AEROCENTURY CORP
Form 4
March 12, 2015

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
WALLACH EVAN M

(Last) (First) (Middle)

1440 CHAPIN AVENUE, SUITE 310

(Street)

BURLINGAME, CA 94010

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AEROCENTURY CORP [ACY]

3. Date of Earliest Transaction (Month/Day/Year)
03/12/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/12/2015		P		70	A	$ 13.85	170	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WALLACH EVAN M 1440 CHAPIN AVENUE SUITE 310 BURLINGAME, CA 94010	X			

Signatures

Evan M. Wallach	03/12/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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Operating income (loss)

183,518 (2,531

)

6,153 — 187,140

Income (loss) from continuing operations before income taxes

$165,788 $(2,531

)

$6,153 $— $169,410

Income tax (provision) benefit

(60,574

)

968 (2,353

)

(2,832

)

(64,791

)

Income (loss) from continuing operations, net of income tax

$105,214 $(1,563

)

$3,800 $(2,832

)

$104,619

Diluted income (loss) per share from continuing operations

$4.02 $(0.06

)

$0.14 $(0.11

)

$3.99

Diluted share count

26,191

Liquidity and Capital Resources

We manage our liquidity and capital resources to fund our operating, investing and financing activities. We rely primarily on cash flows from operations and borrowings under our credit facilities 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, debt retirement, cash dividends, share repurchases and general business purposes.

Available Sources

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

	As of December 31,			%
	2015	2014	Increase	Increase
Cash and cash equivalents	$45,008	$29,898	$15,110	50.5 %
Available credit on the credit facilities	134,120	70,391	63,729	90.5
Total current available funds	179,128	100,289	78,839	78.6
Estimated funds from unfinanced real estate	158,605	109,434	49,171	44.9
Total estimated available funds	$337,733	$209,723	$128,010	61.0

Cash flows generated by operating activities and from our credit facility are our most significant sources of liquidity. We also have the ability to raise funds through mortgaging real estate. As of December 31, 2015, our unencumbered owned operating real estate had a book value of $211.5 million. Assuming we can obtain financing on 75% of this value, we estimate we could have obtained additional funds of approximately $158.6 million at December 31, 2015; however, no assurances can be provided that the appraised value of these properties will match or exceed their book values or that this capital source will be available on terms acceptable to us.

In addition to the above sources of liquidity, potential sources include the placement of subordinated debentures 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 (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	$74,209	$30,319	$32,059

Net cash used in investing activities	(169,733)	(736,332)	(130,322)
Net cash provided by financing activities	110,634	712,225	79,110

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Operating Activities

Cash provided by operating activities increased $43.9 million in 2015 compared to 2014, primarily as a result of increased profitability and improved trade receivables collections, partially offset by increased inventory purchases.

Borrowings from and repayments to our syndicated lending group 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 net cash provided by operating activities adjusted to include cash activity associated with our new vehicle credit facility.

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

	Year Ended December 31,		
	2015	**2014**	**Change**
Net cash provided by operating activities – as reported	$74,209	$30,319	$43,890
Add: Net borrowings on floor plan notes payable: non-trade	136,201	440,341	(304,140)
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(25,642)	(257,363)	231,721
Net cash provided by operating activities – adjusted	$184,768	$213,297	$(28,529)

	Year Ended December 31,		
	2014	**2013**	**Change**
Net cash provided by operating activities – as reported	$30,319	$32,059	$(1,740)
Add: Net borrowings on floor plan notes payable: non-trade	440,341	128,636	311,705
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(257,363)	(25,148)	(232,215)
Net cash provided by operating activities – adjusted	$213,297	$135,547	$77,750

Inventories are the most significant component of our cash flow from operations. As of December 31, 2015, our new vehicle days supply was 67 days, or 5 days higher than our days supply as of December 31, 2014. Our days supply of used vehicles was 55 days as of December 31, 2015, or 2 days higher than our days supply as of December 31, 2014. We calculate days supply of inventory based on current inventory levels, excluding in-transit vehicles, and a 30-day historical cost of sales level. We have continued to focus on managing our unit mix and maintaining an appropriate level of new and used vehicle inventory.

Investing Activities

Net cash used in investing activities totaled $169.7 million and $736.3 million, respectively, for 2015 and 2014. Cash flows from investing activities relate primarily to capital expenditures, acquisition and divestiture activity and sales of property and equipment.

Below are highlights of significant activity related to our cash flows from investing activities (in thousands):

	Year Ended December 31,		**Increase (Decrease) in Cash Flow**
	2015	**2014**	
Capital expenditures	$(83,244)	$(85,983)	$2,739
Cash paid for acquisitions, net of cash acquired	(71,615)	(659,634)	588,019
Cash paid for other investments	(28,110)	(9,110)	(19,000)
Proceeds from sales of stores	12,966	10,617	2,349

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	Year Ended December 31,		Increase (Decrease) in Cash Flow
	2014	2013	
Capital expenditures	$(85,983)	$(50,025)	$(35,958)
Cash paid for acquisitions, net of cash acquired	(659,634)	(81,105)	(578,529)
Cash paid for other investments	(9,110)	(3,915)	(5,195)
Proceeds from sales of stores	10,617	—	10,617

Capital Expenditures

Below is a summary of our capital expenditure activities (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Post-acquisition capital improvements	$32,802	$20,760	$12,170
Facilities for open points	3,338	6,700	5,640
Purchases of previously leased facilities	9,946	25,082	6,894
Existing facility improvements	20,245	19,813	13,773
Maintenance	16,913	13,628	11,548
Total capital expenditures	$83,244	$85,983	$50,025

Many manufacturers provide assistance in the form of additional incentives or assistance if facilities meet manufacturer image 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 timelines.

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 image standards and requirements.

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.

We expect to make expenditures of approximately $100 million in 2016 for capital improvements at recently acquired stores, purchases of land for expansion of existing stores, facility image improvements, purchases of store facilities, purchases of previously leased facilities and replacement of equipment.

Acquisitions

We focus on acquiring stores at opportunistic 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 (dollars in thousands):

	Year Ended December 31,		
	2015	**2014**	**2013**
Number of stores acquired	6	35	6
Number of stores opened	1	—	1
Number of franchises added	1	1	—
Cash paid for acquisitions, net of cash acquired	$71,615	$659,634	$81,105
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(25,642)	(257,363)	(25,148)
Cash paid for acquisitions, net of cash acquired – adjusted	$45,973	$402,271	$55,957

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash provided by financing activities, as reported	$110,634	$712,225	$79,110
Less: cash provided by borrowings of floor plan notes payable: non-trade	(136,201)	(440,341)	(128,636)
Cash provided by (used in) financing activities, as adjusted	$(25,567)	$271,884	$(49,526)

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

	Year Ended	**Decrease in**

	December 31,		
	2015	**2014**	**Cash Flow**
Net borrowings (repayments) on lines of credit	$(36,523)	$183,769	$(220,292)
Principal payments on long-term debt, unscheduled	(9,189)	—	(9,189)
Proceeds from the issuance of long-term debt	75,675	124,902	(49,227)
Repurchases of common stock	(31,548)	(22,968)	(8,580)
Dividends paid	(19,985)	(15,929)	(4,056)

	Year Ended December 31,		**Increase (Decrease) in Cash Flow**
	2014	**2013**	
Net borrowings (repayments) on lines of credit	$183,769	$(14,355)	$198,124
Principal payments on long-term debt, unscheduled	—	(25,770)	25,770
Proceeds from the issuance of long-term debt	124,902	4,720	120,182
Repurchases of common stock	(22,968)	(7,903)	(15,065)
Dividends paid	(15,929)	(10,085)	(5,844)

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Borrowing and Repayment Activity

During 2015, we raised net mortgage proceeds of $75.7 million, which were used to pay down $36.5 million on our line of credit, increasing availability on our credit facility. The remaining net mortgage proceeds were primarily used for acquisitions and capital expenditures.

Our debt to total capital ratio, excluding floor plan notes payable, was 43.8% at December 31, 2015 compared to 48.8% at December 31, 2014. We partially funded our 2014 acquisition activity, including the DCH Auto Group acquisition, with additional debt.

Equity Transactions

Under the share repurchase program authorized by our Board of Directors and repurchases associated with stock compensation activity, we repurchased 306,386 shares of our Class A common stock at an average price of $102.84 per share in 2015. As of December 31, 2015, we had 1.3 million shares available for repurchase under our share repurchase program. The authority to repurchase does not have an expiration date.

In 2016 to date, we have repurchased approximately 594,123 shares at a weighted average price of $79.11 per share. As of February 26, 2016, under our existing share repurchase authorization, approximately 677,364 shares remain available for purchase.

During 2015, we paid dividends on our Class A and Class B Common Stock as follows:

Dividend paid:	**Dividend amount per share**	**Total amount of dividend (in thousands)**
March 2015	$ 0.16	$ 4,216
May 2015	0.20	5,266
August 2015	0.20	5,257
November 2015	0.20	5,246

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

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

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

	Outstanding as of December 31, 2015	**Remaining Available as of December 31, 2015**	
Floor plan note payable: non-trade	$ 1,265,872	$ —	(1)
Floor plan notes payable	48,083	—	
Used vehicle inventory financing facility	171,000	436	(2)
Revolving lines of credit	61,246	133,684	(2),(3)
Real estate mortgages	387,861	—	
Other debt	25,247	—	
Total debt	$ 1,959,309	$ 134,120	

(1) As of December 31, 2015, we had a $1.45 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 December 31, 2015. This amount is reduced by $8.6 million for outstanding letters of credit.

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Credit Facility

We have a $1.85 billion revolving syndicated credit facility that matures in January 2021. This syndicated credit facility is comprised of 18 financial institutions, including eight manufacturer-affiliated finance companies. We may request a reallocation of any unused portion of our credit facility provided that the used vehicle inventory floor plan commitment does not exceed $250 million, the revolving financing commitment does not exceed $300 million, and the sum of those commitments plus the new vehicle inventory floor plan financing commitment does not exceed the total aggregate financing commitment. This credit facility may be expanded to $2.1 billion total availability, subject to lender approval. All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

The new vehicle floor plan commitment is collateralized by our new vehicle inventory. Our used vehicle inventory financing facility is collateralized by our used vehicle inventory that has been in stock for less than 180 days. Our revolving line of credit is secured by our outstanding receivables related to vehicle sales, unencumbered vehicle inventory, other eligible receivables, parts and accessories and equipment.

We have the ability to deposit up to $50 million in cash in Principal Reduction (PR) accounts associated with our new vehicle inventory floor plan commitment. The PR accounts are recognized as offsetting credits against outstanding amounts on our new vehicle floor plan commitment and would reduce interest expense associated with the outstanding principal balance. As of December 31, 2015, we had no balances in our PR accounts.

If the outstanding principal balance on our new vehicle inventory floor plan commitment, plus requests on any day, exceeds 95% of the loan commitment, a portion of the revolving line of credit must be reserved. The reserve amount is equal to the lesser of $15.0 million or the maximum revolving line of credit commitment less the outstanding balance on the line less outstanding letters of credit. The reserve amount will decrease the revolving line of credit availability and may be used to repay the new vehicle floor plan commitment balance.

The interest rate on the credit facility varies based on the type of debt, with the rate of one-month LIBOR plus 1.25% for new vehicle floor plan financing, one-month LIBOR plus 1.50% for used vehicle floor plan financing; and a variable interest rate on the revolving financing ranging from the one-month LIBOR plus 1.25% to 2.50%, depending on our leverage ratio. The annual interest rate associated with our new vehicle floor plan commitment, excluding the effects of our interest rate swaps, was 1.68% at December 31, 2015. The annual interest rate associated with our used vehicle inventory financing facility and our revolving line of credit was 1.93% and 2.18%, respectively, at December 31, 2015.

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

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

Debt Covenant Ratio	**Requirement**			**As of December 31, 2015**		
Current ratio	Not less than 1.10	to	1	1.26	to	1
Fixed charge coverage ratio	Not less than 1.20	to	1	3.36	to	1
Leverage ratio	Not more than 5.00	to	1	1.79	to	1
Funded debt restriction	Not to exceed $600 million			$413.4 million		

As of December 31, 2015, 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.

Floor Plan Notes Payable

We have floor plan agreements with manufacturer-affiliated finance companies for vehicles that are designated for use as service loaners. The variable interest rates on these floor plan notes payable commitments vary by manufacturer. At December 31, 2015, $48.1 million was outstanding on these arrangements. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Real Estate Mortgages and Other Debt

We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 1.8% to 5.0% at December 31, 2015. The mortgages are payable in various installments through October 2034. As of December 31, 2015, we had fixed interest rates on 70.0% of our outstanding mortgage debt.

Our other debt includes capital leases, sellers' notes and our equity contribution obligations associated with the new markets tax credit equity-method investment. The interest rates associated with our other debt ranged from 2.2% to 6.5% at December 31, 2015. This debt, which totaled $25.2 million at December 31, 2015, is due in various installments through January 2024.

Contractual Payment Obligations

A summary of our contractual commitments and obligations as of December 31, 2015, was as follows (in thousands):

	Payments Due By Period				
Contractual Obligation	**Total**	**2016**	**2017 and 2018**	**2019 and 2020**	**2021 and beyond**
New vehicle floor plan commitment[(1)]	$1,265,872	$1,265,872	$—	$—	$—
Floor plan notes payable[(1)]	48,083	48,083	—	—	—
Used vehicle inventory financing facility	171,000	—	—	—	171,000
Revolving lines of credit	61,246		246		61,000
Real estate debt, including interest	470,904	29,894	102,515	93,364	245,131
Other debt, including capital leases and interest	26,754	23,371	1,023	982	1,378
Charge-backs on various contracts	35,033	19,638	14,034	1,338	23
Operating leases[(2)]	230,261	25,514	43,728	37,926	123,093
Self-insurance programs	25,934	10,704	9,617	3,253	2,355
Fixed rate payments on interest rate swaps	585	585	—	—	—
	$2,335,672	$1,421,172	$161,546	$133,610	$619,344

(1) Amounts for floor plan notes payable, the used vehicle inventory financing facility and the revolving line of credit do not include estimated interest payments. See Notes 1 and 6 in the Notes to Consolidated Financial Statements.

(2) Amounts for operating lease commitments do not include sublease income, and certain operating expenses such as maintenance, insurance and real estate taxes. See Note 7 in the Notes to Consolidated Financial Statements.

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.

Inflation and Changing Prices

Inflation and changing prices did not have a material impact on our revenues or income from continuing operations in the years ended December 31, 2015, 2014 and 2013.

Selected Consolidated Quarterly Financial Data

The following tables set forth our unaudited quarterly financial data (in thousands, except per share amounts):(1) (2)

2015	**Three Months Ended,**			
	March 31	**June 30**	**September 30**	**December 31**
Revenues:				
New vehicle	$1,007,816	$1,149,512	$1,227,080	$1,167,893
Used vehicle retail	462,931	488,801	505,885	469,399
Used vehicle wholesale	62,208	66,796	69,472	63,054
Finance and insurance	64,604	72,463	76,633	69,318
Service, body and parts	173,475	182,695	189,796	193,024
Fleet and other	18,144	36,680	15,979	30,594
Total revenues	1,789,178	1,996,947	2,084,845	1,993,282
Cost of sales	1,515,803	1,699,298	1,773,658	1,699,859
Gross profit	273,375	297,649	311,187	293,423
Asset impairments	4,130	6,130	4,131	5,733
Selling, general and administrative	191,618	195,610	223,728	200,219
Depreciation and amortization	9,726	10,287	10,531	11,056
Operating income	67,901	85,622	72,797	76,415
Floor plan interest expense	(4,649)	(4,655)	(4,951)	(5,279)
Other interest expense	(4,828)	(4,972)	(4,900)	(4,791)
Other (expense) income, net	(368)	(356)	(307)	25
Income before income taxes	58,056	75,639	62,639	66,370
Income tax provision	(17,403)	(24,416)	(19,248)	(18,638)
Net income	$40,653	$51,223	$43,391	$47,732
Basic net income per share	$1.55	$1.95	$1.64	$1.82
Diluted net income per share	$1.53	$1.93	$1.64	$1.80

2014	Three Months Ended,			
	March 31	June 30	September 30	December 31
Revenues:				
New vehicle	$579,522	$694,484	$732,121	$1,071,543
Used vehicle retail	301,893	310,475	340,522	409,591
Used vehicle wholesale	42,693	44,286	48,853	59,867
Finance and insurance	39,631	43,838	46,855	60,057
Service, body and parts	104,617	114,337	120,772	172,398
Fleet and other	9,750	14,382	7,988	19,851
Total revenues	1,078,106	1,221,802	1,297,111	1,793,307
Cost of sales	906,045	1,029,502	1,099,271	1,532,186
Gross profit	172,061	192,300	197,840	261,121
Asset impairments	—	—	—	1,853
Selling, general and administrative	121,829	125,463	131,627	184,288
Depreciation and amortization	5,507	5,825	6,067	8,964
Operating income	44,725	61,012	60,146	66,016
Floor plan interest expense	(2,984)	(3,215)	(3,127)	(4,535)
Other interest expense	(1,974)	(1,869)	(2,051)	(4,848)
Other income, net	937	1,146	1,027	89
Income from continuing operations before income taxes	40,704	57,074	55,995	56,722
Income tax provision	(16,010)	(21,904)	(21,458)	(15,583)
Income before discontinued operations	24,694	35,170	34,537	41,139
Discontinued operations, net of tax	40	3,139	—	1
Net income	$24,734	$38,309	$34,537	$41,140
Basic income per share from continuing operations	$0.95	$1.35	$1.32	$1.57
Basic income per share from discontinued operations	—	0.12	—	—
Basic net income per share	$0.95	$1.47	$1.32	$1.57
Diluted income per share from continuing operations	$0.94	$1.34	$1.31	$1.56
Diluted income per share from discontinued operations	—	0.11	—	—
Diluted net income per share	$0.94	$1.45	$1.31	$1.56

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

(2) Certain reclassifications of amounts previously reported have been made to the quarterly financial data to maintain consistency and comparability between periods presented.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Variable Rate Debt

Our credit facility, other floor plan notes payable and certain real estate mortgages are structured as variable rate debt. The interest rates on our variable rate debt are tied to either the one-month LIBOR or the prime rate. These debt obligations, therefore, expose us to variability in interest payments due to changes in these rates. Certain floor plan debt is based on open-ended lines of credit tied to each individual store from the various manufacturer finance companies.

Our variable-rate floor plan notes payable, variable rate mortgage notes payable and other credit line borrowings subject us to market risk exposure. At December 31, 2015, we had $1.7 billion outstanding under such agreements at a weighted average interest rate of 1.8% per annum. A 10% increase in interest rates, or 18 basis points, would increase annual interest expense by approximately $1.8 million, net of tax, based on amounts outstanding at December 31, 2015.

Fixed Rate Debt

The fair value of our long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair value of fixed interest rate debt will increase as interest rates fall because we would expect to be able to refinance for a lower rate. Conversely, the fair value of fixed interest rate debt will decrease as interest rates rise. The interest rate changes affect the fair value but do not impact earnings or cash flows.

At December 31, 2015, we had $297.5 million of long-term fixed interest rate debt outstanding and recorded on the balance sheet, with maturity dates between November 2016 and October 2034. Based on discounted cash flows using current interest rates for comparable debt, we have determined that the fair value of this long-term fixed interest rate debt was approximately $297.0 million at December 31, 2015.

Hedging Strategies

We believe it may be prudent to limit the variability of a portion of our interest payments. Accordingly, from time to time we have entered into interest rate swaps to manage the variability of our interest rate exposure, thus leveling a portion of our interest expense in a changing rate environment.

We have effectively changed the variable-rate cash flow exposure on a portion of our floor plan debt to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, we receive variable interest rate payments and make fixed interest rate payments, thereby creating fixed rate floor plan debt.

We do not enter into derivative instruments for any purpose other than to manage interest rate exposure. That is, we do not engage in interest rate speculation using derivative instruments. Typically, we designate all interest rate swaps as cash flow hedges.

As of December 31, 2015, we had a $25 million interest rate swap outstanding with U.S. Bank Dealer Commercial Services. This interest rate swap matures on June 15, 2016 and has a fixed rate of 5.587% per annum. The variable rate on the interest rate swap is the one-month LIBOR rate. At December 31, 2015, the one-month LIBOR rate was 0.43% per annum, as reported in the Wall Street Journal.

The fair value of our interest rate swap agreement represents the estimated receipts or payments that would be made to terminate the agreement. The amounts related to our cash flow hedges are recorded as deferred gains or losses in our Consolidated Balance Sheets with the offset recorded in accumulated other comprehensive loss, net of tax. At December 31, 2015, the fair value of our interest rate swap agreement was a liability of $0.5 million. The estimated amount expected to be reclassified into earnings within the next twelve months was $0.5 million at December 31, 2015.

Risk Management Policies

We assess interest rate cash flow risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our policy is to manage this risk through a mix of fixed rate and variable rate debt structures and interest rate swaps.

We maintain risk management controls to monitor interest rate cash flow attributable to both our outstanding and forecasted debt obligations, as well as our offsetting hedge positions. The risk management controls include assessing the impact to future cash flows of changes in interest rates.

Item 8. **Financial Statements and Supplementary Financial Data**

The financial statements and notes thereto required by this item begin on page F-1 as listed in Item 15 of Part IV of this document. Quarterly financial data for each of the eight quarters in the two-year period ended December 31, 2015 is included in Item 7.

Item 9. **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

Item 9A. **Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, we used the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal controls over financial reporting during the year of the acquisition while integrating the acquired operations. Management's evaluation of internal control over financial reporting excludes the operations of the six dealerships acquired in 2015. These stores represent approximately 3% of consolidated total assets and less than 1% of consolidated revenues for the year ended December 31, 2015.

Based on our assessment, our management concluded that, as of December 31, 2015, our internal control over financial reporting was effective.

KPMG LLP, our Independent Registered Public Accounting Firm, has issued an attestation report on our internal control over financial reporting as of December 31, 2015, which is included in Item 8 of this Form 10-K.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Shareholders and, upon filing, is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Shareholders and, upon filing, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Equity Compensation Plan Information

The following table summarizes equity securities authorized for issuance as of December 31, 2015.

Plan Category	**Number of securities to be issued upon exercise of outstanding**	**Weighted average exercise price of outstanding options, warrants**	**Number of securities remaining available for future issuance under equity**

	options, warrants and rights (a)	and rights (b)	compensation plans (excluding securities reflected in column (a)) (c) [2]
Equity compensation plans approved by shareholders	411,074	$ —[1]	1,988,570
Equity compensation plans not approved by shareholders	—	—	—
Total	411,074	$ —	1,988,570

(1) There is no exercise price associated with our restricted stock units.

(2) Includes 1,520,910 shares available pursuant to our 2013 Amended and Restated Stock Incentive Plan and 467,660 shares available pursuant to our Employee Stock Purchase Plan.

The additional information required by this item will be included under the caption *Security Ownership of Certain Beneficial Owners and Management* in our Proxy Statement for our 2016 Annual Meeting of Shareholders and, upon filing, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Shareholders and, upon filing, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Shareholders and, upon filing, is incorporated herein by reference.

PART IV

Item 15. **Exhibits and Financial Statement Schedules**

Financial Statements and Schedules

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

	Page
Reports of Independent Registered Public Accounting Firm	F-1, F-2
Consolidated Balance Sheets as of December 31, 2015 and 2014	F-3
Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013	F-4
Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013	F-5
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013	F-7
Notes to Consolidated Financial Statements	F-8

There are no schedules required to be filed herewith.

Exhibit Index

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

Exhibit	Description
2.1	Stock Purchase Agreement between Lithia Motors, Inc. and DCH Auto Group (USA) Limited dated June 14, 2014 (incorporated by reference to exhibit 2.1 to the Company's Form 8-K filed October 3, 2014)
2.1.1	First Amendment to Stock Purchase Agreement between Lithia Motors, Inc. and DCH Auto Group (USA) Limited effective July 15, 2014 (incorporated by reference to exhibit 2.2 to the Company's Form 10-Q for the quarter ended June 30, 2014)
2.1.2	Second Amendment to Stock Purchase Agreement between Lithia Motors, Inc. and DCH Auto Group (USA) Limited effective November 13, 2014 (incorporated by reference to exhibit 2.1.2 to the Company's Form 10-K for the year ended December 31, 2014)
3.1	Restated Articles of Incorporation of Lithia Motors, Inc., as amended May 13, 1999 (incorporated by reference to exhibit 3.1 to the Company's Form 10-K for the year ended December 31, 1999)
3.2	2013 Amended and Restated Bylaws of Lithia Motors, Inc. (incorporated by reference to exhibit 3.1 to the Company's Form 8-K filed August 26, 2013)
10.1*	2009 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Proxy Statement for its 2009 annual meeting of shareholders filed on March 20, 2009)
10.1.1*	Amendment 2014-1 to the Lithia Motors, Inc. 2009 Employee Stock Purchase Plan (incorporated by reference to exhibit 10.1.1 to the Company's Form 10-K for the year ended December 31, 2014)
10.2*	Lithia Motors, Inc. 2013 Amended and Restated Stock Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed May 2, 2013)
10.2.1*	RSU Deferral Plan (incorporated by reference to exhibit 10.3.1 to the Company's Form 10-K for the year ended December 31, 2011)
10.2.2*	Amendment to RSU Deferral Plan (incorporated by reference to exhibit 10.2.2 to the Company's Form 10-K for the year ended December 31, 2014)
10.2.3*	Restricted Stock Unit (RSU) Deferral Election Form (incorporated by reference to exhibit 10.2.3 to the Company's Form 10-K for the year ended December 31, 2014)
10.3*	Form of Restricted Stock Unit Agreement (2015 Performance- and Time-Vesting) (for Senior Executives) (incorporated by reference to exhibit 10.3.7 to the Company's Form 10-K for the year ended December 31, 2014)

10.3.1*	Form of Restricted Stock Unit Agreement (2015 Long-Term Performance-Vesting) ($7.00 EPS award) (incorporated by reference to exhibit 10.3.8 to the Company's Form 10-K for the year ended December 31, 2014)
10.3.2*	Form of Restricted Stock Unit Agreement (2015 Time-Vesting) (incorporated by reference to exhibit 10.3.9 to the Company's Form 10-K for the year ended December 31, 2014)
10.3.3*	Form of Restricted Stock Unit Agreement (2016 Performance- and Time-Vesting) (for Senior Executives)
10.3.4*	Form of Restricted Stock Units Agreement (2015 Long-term Performance-Vesting) ($8.00 EPS award)
10.3.5*	Form of Restricted Stock Unit Agreement (2016 Time-Vesting)
10.4*	Lithia Motors, Inc. 2013 Discretionary Support Services Variable Performance Compensation Plan (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed May 2, 2013)
10.5*	Form of Outside Director Nonqualified Deferred Compensation Agreement (incorporated by reference to exhibit 10.20 to the Company's Form 10-K for the year ended December 31, 2005)
10.6	Amended and Restated Loan Agreement among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed October 3, 2014)
10.6.1	First Amendment to Amended and Restated Loan Agreement (incorporated by reference to exhibit 10.4 to the Company's Form 10-Q for the quarter ended March 31, 2015)

Exhibit	Description
10.6.2	Second Amendment to Amended and Restated Loan Agreement (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed December 22, 2015)
10.7*	Amended and Restated Split-Dollar Agreement (incorporated by reference to exhibit 10.17 to the Company's Form 10-K for the year ended December 31, 2012)
10.8*	Form of Indemnity Agreement for each Named Executive Officer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed May 29, 2009)
10.9*	Form of Indemnity Agreement for each non-management Director (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed May 29, 2009)
10.10*	Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (incorporated by reference to exhibit 10.22 to the Company's Form 10-K for the year ended December 31, 2010)
10.10.1*	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award for Sidney DeBoer (incorporated by reference to exhibit 10.22.1 to the Company's Form 10-K for the year ended December 31, 2010)
10.10.2*	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award (incorporated by reference to exhibit 10.22.2 to the Company's Form 10-K for the year ended December 31, 2010)
10.11*	Employment Agreement with Executive Vice President Brad Gray dated March 1, 2012 (incorporated by reference to exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2012)
10.11.1*	Amendment to Terms of Employment Agreement with Brad Gray dated April 30, 2013 (incorporated by reference to exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2013)
10.12*	Brad Gray Incentive Arrangement (incorporated by reference to exhibit 10.5 to the Company's Form 10-Q for the quarter ended March 31, 2015)
10.13*	Transition Agreement dated September 14, 2015 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed September 17, 2015)
10.14*	Director Service Agreement effective January 1, 2016 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed September 17, 2015)
10.15*	Incentive Agreement effective August 1, 2014 between Lithia Motors, Inc. and Brad Gray (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q filed May 1, 2015)
10.16*	Form of Employment and Change in Control Agreement dated February 4, 2016 between Lithia Motors, Inc. and Bryan DeBoer (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed February 5, 2016)[(1)]
12	Ratio of Earnings to Combined Fixed Charges

21	Subsidiaries of Lithia Motors, Inc.
23	Consent of KPMG LLP, Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Substantially similar agreements exist between Lithia Motors, Inc. and each of Scott Hillier, Christopher S. Holzshu, John F. North III, George Liang, Mark DeBoer and Tom Dobry. The "Cash Change in Control Benefits" under the agreements with Mr. Mark DeBoer and Mr. Dobry provide for 12 months of base salary rather than 24 months.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 26, 2016 LITHIA MOTORS, INC.

By /s/ Bryan B. DeBoer
Bryan B. DeBoer
Director, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 26, 2016:

Signature	Title
/s/ Bryan B. DeBoer Bryan B. DeBoer	Director, President and Chief Executive Officer. (Principal Executive Officer)
/s/ Christopher S. Holzshu Christopher S. Holzshu	Senior Vice President, Chief Financial Officer and Secretary
/s/ John F. North III John F. North III	Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ Sidney B. DeBoer Sidney B. DeBoer	Director and Executive Chairman
/s/ Thomas Becker Thomas Becker	Director
/s/ Susan O. Cain Susan O. Cain	Director
/s/ Shau-wai Lam Shau-wai Lam	Director

/s/ Kenneth E. Roberts Kenneth E. Roberts	Director
/s/ William J. Young William J. Young	Director

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Lithia Motors, Inc.:

We have audited the accompanying Consolidated Balance Sheets of Lithia Motors, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related Consolidated Statements of Operations, Comprehensive Income, Changes in Stockholders' Equity, and Cash Flows for each of the years in the three-year period ended December 31, 2015. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Lithia Motors, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lithia Motors, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 15 to the Consolidated Financial Statements, the Company has changed its method for reporting discontinued operations as of September 2014.

/s/ KPMG LLP

Portland, Oregon

February 26, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Lithia Motors, Inc.:

We have audited Lithia Motors, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lithia Motors, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Lithia Motors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Lithia Motors, Inc. completed the acquisition of six stores during 2015 and, as permitted, management elected to exclude all of these acquisitions from its assessment of internal control over financial reporting as of December 31, 2015. The total assets of these six acquisitions represented approximately 3% of consolidated total assets as of December 31, 2015 and approximately 1% of consolidated revenues for the year ended December 31, 2015. Our audit of internal control over financial reporting of Lithia Motors, Inc. also excluded an evaluation of the internal control over financial reporting of these six acquisitions.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Lithia Motors, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related Consolidated Statements of Operations, Comprehensive Income, Changes in Stockholders' Equity, and Cash Flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 26, 2016 expressed an unqualified opinion on those Consolidated Financial Statements.

/s/ KPMG LLP

Portland, Oregon

February 26, 2016

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

	December 31, 2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	$45,008	$29,898
Accounts receivable, net of allowance for doubtful accounts of $2,243 and $2,904	308,462	295,379
Inventories, net	1,470,987	1,249,659
Other current assets	54,408	32,010
Assets held for sale	—	8,563
Total Current Assets	1,878,865	1,615,509
Property and equipment, net of accumulated depreciation of $137,853 and $117,679	876,660	816,745
Goodwill	213,220	199,375
Franchise value	157,699	150,892
Other non-current assets	100,855	98,411
Total Assets	$3,227,299	$2,880,932
Liabilities and Stockholders' Equity		
Current Liabilities:		
Floor plan notes payable	$48,083	$41,047
Floor plan notes payable: non-trade	1,265,872	1,137,632
Current maturities of long-term debt	38,891	31,912
Trade payables	70,871	70,853
Accrued liabilities	167,108	153,661
Deferred income taxes	—	2,603
Liabilities related to assets held for sale	—	4,892
Total Current Liabilities	1,590,825	1,442,600
Long-term debt, less current maturities	606,463	609,066
Deferred revenue	66,734	54,403
Deferred income taxes	53,129	42,795
Other long-term liabilities	81,984	58,963
Total Liabilities	2,399,135	2,207,827
Stockholders' Equity:		
Preferred stock - no par value; authorized 15,000 shares; none outstanding	—	—
Class A common stock - no par value; authorized 100,000 shares; issued and outstanding 23,676 and 23,671	258,410	276,058
Class B common stock - no par value; authorized 25,000 shares; issued and outstanding 2,542 and 2,562	316	319
Additional paid-in capital	38,822	29,775
Accumulated other comprehensive loss	(277)	(926)

Retained earnings	530,893	367,879
Total Stockholders' Equity	828,164	673,105
Total Liabilities and Stockholders' Equity	$3,227,299	$2,880,932

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues:			
New vehicle	$4,552,301	$3,077,670	$2,256,598
Used vehicle retail	1,927,016	1,362,481	1,032,224
Used vehicle wholesale	261,530	195,699	158,235
Finance and insurance	283,018	190,381	139,007
Service, body and parts	738,990	512,124	383,483
Fleet and other	101,397	51,971	36,202
Total revenues	7,864,252	5,390,326	4,005,749
Cost of sales:			
New vehicle	4,271,931	2,879,486	2,105,480
Used vehicle retail	1,685,767	1,183,228	881,366
Used vehicle wholesale	257,073	192,053	155,524
Service, body and parts	375,069	262,388	197,913
Fleet and other	98,778	49,849	34,513
Total cost of sales	6,688,618	4,567,004	3,374,796
Gross profit	1,175,634	823,322	630,953
Asset impairments	20,124	1,853	—
Selling, general and administrative	811,175	563,207	427,400
Depreciation and amortization	41,600	26,363	20,035
Operating income	302,735	231,899	183,518
Floor plan interest expense	(19,534)	(13,861)	(12,373)
Other interest expense	(19,491)	(10,742)	(8,350)
Other (expense) income, net	(1,006)	3,199	2,993
Income from continuing operations before income taxes	262,704	210,495	165,788
Income tax provision	(79,705)	(74,955)	(60,574)
Income from continuing operations, net of income tax	182,999	135,540	105,214
Income from discontinued operations, net of income tax	—	3,180	786
Net income	$182,999	$138,720	$106,000
Basic income per share from continuing operations	$6.96	$5.19	$4.08
Basic income per share from discontinued operations	—	0.12	0.03
Basic net income per share	$6.96	$5.31	$4.11
Shares used in basic per share calculations	26,290	26,121	25,805
Diluted income per share from continuing operations	$6.91	$5.14	$4.02
Diluted income per share from discontinued operations	—	0.12	0.03
Diluted net income per share	$6.91	$5.26	$4.05
Shares used in diluted per share calculations	26,490	26,382	26,191

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Net income	$ 182,999	$ 138,720	$ 106,000
Other comprehensive income, net of tax:			
Gain on cash flow hedges, net of tax expense of $399, $380 and $668	649	612	1,077
Comprehensive income	$ 183,648	$ 139,332	$ 107,077

See accompanying notes to consolidated financial statements.

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

	Common Stock				Additional	Accumulated Other		Total
	Class A Shares	Amount	Class B Shares	Amount	Paid-In Capital	Comprehensive Loss	Retained Earnings	Stockholders' Equity
Balance at December 31, 2012	22,916	$ 268,801	2,762	$ 343	$ 12,399	$ (2,615)	$ 149,173	$ 428,101
Net income	—	—	—	—	—	—	106,000	106,000
Gain on cash flow hedges, net of tax expense of $668	—	—	—	—	—	1,077	—	1,077
Issuance of stock in connection with employee stock plans	283	5,149	—	—	—	—	—	5,149
Issuance of restricted stock to employees	117	—	—	—	—	—	—	—
Repurchase of Class A common stock	(187)	(7,903)	—	—	—	—	—	(7,903)
Class B common stock converted to Class A common stock	200	24	(200)	(24)	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	2,184	—	—	10,199	—	—	12,383
Dividends paid	—	—	—	—	—	—	(10,085)	(10,085)
Balance at December 31, 2013	23,329	268,255	2,562	319	22,598	(1,538)	245,088	534,722
Net income	—	—	—	—	—	—	138,720	138,720
Gain on cash flow hedges, net of tax expense of $380	—	—	—	—	—	612	—	612
Issuance of stock in connection with employee stock plans	118	4,590	—	—	—	—	—	4,590
Issuance of stock in connection with acquisitions	269	19,736	—	—	—	—	—	19,736
Issuance of restricted stock to employees	288	—	—	—	—	—	—	—
Repurchase of Class A common stock	(333)	(22,968)	—	—	—	—	—	(22,968)
Compensation for stock and stock option issuances and excess tax benefits	—	6,445	—	—	7,177	—	—	13,622

from option exercises								
Dividends paid	—	—	—	—	—	—	(15,929)	(15,929)
Balance at December 31, 2014	23,671	276,058	2,562	319	29,775	(926)	367,879	673,105
Net income	—	—	—	—	—	—	182,999	182,999
Gain on cash flow hedges, net of tax expense of $399	—	—	—	—	—	649	—	649
Issuance of stock in connection with employee stock plans	74	6,065	—	—	—	—	—	6,065
Issuance of restricted stock to employees	217	—	—	—	—	—	—	—
Repurchase of Class A common stock	(306)	(31,548)	—	—	—	—	—	(31,548)
Class B common stock converted to Class A common stock	20	3	(20)	(3)	—	—	—	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	—	7,832	—	—	9,047	—	—	16,879
Dividends paid	—	—	—	—	—	—	(19,985)	(19,985)
Balance at December 31, 2015	23,676	$ 258,410	2,542	$ 316	$ 38,822	$ (277)	$ 530,893	$ 828,164

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net income	$182,999	$138,720	$106,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Asset impairments	20,124	1,853	—
Depreciation and amortization	41,600	26,363	20,035
Stock-based compensation	11,871	7,436	6,565
(Gain) loss on disposal of other assets	203	271	(2,339)
Gain from disposal activities	(5,919)	(5,744)	—
Deferred income taxes	12,341	13,355	14,477
Excess tax benefit from share-based payment arrangements	(5,012)	(6,186)	(5,994)
(Increase) decrease (net of acquisitions and dispositions):			
Trade receivables, net	(13,047)	(59,474)	(37,370)
Inventories	(197,079)	(76,002)	(106,896)
Other assets	(31,620)	(31,182)	(5,655)
Increase (decrease) (net of acquisitions and dispositions):			
Floor plan notes payable	7,035	(647)	5,300
Trade payables	674	(3,105)	8,480
Accrued liabilities	16,273	(13,472)	12,304
Other long-term liabilities and deferred revenue	33,766	38,133	17,152
Net cash provided by operating activities	74,209	30,319	32,059
Cash flows from investing activities:			
Principal payments received on notes receivable	—	2,882	91
Capital expenditures	(83,244)	(85,983)	(50,025)
Proceeds from sales of assets	270	4,896	4,632
Cash paid for other investments	(28,110)	(9,110)	(3,915)
Cash paid for acquisitions, net of cash acquired	(71,615)	(659,634)	(81,105)
Proceeds from sales of stores	12,966	10,617	—
Net cash used in investing activities	(169,733)	(736,332)	(130,322)
Cash flows from financing activities:			
Borrowings on floor plan notes payable: non-trade, net	136,201	440,341	128,636
Borrowings on lines of credit	1,261,597	1,435,144	800,000
Repayments on lines of credit	(1,298,120)	(1,251,375)	(814,355)
Principal payments on long-term debt, scheduled	(15,074)	(8,666)	(7,100)
Principal payments on long-term debt and capital leases, other	(9,189)	—	(25,770)
Proceeds from issuance of long-term debt	75,675	124,902	4,720
Proceeds from issuance of common stock	6,065	4,590	4,973
Repurchase of common stock	(31,548)	(22,968)	(7,903)

Excess tax benefit from share-based payment arrangements	5,012	6,186	5,994
Dividends paid	(19,985)	(15,929)	(10,085)
Net cash provided by financing activities	110,634	712,225	79,110
Increase (decrease) in cash and cash equivalents	15,110	6,212	(19,153)
Cash and cash equivalents at beginning of year	29,898	23,686	42,839
Cash and cash equivalents at end of year	$45,008	$29,898	$23,686
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$41,098	$24,638	$21,002
Cash paid during the period for income taxes, net	86,533	63,827	42,682
Supplemental schedule of non-cash activities:			
Debt issued or acquired in connection with acquisitions	$2,160	$55,693	$—
Debt forgiven in connection with acquisitions	1,374	—	—
Floor plan debt acquired in connection with acquisitions	—	24,686	—
Floor plan debt paid in connection with store disposals	4,400	3,311	—
Issuance of Class A common stock in connection with acquisitions	—	19,736	—

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Organization and Business

We are a leading operator of automotive franchises and a retailer of new and used vehicles and related services. As of December 31, 2015, we offered 31 brands of new vehicles and all brands of used vehicles in 137 stores in the United States and online at Lithia.com and DCHauto.com. We sell new and used cars and replacement parts; provide vehicle maintenance, warranty, paint and repair services; arrange related financing; and sell service contracts, vehicle protection products and credit insurance.

Our dealerships are located across the United States. We seek domestic, import and luxury franchises in cities ranging from mid-sized regional markets to metropolitan markets. We evaluate all brands for expansion opportunities provided the market is large enough to support adequate new vehicle sales to justify the required capital investment.

Basis of Presentation

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable include amounts due from the following:

- various lenders for the financing of vehicles sold;
- customers for vehicles sold and service and parts sales;

- manufacturers for factory rebates, dealer incentives and warranty reimbursement; and
- insurance companies and other miscellaneous receivables.

Receivables are recorded at invoice and do not bear interest until they are 60 days past due. The allowance for doubtful accounts represents an estimate of the amount of net losses inherent in our portfolio of accounts receivable as of the reporting date. We estimate an allowance for doubtful accounts based on our historical write-off experience and consider recent delinquency trends and recovery rates. Account balances are charged against the allowance after all appropriate means of collection have been exhausted and the potential for recovery is considered remote. The annual activity for charges and subsequent recoveries is immaterial. See Note 2.

Inventories

Inventories are valued at the lower of market value or cost, using a pooled approach for vehicles and the specific identification method for parts. Certain acquired inventories are valued using the last-in first-out (LIFO) method. The LIFO reserve associated with this inventory as of December 31, 2015 and 2014 was immaterial. The cost of new and used vehicle inventories includes the cost of any equipment added, reconditioning and transportation.

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

Parts are valued at lower of market value or cost using a specific identification method. Parts purchase discounts that we receive from the manufacturer are reflected as a reduction in the carrying value of the parts purchased from the manufacturer and are recognized as a reduction to cost of goods sold as the related inventory is sold. See Note 3.

Property and Equipment

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

The range of estimated useful lives is as follows:

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

The cost for maintenance, repairs and minor renewals is expensed as incurred, while significant remodels and betterments are capitalized. In addition, interest on borrowings for major capital projects, significant remodels and betterments are capitalized. Capitalized interest becomes a part of the cost of the depreciable asset and is depreciated according to the estimated useful lives as previously stated. For the years ended December 31, 2015, 2014 and 2013, we recorded capitalized interest of $0.5 million, $0.4 million and $0.1 million, respectively.

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

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on a straight-line basis over the term of the lease, unless the lease transfers title or it contains a bargain purchase option, in which case, it is amortized over the asset's useful life, and is included in depreciation expense.

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

Franchise Value

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

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

- certain of our Franchise Agreements continue indefinitely by their terms;
- certain of our Franchise Agreements have limited terms, but are routinely renewed without substantial cost to us;
- other than franchise terminations related to the unprecedented reorganizations of Chrysler and General Motors, and allowed by bankruptcy law, we are not aware of manufacturers terminating Franchise Agreements against the wishes of the franchise owners in the ordinary course of business. A manufacturer may pressure a franchise owner to sell a franchise when the owner is in breach of the franchise agreement over an extended period of time;
- state dealership franchise laws typically limit the rights of the manufacturer to terminate or not renew a franchise;
- we are not aware of any legislation or other factors that would materially change the retail automotive franchise system; and
- as evidenced by our acquisition and disposition history, there is an active market for most automotive dealership franchises within the United States. We attribute value to the Franchise Agreements acquired with the dealerships we purchase based on the understanding and industry practice that the Franchise Agreements will be renewed indefinitely by the manufacturer.

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

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

We test our franchise value for impairment on October 1 of each year. The quantitative assessment uses a multi-period excess earnings ("MPEE") model to estimate the fair value of our franchises. We have determined that only certain cash flows of the store are directly attributable to franchise rights. Future cash flows are based on recently prepared operating forecasts and business plans to estimate the future economic benefits that the store will generate. Operating forecasts and cash flows include estimated revenue growth rates that are calculated based on management's forecasted sales projections and on the U.S. Department of Labor, Bureau of Labor Statistics for historical consumer price index data. Additionally, we use a contributory asset charge to represent working capital, personal property and assembled workforce costs. A discount rate is utilized to convert the forecasted cash flows to their present value equivalent. The discount rate applied to the future cash flows factors an equity market risk premium, small stock risk premium, an average peer group beta and a risk-free interest rate. See Note 5.

Goodwill

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

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

We test our goodwill for impairment on October 1 of each year. We used an Adjusted Present Value ("APV") method, a fair-value based test, to indicate the fair value of our reporting units. Under the APV method, future cash flows based on recently prepared operating forecasts and business plans are used to estimate the future economic benefits generated by the reporting unit. Operating forecasts and cash flows include estimated revenue growth rates based on management's forecasted sales projections and on U.S. Department of Labor, Bureau of Labor Statistics for historical consumer price index data. A discount rate is utilized to convert the forecasted cash flows to their present value equivalent representing the indicated fair value of our reporting unit. The discount rate applied to the future cash flows factors an equity market risk premium, small stock risk premium, an average peer group beta and a risk-free interest rate. We compare the indicated fair value of our reporting unit to our market capitalization, including consideration of a control premium. The control premium represents the estimated amount an investor would pay to obtain a controlling interest. We believe this reconciliation is consistent with a market participant perspective.

The quantitative impairment test of goodwill is a two-step process. The first step identifies potential impairment by comparing the estimated fair value of a reporting unit with its book value. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired and the second step is not necessary. If the carrying value exceeds the fair value, the second step includes determining the implied fair value in the same manner as the amount of goodwill recognized in a business combination is determined. The implied fair value of goodwill is then compared with the carrying amount of goodwill to determine if an impairment loss is necessary. See Note 5.

Equity-Method Investments

We own investments in certain partnerships which we account for under the equity method. These investments are included as a component of other non-current assets in our Consolidated Balance Sheets. We determined that we lack certain characteristics to direct the operations of the businesses and, as a result, do not qualify to consolidate these investments. Activity related to our equity-method investments is recognized in our Consolidated Statements of Operations as follows:

- an other than temporary decline in fair value is reflected as an asset impairment;
- our portion of the operating gains and losses is included as a component of other income, net;
- the amortization related to the discounted fair value of future equity contributions is recognized over the life of the investments as non-cash interest expense; and
- tax benefits and credits are reflected as a component of income tax provision.

Periodically, whenever events or circumstances indicate that the carrying amount of assets may be impaired, we evaluate the equity-method investments for indications of loss resulting from an other than temporary decline. If the equity-method investment is determined to be impaired, the amount by which the investment basis exceeds the fair value of the investment is recognized as a charge to income from continuing operations. See Notes 12 and 18.

Advertising

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

Year Ended December 31,	**2015**	**2014**	**2013**
Advertising expense, gross	$89,736	$62,933	$51,404
Manufacturer cooperative advertising credits	(19,801)	(16,281)	(11,806)
Advertising expense, net	$69,935	$46,652	$39,598

Contract Origination Costs

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

Legal Costs

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

Stock-Based Compensation

Compensation costs associated with equity instruments exchanged for employee and director services are measured at the grant date, based on the fair value of the award, with estimated forfeitures considered, and recognized as an expense on the straight-line basis over the individual's requisite service period (generally the vesting period of the equity award). If there is a performance-based element to the award, the expense is recognized based on the estimated attainment level, estimated time to achieve the attainment level and/or the vesting period. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The fair value of non-vested stock awards is based on the intrinsic value on the date of grant. See Note 10.

Shares to be issued upon the exercise of stock options and the vesting of stock awards will come from newly issued shares.

Income and Other Taxes

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

When there are situations with uncertainty as to the timing of the deduction, the amount of the deduction, or the validity of the deduction, we adjust our financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. Positions that meet this criterion are measured using the largest benefit that is more than 50% likely to be realized. Interest and penalties are recorded as income tax provision in the period incurred or accrued when related to an uncertain tax position. See Note 13.

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

Concentration of Risk and Uncertainties

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

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

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

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

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

We have a credit facility with a syndicate of 18 financial institutions, including eight manufacturer-affiliated finance companies. Several of these financial institutions also provide mortgage financing. This credit facility is the primary source of floor plan financing for our new vehicle inventory and also provides used vehicle financing and a revolving line of credit. The term of the facility extends through January 2021. At maturity, our financial condition could be materially adversely impacted if lenders are unable to provide credit that has typically been extended to us or with terms unacceptable to us. Our financial condition could be materially adversely impacted if these providers incur losses in the future or undergo funding limitations. See Note 6.

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

Financial Instruments, Fair Value and Market Risks

The carrying amounts of cash equivalents, accounts receivable, trade payables, accrued liabilities and short-term borrowings approximate fair value because of the short-term nature and current market rates of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. See Note 12.

We have variable rate floor plan notes payable, mortgages and other credit line borrowings that subject us to market risk exposure. At December 31, 2015, we had $1.7 billion outstanding in variable rate debt. These borrowings had interest rates ranging from 1.49% to 3.00% per annum. An increase or decrease in the interest rates would affect interest expense for the period accordingly.

The fair value of long-term, fixed interest rate debt is subject to interest rate risk. Generally, the fair value of fixed interest rate debt will increase as interest rates fall because we could refinance for a lower rate. Conversely, the fair value of fixed interest rate debt will decrease as interest rates rise. The interest rate changes affect the fair value, but do not impact earnings or cash flows. We monitor our fixed interest rate debt regularly, refinancing debt that is materially above market rates if permitted. See Note 12.

We are also subject to market risk from changing interest rates. From time to time, we reduce our exposure to this market risk by entering into interest rate swaps and designating the swaps as cash flow hedges. We are generally exposed to credit or repayment risk based on our relationship with the counterparty to the derivative financial instrument. We minimize the credit or repayment risk on our derivative instruments by entering into transactions with institutions whose credit rating is Aa or higher. See Note 11.

Use of Estimates

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

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

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

We offer a limited warranty on the sale of most retail used vehicles. This warranty is based on mileage and time. We also offer a mileage and time based warranty on parts used in our service repair work and on tire purchases. The cost that may be incurred for these warranties is estimated at the time the related revenue is recorded. A reserve for these warranty liabilities is estimated based on current sales levels, warranty experience rates and estimated costs per claim. The annual activity for reserve increases and claims is immaterial. As of December 31, 2015 and 2014, the accrued warranty balance was $0.5 million and $0.4 million, respectively.

Fair Value of Assets Acquired and Liabilities Assumed

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

We estimate the fair value of property and equipment based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value.

We use an MPEE model to determine the fair value of intangible franchise rights as discussed above under “Franchise Value.”

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

Revenue Recognition

Revenue from the sale of a vehicle is recognized when a contract is signed by the customer, financing has been arranged or collectability is reasonably assured and the delivery of the vehicle to the customer is made. We do not allow the return of new or used vehicles, except where mandated by state law.

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

Finance fees earned for notes placed with financial institutions in connection with customer vehicle financing are recognized, net of estimated charge-backs, as finance and insurance revenue upon acceptance of the credit by the financial institution and recognition of the sale of the vehicle.

Insurance income from third party insurance companies for commissions earned on credit life, accident and disability insurance policies sold in connection with the sale of a vehicle are recognized, net of anticipated cancellations, as finance and insurance revenue upon execution of the insurance contract and recognition of the sale of the vehicle.

Commissions from third party service contracts are recognized, net of anticipated cancellations, as finance and insurance revenue upon sale of the contracts and recognition of the sale of the vehicle. We also participate in future underwriting profit, pursuant to retrospective commission arrangements, which is recognized in income as earned.

Revenue related to self-insured lifetime lube, oil and filter service contracts is deferred and recognized based on expected future claims for service. The expected future claims experience is evaluated periodically to ensure it remains appropriate given actual claims history.

Segment Reporting

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

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

Corporate and other revenue and income includes the results of operations of our stand-alone collision center offset by unallocated corporate overhead expenses, such as corporate personnel costs, and certain unallocated reserve and elimination adjustments. Additionally, certain internal corporate expense allocations increase segment income for Corporate and other while decreasing segment income for the other 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 that perform certain dealership functions.

We define our chief operating decision maker (“CODM”) to be certain members of our executive management group. Historical and forecasted operational performance is evaluated on a store-by-store basis and on a consolidated basis by the CODM. We derive the operating results of the segments directly from our internal management reporting system. The accounting policies used to derive segment results are substantially the same as those used to determine our consolidated results, excepted for the internal allocation within Corporate and other discussed above. Our CODM measures the performance of each operating segment based on several metrics, including earnings from operations, and uses these results, in part, to evaluate the performance of, and to allocate resources to, each of the operating segments. See Note 19.

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2)Accounts Receivable

Accounts receivable consisted of the following (in thousands):

December 31,	**2015**	**2014**
Contracts in transit	$168,460	$162,785
Trade receivables	33,749	37,194
Vehicle receivables	36,470	34,876
Manufacturer receivables	59,215	56,008
Auto loan receivables	42,490	25,424
Other receivables	3,033	4,554
	343,417	320,841
Less: Allowance for doubtful accounts	(2,243)	(2,904)
Less: Long-term portion of accounts receivable, net	(32,712)	(22,558)
Total accounts receivable, net	$308,462	$295,379

Accounts receivable classifications include the following:

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

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

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

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

(3) Inventories

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

December 31,	**2015**	**2014**
New vehicles	$1,113,613	$958,876
Used vehicles	302,911	240,908
Parts and accessories	54,463	49,875
Total inventories	$1,470,987	$1,249,659

The new vehicle inventory cost is generally reduced by manufacturer holdbacks and incentives, while the related floor plan notes payable are reflective of the gross cost of the vehicle. As of December 31, 2015 and 2014, the carrying value of inventory had been reduced by $13.6 million and $12.3 million, respectively, for assistance received from manufacturers as discussed in Note 1.

(4) Property and Equipment

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

December 31,	**2015**	**2014**
Land	$281,982	$263,328
Building and improvements	527,545	475,149
Service equipment	70,559	60,644
Furniture, office equipment, signs and fixtures	119,250	100,163
	999,336	899,284
Less accumulated depreciation	(137,853)	(117,679)
	861,483	781,605
Construction in progress	15,177	35,140
	$876,660	$816,745

Long-lived Asset Impairment Charges

In 2015, we recorded $3.6 million of impairment charges associated with certain properties and equipment. As the expected future use of these facilities and equipment changed, the long-lived assets were tested for recoverability and were determined to have a carrying value exceeding their fair value.

(5) Goodwill and Franchise Value

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

	Domestic	**Import**	**Luxury**	**Consolidated**
Balance as of December 31, 2013(1)	$22,548	$16,797	$10,166	$49,511
Additions through acquisitions	68,463	62,804	18,597	149,864
Balance as of December 31, 2014(1)	91,011	79,601	28,763	199,375
Additions through acquisitions	6,892	5,029	2,170	14,091
Reductions through divestitures	—	(246)	—	(246)
Balance as of December 31, 2015(1)	$97,903	$84,384	$30,933	$213,220

(1) Net of accumulated impairment losses of $299.3 million recorded during the year ended December 31, 2008.

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

	Franchise Value
Balance as of December 31, 2013	$ 71,199
Additions through acquisitions	80,233
Transfers to assets held for sale	(540)
Balance as of December 31, 2014	150,892
Additions through acquisitions	6,843
Reductions through divestitures	(36)
Balance as of December 31, 2015	$ 157,699

(6) Credit Facilities and Long-Term Debt

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

December 31,	2015	2014
New vehicle floor plan commitment	$1,265,872	$1,137,632
Floor plan notes payable[1]	48,083	41,047
Total floor plan debt	1,313,955	1,178,679
Used vehicle inventory financing facility	171,000	134,000
Revolving lines of credit	61,246	134,769
Real estate mortgages	387,861	334,443
Other debt	25,247	37,766
Total debt	$1,959,309	$1,819,657

(1) At December 31, 2014, we had an additional $4.9 million of floor plan notes payable outstanding on our new vehicle floor plan commitment recorded as liability related to assets held for sale.

Credit Facility

We have a $1.85 billion revolving syndicated credit facility that matures in January 2021. This syndicated credit facility is comprised of 18 financial institutions, including eight manufacturer-affiliated finance companies. As of December 31, 2015, our credit facility provides for up to $1.45 billion in new vehicle inventory floor plan financing, up to $200 million in used vehicle inventory floor plan financing and a maximum of $200 million in revolving financing for general corporate purposes, including acquisitions and working capital. This credit facility may be expanded to $2.1 billion total availability, subject to lender approval.

We may request a reallocation of any unused portion of our credit facility provided that the used vehicle inventory floor plan commitment does not exceed $250 million, the revolving financing commitment does not exceed $300 million, and the sum of those commitments plus the new vehicle inventory floor plan financing commitment does not exceed the total aggregate financing commitment. All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

The new vehicle floor plan commitment is collateralized by our new vehicle inventory. Our used vehicle inventory financing facility is collateralized by our used vehicle inventory that has been in stock for less than 180 days. Our revolving line of credit is secured by our outstanding receivables related to vehicle sales, unencumbered vehicle inventory, other eligible receivables, parts and accessories and equipment.

We have the ability to deposit up to $50 million in cash in Principal Reduction “PR” accounts associated with our new vehicle inventory floor plan commitment. The PR accounts are recognized as offsetting credits against outstanding amounts on our new vehicle floor plan commitment and would reduce interest expense associated with the outstanding principal balance. As of December 31, 2015, we did not have any amounts deposited in our PR accounts.

If the outstanding principal balance on our new vehicle inventory floor plan commitment, plus requests on any day, exceeds 95% of the loan commitment, a portion of the revolving line of credit must be reserved. The reserve amount is equal to the lesser of $15.0 million or the maximum revolving line of credit commitment less the outstanding balance on the line less outstanding letters of credit. The reserve amount will decrease the revolving line of credit availability and may be used to repay the new vehicle floor plan commitment balance.

The interest rate on the credit facility varies based on the type of debt, with the rate of one-month LIBOR plus 1.25% for new vehicle floor plan financing, one-month LIBOR plus 1.50% for used vehicle floor plan financing; and a variable interest rate on the revolving financing ranging from the one-month LIBOR plus 1.25% to 2.50%, depending on our leverage ratio. The annual interest rate associated with our new vehicle floor plan commitment, excluding the effects of our interest rate swaps, was 1.68% at December 31, 2015. The annual interest rate associated with our used vehicle inventory financing facility and our revolving line of credit was 1.93% and 2.18%, respectively, at December 31, 2015.

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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. As of December 31, 2015, we were in compliance with all financial covenants. The table below details our financial covenants:

Debt Covenant Ratio	Requirement			As of December 31, 2015		
Current ratio	Not less than 1.10	to	1	1.26	to	1
Fixed charge coverage ratio	Not less than 1.20	to	1	3.36	to	1
Leverage ratio	Not more than 5.00	to	1	1.79	to	1
Funded debt restriction	Not to exceed $600 million			$413.4 million		

Floor Plan Notes Payable

We have floor plan agreements with manufacturer-affiliated finance companies for 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. At December 31, 2015, $48.1 million was outstanding on these agreements at interest rates ranging up to 3.0%. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Real Estate Mortgages and Other Debt

We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 1.8% to 5.0% at December 31, 2015. The mortgages are payable in various installments through October 2034. As of December 31, 2015, we had fixed interest rates on 70% of our outstanding mortgage debt.

Our other debt includes capital leases, sellers' notes and our equity contribution obligations associated with the new markets tax credit equity-method investment. The interest rates associated with our other debt ranged from 2.2% to 6.5% at December 31, 2015. This debt, which totaled $25.2 million at December 31, 2015, is due in various installments through January 2024.

Future Principal Payments

The schedule of future principal payments associated with real estate mortgages and other debt as of December 31, 2015 was as follows (in thousands):

Year Ending December 31,	
2016	$38,823

2017	39,164
2018	39,547
2019	41,775
2020	32,923
Thereafter	220,876
Total principal payments	$413,108

(7) Commitments and Contingencies

Leases

We lease certain facilities under non-cancelable operating and capital leases. These leases expire at various dates through 2066. Certain lease commitments contain fixed payment increases at predetermined intervals over the life of the lease, while other lease commitments are subject to escalation clauses of an amount equal to the increase in the cost of living based on the “Consumer Price Index - U.S. Cities Average - All Items for all Urban Consumers” published by the U.S. Department of Labor, or a substantially equivalent regional index. Lease expense related to operating leases is recognized on a straight-line basis over the life of the lease.

The minimum lease payments under our operating and capital leases after December 31, 2015 are as follows (in thousands):

Year Ending December 31,	
2016	$25,514
2017	22,910
2018	20,818
2019	19,740
2020	18,186
Thereafter	123,093
Total minimum lease payments	230,261
Less: sublease rentals	(8,723)
	$221,538

Rent expense, net of sublease income, for all operating leases was $23.8 million, $17.2 million and $14.0 million for the years ended December 31, 2015, 2014 and 2013, respectively. These amounts are included as a component of selling, general and administrative expenses in our Consolidated Statements of Operations.

In connection with dispositions of dealerships, we occasionally assign or sublet our interests in any real property leases associated with such dealerships to the purchaser. We often retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform. Additionally, we may remain subject to the terms of any guarantees and have correlating indemnification rights against the assignee or sublessee in the event of non-performance, as well as certain other defenses. We may also be called upon to perform other obligations under these leases, such as environmental remediation of the premises or repairs upon termination of the lease. We currently have no reason to believe that we will be called upon to perform any such services; however, there can be no assurance that any future performance required by us under these leases will not have a material adverse effect on our financial condition or results of operations.

Charge-Backs for Various Contracts

We have recorded a liability of $35.0 million as of December 31, 2015 for our estimated contractual obligations related to potential charge-backs for vehicle service contracts, lifetime oil change contracts and other various insurance contracts that are terminated early by the customer. We estimate that the charge-backs will be paid out as follows (in thousands):

Year Ending December 31,	
2016	$19,638
2017	10,127
2018	3,907
2019	1,124
2020	214
Thereafter	23
Total	$35,033

Lifetime Lube, Oil and Filter Contracts

We retain the obligation for lifetime lube, oil and filter service contracts sold to our customers and assumed the liability of certain existing lifetime lube, oil and filter contracts. These amounts are recorded as deferred revenues. At the time of sale, we defer the full sale price and recognize the revenue based on the rate we expect future costs to be incurred. As of December 31, 2015, we had a deferred revenue balance of $80.2 million associated with these contracts and estimate the deferred revenue will be recognized as follows (in thousands):

Year Ending December 31,

2016	$16,103
2017	12,573
2018	10,053
2019	8,406
2020	7,118
Thereafter	25,940
Total	$80,193

The current portion of this deferred revenue balance is recorded as a component of accrued liabilities in our Consolidated Balance Sheets.

We periodically evaluate the estimated future costs of these assumed contracts and record a charge if future expected claim and cancellation costs exceed the deferred revenue to be recognized. As of December 31, 2015, we had a reserve balance of $3.4 million recorded as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets. The charges associated with this reserve were recognized in 2011 and earlier.

Self-insurance Programs

We self-insure a portion of our property and casualty insurance, vehicle open lot coverage, medical insurance and workers' compensation insurance. Third parties are engaged to assist in estimating the loss exposure related to the self-retained portion of the risk associated with these insurances. Additionally, we analyze our historical loss and claims experience to estimate the loss exposure associated with these programs. As of December 31, 2015 and 2014, we had liabilities associated with these programs of $25.9 million and $23.2 million, respectively, recorded as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

Litigation

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

Stein Litigation

On December 14, 2015, Shiva Y. Stein, a Lithia shareholder, filed derivative claims on behalf of Lithia against its Board of Directors, also listing Lithia as a nominal defendant. The case, *Stein v. DeBoer, et al.*, Case No. 15CV33696, is pending in the Circuit Court of the State of Oregon for Marion County. Ms. Stein’s claims relate to the adoption of a transition agreement between Lithia and Sidney B. DeBoer, as disclosed a Current Report on Form 8-K filed September 16, 2015. Ms. Stein alleges that Lithia's directors breached their fiduciary duties of loyalty and due care, and wasted corporate assets, when they approved the agreement with Mr. DeBoer. Ms. Stein also alleges a claim against Sidney B. DeBoer, asserting that he has been unjustly enriched by the agreement. Ms. Stein is seeking relief in the amount of damages allegedly sustained by Lithia as a result of the alleged breaches of fiduciary duty and alleged corporate waste, disgorgement and imposition of a constructive trust on all property and profits Sidney B. DeBoer received as a result of the alleged wrongful conduct, and an award of the costs and disbursements of the lawsuit, including reasonable attorneys fees, costs, and expenses. The Board and Mr. DeBoer are defending themselves against Ms. Stein’s allegations. Although we do not anticipate that the resolution of this legal proceeding will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.

(8) Stockholders’ Equity

Class A and Class B Common Stock

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

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

Repurchases of Class A Common Stock

In August 2011, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our Class A common stock and, on July 20, 2012, our Board of Directors authorized the repurchase of 1,000,000 additional shares of our Class A common stock. Through December 31, 2015, we had purchased approximately 1.7 million shares under this program at an average price of $41.34 per share. As of December 31, 2015, 1.3 million shares remained available for purchase pursuant to this program. These plans do not have an expiration date and we may continue to repurchase shares from time to time as conditions warrant.

The following is a summary of our repurchases in the years ended December 31, 2015, 2014 and 2013:

Year Ended December 31,	**2015**	**2014**	**2013**
Shares repurchased pursuant to repurchase plan	228,737	226,729	127,900
Total purchase price (in thousands)	$24,676	$15,990	$5,213
Average purchase price per share	$107.88	$70.52	$40.76
Shares repurchased in association with tax withholdings on the exercise of stock options	77,649	106,772	59,721

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Dividends

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

Quarter declared	Dividend amount per Class A and Class B share	Total amount of dividend (in thousands)
2013		
First quarter[1]	$ —	$ —
Second quarter	0.13	3,356
Third quarter	0.13	3,363
Fourth quarter	0.13	3,366
2014		
First quarter	$ 0.13	$ 3,378
Second quarter	0.16	4,179
Third quarter	0.16	4,174
Fourth quarter	0.16	4,198
2015		
First quarter	$ 0.16	$ 4,216
Second quarter	0.20	5,266
Third quarter	0.20	5,257
Fourth quarter	0.20	5,246

(1) We declared and paid a dividend payment in December 2012 in lieu of the dividend typically declared and paid in March of the following year.

Reclassification From Accumulated Other Comprehensive Loss

The reclassification from accumulated other comprehensive loss was as follows (in thousands):

Year Ended December 31,	2015	2014	2013	Affected Line Item in the Consolidated

				Statement of Operations
Loss on cash flow hedges	$(449)	$(488)	$(740)	Floor plan interest expense
Income tax benefits	174	187	283	Income tax provision
Loss on cash flow hedges, net	$(275)	$(301)	$(457)	

See Note 11 for more details regarding our derivative contracts.

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

We have a defined contribution 401(k) plan and trust covering substantially all full-time employees. The annual contribution to the plan is at the discretion of our Board of Directors. Contributions of $5.3 million, $3.2 million and $2.1 million were recognized for the years ended December 31, 2015, 2014 and 2013, respectively. Employees may contribute to the plan if they meet certain eligibility requirements.

We offer a deferred compensation and long-term incentive plan (the "LTIP") to provide certain employees the ability to accumulate assets for retirement on a tax deferred basis. We may make discretionary contributions to the LTIP. Discretionary contributions vest between one and seven years based on the employee's age and position. Additionally, a participant may defer a portion of his or her compensation and receive the deferred amount upon certain events, including termination or retirement.

The following is a summary related to our LTIP:

Year Ended December 31,	**2015**	**2014**	**2013**
Compensation expense (in millions)	$1.8	$1.9	$1.4
Total discretionary contribution (in millions)	$2.2	$2.4	$2.1
Guaranteed annual return	5.25%	5.25%	5.25%

As of December 31, 2015 and 2014, the balance due to participants was $19.7 million and $14.2 million, respectively, and was included as a component of other long-term liabilities in the Consolidated Balance Sheets.

(10) Stock-Based Compensation

2009 Employee Stock Purchase Plan

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

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

Following is information regarding our 2009 ESPP:

Year Ended December 31,	**2015**
Shares purchased pursuant to 2009 ESPP	71,811
Weighted average per share price of shares purchased	$90.04
Weighted average per share discount from market value for shares purchased	$15.89

As of December 31,	**2015**
Shares available for purchase pursuant to 2009 ESPP	467,660

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

2013 Stock Incentive Plan

Our 2013 Stock Incentive Plan, as amended, (the "2013 Plan") allows for the grant of a total of 3.8 million shares in the form of stock appreciation rights, qualified stock options, nonqualified stock options and shares of restricted stock to our officers, key employees, directors and consultants. The 2013 Plan is administered by the Compensation Committee of the Board of Directors and permits accelerated vesting of outstanding awards upon the occurrence of certain changes in control. As of December 31, 2015, 1,520,910 shares of Class A common stock were available for future grants. As of December 31, 2015, there were no stock appreciation rights, qualified stock options or shares of restricted stock outstanding.

Restricted Stock Units ("RSUs")

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

	RSUs	Weighted average grant date fair value
Balance, December 31, 2014	464,758	$ 36.33
Granted	171,185	88.74
Vested	(216,833)	62.74
Forfeited	(8,036)	57.73
Balance, December 31, 2015	411,074	59.13

We granted 34,903 time-vesting RSUs to members of our Board of Directors and employees in 2015. Each grant entitles the holder to receive shares of our Class A common stock upon vesting. A quarter of the RSUs vest on each of the four anniversaries of the grant date for employees and vests quarterly for our Board of Directors, over their service period.

Certain key employees were granted 85,290 performance and time-vesting RSUs in 2015. The RSUs entitled the holder to receive shares based on attaining various target levels of operational performance. Based on the levels of performance achieved in 2015, a weighted average attainment level of 72% for these RSUs was met. These RSUs will vest over four years from the grant date.

Twelve senior executives were also granted 50,992 long-term RSUs which vest based on attaining or exceeding a specified target level of adjusted net income per share in any fiscal year ending between December 31, 2015 and December 31, 2018. The RSUs will vest on the date the target level is certified.

Stock Options

Stock options become exercisable over a period of up to five years from the date of grant with expiration dates up to ten years from the date of grant and at exercise prices of not less than market value, as determined by the Board of Directors. The expiration date of options granted is six years.

Stock option activity was as follows:

	Shares subject to options	**Weighted average exercise price**	**Aggregate intrinsic value (in millions)**	**Weighted average remaining contractual term (in years)**
Balance, December 31, 2014	6,834	$ 6.79	$ 0.5	0.8
Granted	—	—		
Forfeited	—	—		
Expired	(2,000)	3.23		
Exercised	(4,834)	8.27		
Balance, December 31, 2015	—	—	—	—
Exercisable, December 31, 2015	—	—	—	—

Stock-Based Compensation

As of December 31, 2015, unrecognized stock-based compensation related to outstanding, but unvested RSUs was $10.3 million, which will be recognized over the remaining weighted average vesting period of 1.3 years.

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

Year Ended December 31,	**2015**	**2014**	**2013**
Per share intrinsic value of non-vested stock granted	$88.74	$68.99	$43.13
Weighted average per share discount for compensation expense recognized under the 2009 ESPP	15.89	11.92	8.81
Total intrinsic value of stock options exercised (in millions)	0.5	3.1	8.7
Fair value of non-vested stock that vested during the period (in millions)	19.3	18.9	8.4

Stock-based compensation recognized in Consolidated Statements of Operations, as a component of selling, general and administrative expense (in millions)	11.9	7.4	6.6
Tax benefit recognized in Consolidated Statements of Operations (in millions)	4.2	2.6	2.3
Cash received from options exercised and shares purchased under all share-based arrangements (in millions)	6.5	4.9	5.2
Tax deduction realized related to stock options exercised (in millions)	7.6	8.4	6.5

(11) Derivative Financial Instruments

From time to time, we enter into interest rate swaps to fix a portion of our interest expense. We do not enter into derivative instruments for any purpose other than to manage interest rate exposure to fluctuations in the one-month LIBOR benchmark. That is, we do not engage in interest rate speculation using derivative instruments.

As of December 31, 2015, we had a $25 million interest rate swap outstanding with U.S. Bank Dealer Commercial Services. This interest rate swap matures on June 15, 2016 and has a fixed rate of 5.587% per annum. The variable rate on the interest rate swap is the one-month LIBOR rate. At December 31, 2015, the one-month LIBOR rate was 0.43% per annum, as reported in the Wall Street Journal.

Typically, we designate all interest rate swaps as cash flow hedges and, accordingly, we record the change in fair value for the effective portion of these interest rate swaps in comprehensive income rather than net income until the underlying hedged transaction affects net income. If a swap is no longer designated as a cash flow hedge and the forecasted transaction remains probable or reasonably possible of occurring, the gain or loss recorded in accumulated other comprehensive loss is recognized in income as the forecasted transaction occurs. If the forecasted transaction is probable of not occurring, the gain or loss recorded in accumulated other comprehensive loss is recognized in income immediately. See Note 12.

The estimated amount that we expect to reclassify from accumulated other comprehensive loss to net income within the next twelve months is $0.5 million at December 31, 2015.

The fair value of our derivative instruments was included in our Consolidated Balance Sheets as follows (in thousands):

Balance Sheet Information	**Fair Value of Liability Derivatives**	
Derivatives Designated as Hedging Instruments	**Location in Balance Sheet**	**December 31, 2015**
Interest Rate Swap Contract	Accrued liabilities	$ 532
	Other long-term liabilities	—
		$ 532

Balance Sheet Information	**Fair Value of Liability Derivatives**	
Derivatives Designated as Hedging Instruments	**Location in Balance Sheet**	**December 31, 2014**
Interest Rate Swap Contract	Accrued liabilities	$ 1,194
	Other long-term liabilities	556
		$ 1,750

The effect of derivative instruments in our Consolidated Statements of Operations was as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	**Amount of gain recognized in Accumulated OCI**	**Location of loss reclassified from Accumulated**	**Amount of loss reclassified from Accumulated**	**Location of loss recognized in Income on derivative**	**Amount of loss recognized in Income on derivative**

	(effective portion)	OCI into Income (effective portion)	OCI into Income (effective portion)	(ineffective portion and amount excluded from effectiveness testing)	(ineffective portion and amount excluded from effectiveness testing)
For the Year Ended December 31, 2015					
Interest rate swap contract	$ 599	Floor plan interest expense	$ (449)	Floor plan interest expense	$ (758)
For the Year Ended December 31, 2014					
Interest rate swap contract	$ 505	Floor plan interest expense	$ (488)	Floor plan interest expense	$ (732)
For the Year Ended December 31, 2013					
Interest rate swap contracts	$ 1,005	Floor plan interest expense	$ (740)	Floor plan interest expense	$ (1,235)

(12) 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.

The inputs or methodology used for valuing financial assets and liabilities are not necessarily an indication of the risk associated with investing in them.

We use the income approach to determine the fair value of our interest rate swap using observable Level 2 market expectations at each measurement date and an income approach to convert estimated future cash flows to a single present value amount (discounted) assuming that participants are motivated, but not compelled, to transact. Level 2 inputs for the swap valuation are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs, including the cash rates for very short term borrowings, futures rates for up to two years and LIBOR swap rates beyond the derivative maturity, are used to predict future reset rates to discount those future cash flows to present value at the measurement date.

Inputs are collected from Bloomberg on the last market day of the period and used to determine the rate applied to discount the future cash flows. The valuation of the interest rate swap also takes into consideration estimates of our own, as well as the counterparty’s, risk of non-performance under the contract. See Note 8 and 11 for more details regarding our derivative contracts.

We estimate the value of our equity-method investment, which is recorded at fair value on a non-recurring basis, based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets. Because these valuations contain unobservable inputs, we classified the measurement of fair value of our equity-method investment as Level 3.

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

There were no changes to our valuation techniques during the year ended December 31, 2015.

Assets and Liabilities Measured at Fair Value

Following are the disclosures related to our assets and (liabilities) that are measured at fair value (in thousands):

Fair Value at December 31, 2015	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Derivative contract, net	$ —	$532	$—
Measured on a non-recurring basis:			
Equity-method investment	$ —	$—	$22,284
Long-lived assets held and used:			
Certain buildings and improvements	—	—	6,559

Fair Value at December 31, 2014	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Derivative contract, net	$ —	$1,750	$—
Measured on a non-recurring basis:			
Equity-method investment	$ —	$—	$33,282

See Note 11 for more details regarding our derivative contracts.

Based on operating losses recognized by the equity-method investment, we determined that an impairment of our investment had occurred. Accordingly, we performed a fair value calculation for this investment and determined that a $16.5 million and $1.9 million impairment, respectively, was required to be recorded as asset impairments in our Consolidated Statements of Operations for the years ended December 31, 2015 and 2014, respectively. See Note 18.

Fair Value Disclosures for Financial Assets and Liabilities

We have fixed rate debt and calculate the estimated fair value of our fixed rate debt using a discounted cash flow methodology. Using estimated current interest rates based on a similar risk profile and duration (Level 2), the fixed cash flows are discounted and summed to compute the fair value of the debt. As of December 31, 2015, this debt had maturity dates between November 2016 and October 2034. A summary of the aggregate carrying values and fair values of our long-term fixed interest rate debt is as follows (in thousands):

December 31,	**2015**	**2014**
Carrying value	$297,463	$257,780
Fair value	296,961	270,781

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

(13) Income Taxes

Income Tax Provision

Income tax provision from continuing operations was as follows (in thousands):

Year Ended December 31,	**2015**	**2014**	**2013**
Current:			
Federal	$58,408	$56,342	$46,727
State	14,572	7,944	5,539
	72,980	64,286	52,266
Deferred:			
Federal	6,046	10,433	9,010
State	679	236	(702)
	6,725	10,669	8,308
Total	$79,705	$74,955	$60,574

At December 31, 2015 and 2014, we had income taxes receivable of $23.8 million and $5.6 million, respectively, included as a component of other current assets in our Consolidated Balance Sheets.

The reconciliation between amounts computed using the federal income tax rate of 35% and our income tax provision from continuing operations is shown in the following tabulation (in thousands):

Year Ended December 31,	**2015**	**2014**	**2013**
Federal tax provision at statutory rate	$91,947	$73,673	$58,026
State taxes, net of federal income tax benefit	9,357	6,526	3,141
Equity investment basis difference	11,048	1,422	—
Non-deductible items	882	1,766	1,010
Permanent differences related to the employee stock purchase program	156	68	55
Net change in valuation allowance	(3,303)	(4,121)	(554)
General business credits	(29,093)	(4,002)	(440)
Other	(1,289)	(377)	(664)
Income tax provision	$79,705	$74,955	$60,574

Deferred Taxes

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

December 31,	**2015**	**2014**
Deferred tax assets:		
Deferred revenue and cancellation reserves	$39,323	$31,539
Allowances and accruals, including state tax carryforward amounts	43,185	29,198
Interest on derivatives	206	678
Goodwill	2,581	2,668
Capital loss carryforward	10,414	10,711
Valuation allowance	(5,360)	(8,663)
Total deferred tax assets	90,349	66,131
Deferred tax liabilities:		
Inventories	(21,313)	(19,356)
Goodwill	(31,258)	(21,320)
Property and equipment, principally due to differences in depreciation	(84,355)	(67,271)
Prepaid expenses and other	(6,552)	(3,582)
Total deferred tax liabilities	(143,478)	(111,529)
Total	$(53,129)	$(45,398)

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

As of December 31, 2015, we had a $5.4 million valuation allowance recorded associated with our deferred tax assets. The majority of this allowance is associated with capital losses from the sale of corporate entities in prior years. The valuation allowance decreased $3.3 million in the current year primarily as a result of our equity investment in a partnership with U.S. Bancorp Community Development Corporation. See also Note 18.

As of December 31, 2015, we evaluated the availability of projected capital gains and determined that it continues to be unlikely the remaining capital loss carryforward would be fully utilized. We will continue to evaluate if it is more likely than not that we will realize the benefits of these deductible differences. However, additional valuation allowance amounts could be recorded in the future if estimates of taxable income during the carryforward period are reduced.

At December 31, 2015, we had a number of state tax NOL carryforward amounts totaling approximately $2.0 million, tax effected, with expiration dates through 2035. We believe that it is more likely than not that the benefit from certain state NOL carryforward amounts will not be realized. In recognition of this risk, we have provided a valuation allowance of $2.0 million on the deferred tax assets relating to these state NOL carryforwards. Additionally, we have $2.2 million, tax effected, in state tax credit carryforwards with expiration dates through 2025. We believe it is more likely than not that the benefits from these state tax credit carryforwards will be realized.

We early adopted the guidance, ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes (Topic 740)”, which simplifies the accounting for deferred taxes in a classified statement of financial position and requires all deferred taxes to be presented as non-current. Adoption of this guidance resulted in a reclassification of our net current deferred tax liability to the net non-current deferred tax liability in our Consolidated Balance Sheet as of December 31, 2015. No prior periods were retrospectively adjusted.

Unrecognized Tax Benefits

The following is a reconciliation of our unrecognized tax benefits (in thousands):

Balance, December 31, 2013	$—
Acquired with acquisition	1,495
Balance, December 31, 2014	1,495
Decrease related to tax positions taken - prior year	(464)
Balance, December 31, 2015	$1,031

The unrecognized tax benefits recorded were acquired as part of the acquisition of DCH. We recorded a tax indemnification asset related to the unrecognized tax benefit as we determined the amount would be recoverable from the seller. Because we anticipate settlements and resulting cash payments related to the unrecognized tax benefits within the next twelve months, these amounts are included as a component of accrued liabilities in our Consolidated Balance Sheets. We did not have any activity during 2013 related to unrecognized tax benefits.

Open tax years at December 31, 2015 included the following:

Federal	2012	-	2015
18 states	2011	-	2015

(14) Acquisitions

In 2015, we completed the following acquisitions:

- On May 14, 2015, we acquired a smart franchise from Smart Center of Omaha.
- On July 31, 2015, we acquired Bitterroot Ford in Missoula, Montana.
- On August 20, 2015, we acquired Acura of Honolulu in Honolulu, Hawaii.
- On September 28, 2015, we acquired Bennett Motors in Great Falls, Montana.
- On October 12, 2015, we acquired Crown Chrysler Jeep Dodge Ram Fiat in Concord, California.
- On December 17, 2015, we acquired Barton Chrysler Jeep Dodge Ram Alfa Fiat in Spokane, Washington.

Revenue and operating income contributed by the 2015 acquisitions subsequent to the date of acquisition were as follows (in thousands):

Year Ended December 31, 2015

Revenue	$45,891
Operating income	23

In 2014, we completed the following acquisitions:

- On January 31, 2014, we acquired Island Honda in Kahului, Hawaii.
- On February 3, 2014, we acquired Stockton Volkswagen in Stockton, California.
- On March 5, 2014, we acquired Honolulu Buick GMC Cadillac and Honolulu Volkswagen in Honolulu, Hawaii.
- On April 1, 2014, we acquired Corpus Christi Ford in Corpus Christi, Texas.
- On June 11, 2014, we acquired Beaverton GMC Buick and Portland Cadillac in Portland, Oregon.
- On July 28, 2014, we acquired Bellingham GMC Buick in Bellingham, Washington.
- On October 1, 2014, we completed the purchase of all of the issued and outstanding shares of the capital stock of DCH, which includes 27 stores located in New York, New Jersey and California.
- On October 6, 2014, we acquired Harris Nissan in Clovis, California.

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 table summarizes the consideration paid in cash and equity securities for our acquisitions and the amount of identified assets acquired and liabilities assumed as of the acquisition date (in thousands):

Consideration paid for year ended December 31,	**2015**	**DCH**	**All other acquisitions**	**Total 2014**
Cash paid, net of cash acquired	$71,615	$569,995	$ 89,639	$659,634
Forgiven outstanding note receivable	1,374	—	—	—
Equity securities issued	—	19,736	—	19,736
	$72,989	$589,731	$ 89,639	$679,370

Assets acquired and liabilities assumed for year ended December 31,	**2015**	**DCH**	**All other acquisitions**	**Total 2014**
Trade receivables, net	$36	$63,888	$ —	$63,888
Inventories	34,374	265,378	48,662	314,040
Franchise value	6,843	72,856	7,377	80,233
Property and equipment	22,118	256,122	17,395	273,517
Other assets	224	20,313	531	20,844
Floor plan notes payable	—	(24,686)	—	(24,686)
Debt and capital lease obligations	(2,160)	(52,532)	(3,161)	(55,693)
Deferred taxes, net	—	(49,651)	—	(49,651)
Other liabilities	(2,537)	(92,863)	(123)	(92,986)
	58,898	458,825	70,681	529,506
Goodwill	14,091	130,906	18,958	149,864
	$72,989	$589,731	$ 89,639	$679,370

We account for franchise value as an indefinite-lived intangible asset. We expect $14.1 million of the goodwill recognized in 2015 to be deductible for tax purposes. In 2014, we recorded $1.9 million in acquisition expenses as a component of selling, general and administrative expenses in the Consolidated Statements of Operations. We did not have any material acquisition-related expenses in 2015 or 2013.

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

Year Ended December 31,	**2015**	**2014**
Revenue	$7,999,256	$7,333,480
Income from continuing operations, net of tax	182,131	147,975
Basic income per share from continuing operations, net of tax	6.93	5.66
Diluted income per share from continuing operations, net of tax	6.88	5.61

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

(15) Discontinued Operations and Assets and Related Liabilities Held for Sale

We classify an asset group as held for sale if the location has been sold, we have ceased operations at that location or the store meets the criteria required by U.S. generally accepted accounting standards as follows:

- our management team, possessing the necessary authority, commits to a plan to sell the store;
- the store is available for immediate sale in its present condition;
- an active program to locate buyers and other actions that are required to sell the store are initiated;
- a market for the store exists and we believe its sale is likely within one year;
- active marketing of the store commences at a price that is reasonable in relation to the estimated fair market value; and
- our management team believes it is unlikely changes will be made to the plan or the plan to dispose of the store will be withdrawn.

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In April 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that amended the accounting guidance related to discontinued operations. This amendment defines discontinued operations as a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. We early adopted this guidance in September 2014 and, as a result, determined that individual stores which met the criteria for held for sale after our adoption date would no longer qualify for classification as discontinued operations. We had previously reclassified a store's operations to discontinued operations in our Consolidated Statements of Operations, on a comparable basis for all periods presented, provided we did not expect to have any significant continuing involvement in the store's operations after its disposal.

On May 1, 2014, we completed the sale of one store which had been classified as held for sale since October 2012. This store's operations have been reclassified to discontinued operations in our Consolidated Statement of Operations, on a comparable basis for all periods presented.

As of December 31, 2014, we had two stores classified as held for sale. We did not have any stores classified as held for sale as of December 31, 2015. Assets held for sale included the following (in thousands):

December 31,	**2015**	**2014**
Inventories	$ —	$6,284
Property, plant and equipment	—	1,739
Intangible assets	—	540
	$ —	$8,563

Liabilities related to assets held for sale included the following (in thousands):

December 31,	**2015**	**2014**
Floor plan notes payable	$ —	$4,892

Actual floor plan interest expense for a store classified as discontinued operations is directly related to the store's new vehicles. Interest expense related to our used vehicle inventory financing and revolving line of credit is allocated based on the working capital level of the store. Interest expense included as a component of discontinued operations was as follows (in thousands):

Year Ended December 31,	**2015**	**2014**	**2013**
Floor plan interest	$ —	$ 32	$117
Other interest	—	8	21

Total interest	$ —	$ 40	$ 138

Certain financial information related to discontinued operations was as follows (in thousands):

Year Ended December 31,	**2015**	**2014**	**2013**
Revenue	$ —	$ 12,569	$ 38,978
Pre-tax gain (loss) from discontinued operations	$ —	$ (467)	$ 1,310
Net gain on disposal activities	—	5,744	—
		5,277	1,310
Income tax expense	—	(2,097)	(524)
Income from discontinued operations, net of income tax expense	$ —	$ 3,180	$ 786
Goodwill and other intangible assets disposed of	$ —	$ 211	$ —

The net gain on disposal activities in 2014 included a $6.8 million gain related to the disposal of goodwill and other intangible assets.

(16) Related Party Transactions

Transition Agreement

In September 2015, we entered into a transition agreement with Sidney B. DeBoer, our Executive Chairman, which provides him certain benefits until his death. The agreement has an effective date of January 1, 2016 with the initial payment of these benefits beginning in the third quarter of 2016.

We recorded a charge of $18.3 million in 2015 as a component of selling, general and administrative expense in our Consolidated Statement of Operations related to the present value of estimated future payments due pursuant to this agreement. We believe that this estimate is reasonable; however, actual cash flows could differ materially. We will periodically evaluate whether significant changes in our assumptions have occurred and record an adjustment if future expected cash flows are significantly different than the reserve recorded.

As of December 31, 2015, the balance associated with this agreement was $18.3 million and was included as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

Sale of Land

In the fourth quarter of 2013, we completed the sale of land in Medford, Oregon to Dick Heimann for $4.2 million. Mr. Heimann relocated stores he purchased from us in 2012 to this location. We determined the fair value of the land based on a third party appraisal for the property. The sale resulted in a gain of $2.5 million, recorded as a component of selling, general and administrative expenses in our Consolidated Statements of Operations.

(17) Net Income Per Share of Class A and Class B Common Stock

We compute net income per share of Class A and Class B common stock using the two-class method. Under this method, basic net income per share is computed using the weighted average number of common shares outstanding during the period excluding unvested common shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and unvested restricted shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options and other grants is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

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

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Following is a reconciliation of the income from continuing operations and weighted average shares used for our basic earnings per share ("EPS") and diluted EPS (in thousands, except per share amounts):

Year Ended December 31,	**2015**		**2014**		**2013**	
Basic EPS	**Class A**	**Class B**	**Class A**	**Class B**	**Class A**	**Class B**
Numerator:						
Income from continuing operations applicable to common stockholders	$165,172	$17,827	$122,246	$13,294	$94,532	$10,682
Distributed income applicable to common stockholders	(18,038)	(1,947)	(14,367)	(1,562)	(9,061)	(1,024)
Basic undistributed income from continuing operations applicable to common stockholders	$147,134	$15,880	$107,879	$11,732	$85,471	$9,658
Denominator:						
Weighted average number of shares out-standing used to calculate basic income per share	23,729	2,561	23,559	2,562	23,185	2,620
Basic income from continuing operations per share applicable to common stockholders	$6.96	$6.96	$5.19	$5.19	$4.08	$4.08
Basic distributed income per share applicable to common stockholders	(0.76)	(0.76)	(0.61)	(61)	(0.39)	(0.39)
Basic undistributed income from continuing operations per share applicable to common stockholders	$6.20	$6.20	$4.58	$4.58	$3.69	$3.69

Year Ended December 31,	2015		2014		2013	
Diluted EPS	**Class A**	**Class B**	**Class A**	**Class B**	**Class A**	**Class B**
Numerator:						
Distributed income applicable to common stockholders	$18,038	$1,947	$14,367	$1,562	$9,061	$1,024
Reallocation of distributed income as a result of conversion of dilutive stock options	15	(15)	15	(15)	15	(15)
Reallocation of distributed income due to conversion of Class B to Class A	1,932	—	1,547	—	1,009	—
Diluted distributed income applicable to common stockholders	$19,985	$1,932	$15,929	$1,547	$10,085	$1,009
Undistributed income from continuing operations applicable to common stockholders	$147,134	$15,880	$107,879	$11,732	$85,471	$9,658
Reallocation of undistributed income as a result of conversion of dilutive stock options	120	(120)	116	(116)	142	(142)
Reallocation of undistributed income due to conversion of Class B to Class A	15,760	—	11,616	—	9,516	—
Diluted undistributed income from continuing operations applicable to common stockholders	$163,014	$15,760	$119,611	$11,616	$95,129	$9,516
Denominator:						
Weighted average number of shares outstanding used to calculate basic income per share	23,729	2,561	23,559	2,562	23,185	2,620
Weighted average number of shares from stock options	200	—	261	—	386	—
Conversion of Class B to Class A	2,561	—	2,562	—	2,620	—
Weighted average number of shares outstanding used to calculate diluted income per share	26,490	2,561	26,382	2,562	26,191	2,620

Year Ended December 31,	2015		2014		2013	
Diluted EPS	**Class A**	**Class B**	**Class A**	**Class B**	**Class A**	**Class B**
Diluted income from continuing operations per share available to common stockholders	$6.91	$6.91	$5.14	$5.14	$4.02	$4.02
Diluted distributed income from continuing operations per share applicable to common stockholders	(0.76)	(0.76)	(0.61)	(0.61)	(0.39)	(0.39)
Diluted undistributed income from continuing operations per share applicable to common stockholders	$6.15	$6.15	$4.53	$4.53	$3.63	$3.63
Antidilutive Securities:						
Shares issuable pursuant to stock options not included since they were antidilutive	16	—	13	—	16	—

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(18) Equity-Method Investment

In October 2014, we acquired a 99.9% membership interest in a limited liability company managed by U.S. Bancorp Community Development Corporation with an initial equity contribution of $4.1 million. We made additional equity contributions to the entity of $22.8 million in 2015. We are obligated to make $49.8 million of total contributions to the entity over a two-year period ending October 2016, $26.9 million of which had been made as of December 31, 2015.

This investment generates new markets tax credits under the New Markets Tax Credit Program (“NMTC Program”). The NMTC Program was established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities.

While U.S. Bancorp Community Development Corporation exercises management control over the limited liability company, due to the economic interest we hold in the entity, we determined our ownership portion of the entity was appropriately accounted for using the equity method.

The following amounts related to this equity-method investment were recorded in our Consolidated Balance Sheets (in thousands):

	December 31,	
	2015	**2014**
Carrying value, recorded as a component of other non-current assets	$22,284	$33,282
Present value of obligation associated with future equity contributions, recorded as a component of accrued liabilities and other long-term liabilities	22,511	32,177

The following amounts related to this equity-method investment were recorded in our Consolidated Statements of Operations (in thousands):

	Year Ended December 31,		
	2015	**2014**	**2013**
Asset impairments to write investment down to fair value	$16,521	$1,853	$ —
Our portion of the partnership’s operating losses	6,929	1,160	—
Non-cash interest expense related to the amortization of the discounted fair value of future equity contributions	674	152	—
Tax benefits and credits generated	30,832	6,506	—

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(19) Segments

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

Year Ended December 31,	2015	2014	2013
Revenues:			
Domestic	$3,034,849	$2,566,473	$2,145,478
Import	3,334,983	1,893,034	1,225,800
Luxury	1,490,632	926,856	629,521
	7,860,464	5,386,363	4,000,799
Corporate and other	3,788	3,963	4,950
	$7,864,252	$5,390,326	$4,005,749
Segment income*:			
Domestic	$115,525	$96,888	$84,500
Import	98,371	50,870	40,264
Luxury	36,391	25,448	16,133
	250,287	173,206	140,897
Corporate and other	74,514	71,195	50,283
Depreciation and amortization	(41,600)	(26,363)	(20,035)
Other interest expense	(19,491)	(10,742)	(8,350)
Other (expense) income, net	(1,006)	3,199	2,993
Income from continuing operations before income taxes	$262,704	$210,495	$165,788

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

Floor plan interest expense:			
Domestic	$20,970	$17,852	$15,223
Import	15,051	9,439	6,475
Luxury	9,096	5,098	3,931
	45,117	32,389	25,629
Corporate and other	(25,583)	(18,528)	(13,256)
	$19,534	$13,861	$12,373

December 31,	2015	2014
Total assets:		
Domestic	$985,374	$829,721
Import	725,011	698,015
Luxury	475,305	405,222
Corporate and other	1,041,609	947,974

$3,227,299	$2,880,932

(20) Recent Accounting Pronouncements

In May 2014, the FASB issued accounting standards update ("ASU") 2014-09, "Revenue from Contracts with Customers," which amends the accounting guidance related to revenues. This amendment will replace most of the existing revenue recognition guidance when it becomes effective. The new standard, as amended in July 2015, is effective for fiscal years beginning after December 15, 2017 and entities are allowed to adopt the standard as early as annual periods beginning after December 15, 2016, and interim periods therein. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this amendment will have on our consolidated financial statements and related disclosures and believe the financial impact is not material. We have not yet selected a transition method.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory (Topic 330)." ASU 2015-11 simplifies the accounting for the valuation of all inventory not accounted for using the last-in, first-out method by prescribing inventory be valued at the lower of cost and net realizable value. ASU 2015-11 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. Early adoption is permitted. We do not expect the adoption of ASU 2015-11 to have a material effect on our financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." This guidance eliminated the requirement for retrospective adjustments to financial statements for measurement-period adjustments that occur after a business combination is consummated. ASU 2015-16 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2015 on a prospective basis. Early adoption is permitted. We do not expect the adoption of ASU 2015-16 to have any effect on our financial position, results of operations or cash flows.

(21) Subsequent Events

Common Stock Dividend

On February 22, 2016, our Board of Directors approved a dividend of $0.20 per share on our Class A and Class B common stock related to our fourth quarter 2015 financial results. The dividend will total approximately $5.1 million and will be paid on March 25, 2016 to shareholders of record on March 11, 2016.

Repurchases of Class A Common Stock

In 2016 to date, we have repurchased approximately 594,123 shares at a weighted average price of $79.11 per share. As of February 26, 2016, under our existing share repurchase authorization, approximately 677,364 shares remain available for purchase.

Acquisitions

On January 26, 2016, we acquired the inventory, equipment and intangible assets of Riverside Subaru in Riverside, California. We paid $3.6 million in cash for this acquisition.

On February 1, 2016, we acquired the inventory, equipment and intangible assets of Ira Toyota / Scion of Milford, Massachusetts. We paid $6.5 million in cash for this acquisition.

Litigation

On February 12, 2016, Marty A. Jessos, a Lithia shareholder, filed derivative claims on behalf of Lithia against its Board of Directors, also listing Lithia as a nominal defendant. The case, *Jessos v. DeBoer, et al.*, is pending in the Circuit Court of the State of Oregon for Multnomah County. Mr. Jessos' claims are very similar to those made by Shiva Y. Stein in the *Stein* Litigation described in Note 7, relating to the adoption of the transition agreement between Lithia and Sidney B. DeBoer. Mr. Jessos alleges that Lithia's directors breached their fiduciary duties of loyalty and due care, and wasted corporate assets, when they approved the agreement with Sidney B. DeBoer. Mr. Jessos also alleges a claim against Sidney B. DeBoer, asserting that he has been unjustly enriched by the agreement. Mr. Jessos is seeking relief in the amount of damages allegedly sustained by Lithia as a result of the alleged breaches of fiduciary duty and alleged corporate waste, disgorgement and imposition of a constructive trust on all property and profits Sidney B. DeBoer received as a result of the alleged wrongful conduct, and an award of the costs and disbursements of the lawsuit, including reasonable attorneys fees, costs, and expenses. The Board and Mr. DeBoer are defending themselves against Mr. Jessos’s allegations. Although we do not anticipate that the resolution of this legal proceeding will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.