New Vehicle Sales | \$1,589,613 | \$1,441,000 | \$148,613 | 10.3% |
| Used Vehicle Sales | 755,822 | 725,547 | 30,275 | 4.2 |
| Finance & Insurance | 101,374 | 89,982 | 11,392 | 12.7 |
| Service, Body & Parts Sales | 290,386 | 251,316 | 39,070 | 15.5 |
| Fleet & Other Revenues | 8,592 | 5,657 | 2,935 | 51.9 |
| Total Revenues | 2,745,787 | 2,513,502 | 232,285 | 9.2 |
| Cost of Sales | 2,285,851 | 2,110,393 | 175,458 | 8.3 |
| Gross Profit | 459,936 | 403,109 | 56,827 | 14.1 |
| SG&A Expense | 349,946 | 313,289 | 36,657 | 11.7 |
| Depreciation/Amortization | 13,143 | 9,593 | 3,550 | 37.0 |
| Income from Operations | 96,847 | 80,227 | 16,620 | 20.7 |
| Flooring Interest Expense | (16,702) | (13,997) | (2,705) | 19.3 |
| Other Interest Expense | (9,174) | (6,081) | (3,093) | 50.9 |
| Other Income (Expense), net | (1,520) | (951) | (569) | 59.8 |

Income from continuing operations

| | | | | |
|--|---------------|---------------|---------------|-------------|
| before income taxes | 69,451 | 59,198 | 10,253 | 17.3 |
| Income Tax Expense | 26,878 | 23,561 | 3,317 | 14.1 |
| Income Tax Rate | 38.7% | 39.8% | | |
| Net Income from continuing ops. | 42,573 | 35,637 | 6,936 | 19.5 |

| | | | | |
|---|-----------------|-----------------|----------------|--------------|
| Income (Loss) from discontinued operations, net of income taxes | 98 | (90) | 188 | |
| Net Income | \$42,671 | \$35,547 | \$7,124 | 20.0% |

Diluted Net income per share before effect of convertibles notes:

| | | | | |
|-------------------------|---------------|---------------|---------------|--------------|
| Continuing Operations | \$2.22 | \$1.92 | \$0.30 | 15.6% |
| Discontinued Operations | 0.01 | 0.00 | | |

| | | | | |
|-------------------|---------------|---------------|-------------|--------------|
| Net Income | \$2.23 | \$1.92 | 0.31 | 16.1% |
|-------------------|---------------|---------------|-------------|--------------|

| | | | | |
|----------------------------|--------|--------|-----|------|
| Diluted Shares Outstanding | 19,162 | 18,546 | 616 | 3.3% |
|----------------------------|--------|--------|-----|------|

Diluted Net income per share including effect of convertibles notes:

| | | | | |
|---|---------------|---------------|---------------|--------------|
| Continuing Operations | \$2.22 | \$1.92 | \$0.30 | 15.6% |
| Effects of convertible senior sub.notes | (0.10) | N/A | | |
| Discontinued Operations | 0.01 | 0.00 | | |

| | | | | |
|-------------------|---------------|---------------|-------------|--------------|
| Net Income | \$2.13 | \$1.92 | 0.21 | 10.9% |
|-------------------|---------------|---------------|-------------|--------------|

| | | | | |
|----------------------------|--------|--------|-------|-------|
| Diluted Shares Outstanding | 20,647 | 18,546 | 2,101 | 11.3% |
|----------------------------|--------|--------|-------|-------|

Unit Sales:

| | 2004 | 2003 | | |
|-----------------------|-------------|-------------|---------|--------|
| New Vehicle | 56,529 | 53,804 | 2,725 | 5.1% |
| Used - Retail Vehicle | 41,802 | 41,451 | 351 | 0.8 |
| Used - Wholesale | 23,137 | 25,982 | (2,845) | (10.9) |
| Total Units Sold | 121,468 | 121,237 | 231 | 0.2 |

Average Selling Price:

| | | | | |
|-----------------------|----------|----------|---------|------|
| New Vehicle | \$28,120 | \$26,782 | \$1,338 | 5.0% |
| Used - Retail Vehicle | 15,093 | 14,550 | 543 | 3.7 |
| Used - Wholesale | 5,399 | 4,713 | 686 | 14.6 |

Key Financial Data:

| | | |
|-----------------------------|-------|-------|
| Gross Profit Margin | 16.8% | 16.0% |
| SG&A as a % of Gross Profit | 76.1% | 77.7% |

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| | | |
|------------------|------|------|
| Operating Margin | 3.5% | 3.2% |
| Pre-Tax Margin | 2.5% | 2.4% |

(In Thousands except per share and unit data)

Unaudited

| | Three Months Ended December 31, | | \$Increase (Decrease) | % Increase (Decrease) |
|--|------------------------------------|----------------|--------------------------|--------------------------|
| | 2004 | 2003 | | |
| New Vehicle Sales | \$384,790 | \$357,303 | \$27,487 | 7.7% |
| Used Vehicle Sales | 183,196 | 166,079 | 17,117 | 10.3 |
| Finance & Insurance | 25,216 | 22,023 | 3,193 | 14.5 |
| Service, Body & Parts Sales | 74,590 | 65,950 | 8,640 | 13.1 |
| Fleet & Other Revenues | 1,986 | 835 | 1,151 | 137.8 |
| Total Revenues | 669,778 | 612,190 | 57,588 | 9.4 |
| Cost of Sales | 556,581 | 512,111 | 44,470 | 8.7 |
| Gross Profit | 113,197 | 100,079 | 13,118 | 13.1 |
| SG&A Expense | 85,832 | 75,571 | 10,261 | 13.6 |
| Depreciation/Amortization | 3,846 | 2,704 | 1,142 | 42.2 |
| Income from Operations | 23,519 | 21,804 | 1,715 | 7.9 |
| Flooring Interest Expense | (4,465) | (3,455) | (1,010) | 29.2 |
| Other Interest Expense | (2,813) | (1,633) | (1,180) | 72.3 |
| Other Expense, net | (321) | (306) | (15) | 4.9 |
| Income from continuing operations before income taxes | 15,920 | 16,410 | (490) | (3.0) |
| Income Tax Expense | 6,001 | 6,531 | (530) | (8.1) |
| Income Tax Rate | 37.7% | 39.8% | | |
| Net Income from continuing ops. | 9,919 | 9,879 | 40 | 0.4 |
| Income (Loss) from discontinued operations, net of income taxes | (37) | 103 | (140) | |
| Net Income | \$9,882 | \$9,982 | (100) | (1.0)% |
| Diluted Net income per share before effect of convertibles notes: | | | | |
| Continuing Operations | \$0.52 | \$0.52 | \$0.00 | 0.0% |
| Discontinued Operations | 0.00 | 0.01 | | |
| Net Income | \$0.52 | \$0.53 | (0.01) | (1.9)% |

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Diluted Shares Outstanding | 19,260 | 18,922 | 338 | 1.8% |
| Diluted Net income per share including effect of convertibles notes: | | | | |
| Continuing Operations | \$0.52 | \$0.52 | \$0.00 | 0.0% |
| Effects of convertible senior sub. notes | (0.04) | N/A | | |
| Discontinued Operations | 0.00 | 0.01 | | |
| Net Income | \$0.48 | \$0.53 | (0.05) | (9.4)% |
| Diluted Shares Outstanding | 21,516 | 18,922 | 2,594 | 13.7% |

Unit Sales:

| | 2004 | 2003 | | |
|-----------------------|-------------|-------------|-------|--------|
| New Vehicle | 13,274 | 12,716 | 558 | 4.4% |
| Used - Retail Vehicle | 9,927 | 9,415 | 512 | 5.4 |
| Used - Wholesale | 5,176 | 6,061 | (885) | (14.6) |
| Total Units Sold | 28,377 | 28,192 | 185 | 0.7 |

Average Selling Price:

| | | | | |
|-----------------------|----------|----------|-------|------|
| New Vehicle | \$28,988 | \$28,099 | \$889 | 3.2% |
| Used - Retail Vehicle | 15,451 | 14,663 | 788 | 5.4 |
| Used - Wholesale | 5,760 | 4,625 | 1,135 | 24.5 |

Key Financial Data:

| | | |
|-----------------------------|-------|-------|
| Gross Profit Margin | 16.9% | 16.3% |
| SG&A as a % of Gross Profit | 75.8% | 75.5% |
| Operating Margin | 3.5% | 3.6% |
| Pre-Tax Margin | 2.4% | 2.7% |

Gross Margin/Profit Data

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|----------------------------------|--|-------------|---|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| New Vehicle Retail | 7.8% | 7.8% | 7.8% | 7.7% |
| Used Vehicle Retail | 14.1% | 13.6% | 14.3% | 13.8% |
| Used Vehicle Wholesale | 1.5% | 0.5% | 2.9% | (0.2)% |
| Service, Body & Parts | 48.0% | 47.3% | 48.1% | 47.2% |
| New Retail Gross Profit/Unit | \$2,247 | \$2,182 | \$2,200 | \$2,055 |
| Used Retail Gross Profit/Unit | \$2,182 | \$1,998 | \$2,152 | \$2,010 |
| Used Wholesale Gross Profit/Unit | \$86 | \$25 | \$157 | \$(8) |
| Finance & Insurance/Retail Unit | \$1,087 | \$951 | \$1,031 | \$945 |

Same Store Data

| | Three Months Ended December 31, | | Twelve Months Ended December 31, |
|---|------------------------------------|-------|-------------------------------------|
| | 2004 | 2003 | 2004 |
| New Vehicle Retail Sales | -3.3% | 2.3% | 2.4% |
| Used Vehicle Sales (includes Wholesale) | 1.7% | -8.7% | 5.7% |
| Total Vehicle Sales (excludes fleet) | -1.7% | -1.5% | 3.5% |
| Service, Body & Parts Sales | 2.9% | 2.2% | 3.0% |
| Finance & Insurance Sales | 6.2% | 0.4% | 1.9% |
| Total Sales (Excluding Fleet) | -1.0% | -1.0% | 2.7% |
| Total Gross Profit (Excluding Fleet) | 2.6% | -0.7% | 1.9% |
| | | | 2003 |
| | | | 6.2% |
| | | | -8.8% |
| | | | 0.7% |
| | | | 0.7% |
| | | | 5.1% |
| | | | 0.8% |
| | | | 0.7% |

Balance Sheet Highlights (Dollars in Thousands)

| <u>Unaudited</u> | December 31, 2004 | December 31, 2003 |
|-----------------------------|--------------------|--------------------|
| Cash & Cash Equivalents | \$29,264 | \$74,408 |
| Trade Receivables* | 84,489 | 87,116 |
| Inventory | 536,653 | 445,281 |
| Assets Held for Sale | 135 | 20,408 |
| Other Current Assets | 12,334 | 9,724 |
| Total Current Assets | 662,875 | 636,937 |
| Real Estate, net | 226,356 | 164,676 |
| Equipment & Leases, net | 73,275 | 62,637 |
| Goodwill, net | 244,532 | 207,027 |
| Other Assets | 49,866 | 31,505 |
| Total Assets | \$1,256,904 | \$1,102,782 |

| | | |
|----------------------------------|----------------|----------------|
| Floorplan Notes Payable | \$450,859 | \$378,961 |
| Liabilities Held for Sale | 0 | 13,045 |
| Other Current Liabilities | 85,839 | 84,865 |
| Total Current Liabilities | 536,698 | 476,871 |
| Used Vehicle Flooring | 0 | 56,267 |
| Real Estate Debt | 139,702 | 80,159 |
| Other Long-Term Debt | 127,608 | 98,308 |
| Other Liabilities | 46,950 | 32,251 |

| | | |
|---|--------------------|--------------------|
| Total Liabilities | 850,958 | 743,856 |
| Shareholders' Equity | 405,946 | 358,926 |
| Total Liabilities & Shareholders' Equity | \$1,256,904 | \$1,102,782 |

* Includes contracts-in-transit of \$42,913 and \$44,709 for 2004 and 2003 respectively.

Other Balance Sheet Data (Dollars in Thousands)

| | | |
|---|-----------|-----------|
| Current Ratio | 1.2x | 1.3x |
| LT Debt/Total Cap. (Excluding Used - Vehicle Flooring) | 40% | 33% |
| LT Debt/Total Cap. (Excluding Used - Vehicle Flooring and Real Estate) | 24% | 22% |
| Working Capital | \$126,177 | \$160,066 |
| Book Value per Basic Share | \$21.62 | \$19.63 |