UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2021

OR

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

Commission File Number: 001-14733

Lithia Motors, Inc.

(Exact name of registrant as specified in its charter)

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

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

(541) 776-6401

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. X

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $10,385,788,000 computed by reference to the last sales price ($343.64) as reported by the New York Stock Exchange for the Registrant's Common stock, as of the last business day of the Registrant's most recently completed second fiscal quarter (June 30, 2021). As of February 18, 2022, there were 29,487,889 shares of the registrant's Common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant has incorporated into Part III of Form 10-K, by reference, portions of its Proxy Statement for its 2022 Annual Meeting of Shareholders.

LITHIA MOTORS, INC.
2021 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

Item Number	Item	Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	None
Item 2.	Properties	18
Item 3.	Legal Proceedings	19
Item 4.	Mine Safety Disclosures	Not applicable
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations:	21
	Results of operations	23
	Liquidity and capital resources	36
	Critical accounting estimates	43
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 8.	Financial Statements and Supplementary Data	45
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	None
Item 9A.	Controls and Procedures	46
Item 9B.	Other Information	None
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	Not applicable
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	47
Item 11.	Executive Compensation	47
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	47
Item 13.	Certain Relationships and Related Transactions, and Director Independence	47
Item 14.	Principal Accounting Fees and Services	47
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	48
Item 16.	Form 10-K Summary	None
SIGNATURES		51

PART I

Item 1. Business

Forward-Looking Statements

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

- Future market conditions, including anticipated car and other sales levels and the supply of inventory
- Our business strategy and plans, including our achieving our 2025 Plan (or "50/50" Plan)
- The growth, expansion and success of our network, including our finding accretive acquisitions and acquiring additional stores
- Annualized revenues from acquired stores
- The growth and performance of our Driveway e-commerce home solution and Driveway Finance, their synergies and other impacts on our business and our ability to meet Driveway-related targets
- Our capital allocations and uses and levels of capital expenditures in the future
- Expected operating results, such as improved store performance, continued improvement of selling, general and administrative expenses ("SG&A") as a percentage of gross profit and any projections
- Our anticipated financial condition and liquidity, including from our cash and the future availability of our credit facility, unfinanced real estate and other financing sources
- Our continuing to purchase shares under our share repurchase program
- Impacts from the continued COVID-19 pandemic on the national and local economies in which we operate, our business operations and consumer demand
- Our compliance with financial and restrictive covenants in our credit facility and other debt agreements
- Our programs and initiatives for employee recruitment, training, and retention
- Our strategies for customer retention, growth, market position, financial results and risk management

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Forward-looking statements are not guarantees of future performance, and our actual results of operations, financial condition and liquidity and development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements in this Annual Report. Therefore, you should not rely on any of these forward-looking statements. The risks and uncertainties that could cause actual results to differ materially from estimated or projected results include, without limitation, the factors as discussed in Part I, Item 1A. Risk Factors, and in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and, from time to time, in our other filings we make with the Securities and Exchange Commission (SEC).

Any forward-looking statement made by us in this Annual Report is based only on information currently available to us and speaks only as of the date on which it is made. Except as required by law, we undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Overview

Lithia Motors, Inc. is a growth company focused on profitably consolidating the largest retail sector in North America. We are among the fastest growing companies in the Fortune 500 and are currently ranked #231 (#2 on 10-year EPS growth, #3 on 10-year total shareholder return and #12 on 10-year revenue growth in 2021). As of December 31, 2021, we operated 278 locations representing 40 brands in two countries, across 25 U.S. states and three Canadian provinces. The majority of our revenues are generated within the U.S. and the majority of our property and equipment is located within the U.S.

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

LAD's omni-channel strategy pragmatically disrupts the industry by leveraging our experienced teams, vast owned inventories, technology and physical network. We continue to lead the industry's consolidation and, combined with Driveway's e-commerce in-home experiences and Driveway Finance Corporation's growing auto loan portfolio, further accelerates our massive profit and capital engine. Together, these endeavors create a unique and compelling high-growth strategy that provides transportation solutions wherever, whenever and however consumers desire.

Founded in 1946 and incorporated in Oregon in 1968, we completed our initial public offering in 1996.

Business Strategy

We seek to provide customers a seamless, blended online and physical retail experience with broad selection and access to specialized expertise and knowledge. Our physical network enables us to provide convenient touch points for customers and provide services throughout the vehicle life cycle. We seek to increase market share and optimize profitability by focusing on the consumer experience and applying proprietary performance measurement systems fueled by data science. Our Driveway and GreenCars brands provide convenient, simple, and transparent platforms that serve as our e-commerce home solutions and allow us to deliver differentiated, proprietary digital experiences. Complimenting our in-store experiences, Driveway and GreenCars provide consumers more choices while further leveraging our network of people, inventory and locations and capturing additional earnings.

Our long-term strategy to create value for our customers, employees and shareholders includes the following elements:

Driving operational excellence, innovation and diversification

LAD builds magnetic brand loyalty in our 278 stores and with Driveway, our e-commerce home delivery experience, and GreenCars, our electric vehicle learning resource and marketplace. Operational excellence is achieved by focusing the business on convenient and transparent consumer experiences supported by proprietary data science to improve market share, consumer loyalty, and profitability. By promoting an entrepreneurial model with our in-store experiences, we build strong businesses responsive to each of our local markets. Utilizing performance-based action plans, we develop high-performing teams and foster manufacturer relationships.

In response to evolving consumer preferences, we invest in modernization that supports and expands our core business. These digital strategies combine our experienced, knowledgeable workforce with our owned inventory and physical network of stores, enabling us to be agile and adapt to consumer preferences and market specific conditions. Additionally, we systematically explore transformative adjacencies, which are identified to be synergistic and complementary to our existing business such as Driveway Finance Corporation, our captive auto loan portfolio.

Our investments in modernization are well under way and are taking hold with our teams as they provide digital shopping experiences including finance, contactless test drives and home delivery or curbside pickup for vehicle purchases. Our people and these solutions power our national brands, overlaying our physical footprint in a way that we believe attracts a larger population of digital consumers seeking transparent, empowered, flexible and simple buying and servicing experiences.

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

We have centralized many administrative functions to drive efficiencies and streamline store-level operations. The reduction of administrative functions at our stores allows our local managers to focus on customer-facing opportunities to increase revenues and gross profit. Our operations are supported by regional and corporate

management, as well as dedicated training and personnel development programs which allow us to share best practices across our network and develop management talent.

Growth through acquisition and network optimization
Our acquisition growth strategy has been successful both financially and culturally. Our disciplined approach focuses on acquiring new vehicle franchises, which operate in markets ranging from mid-sized regional markets to metropolitan markets. Acquisition of these businesses increases our proximity to consumers throughout the United States. While we target annual after tax return of more than 15% for our acquisitions, we have averaged over a 25% return by the third year of ownership due to a disciplined approach focusing on accretive, cash flow positive targets at reasonable valuations. In addition to being financially accretive, acquisitions aim to drive network growth that improves our ability to serve customers through vast selection, greater density and access to customers and ability to leverage national branding and advertising.

As we focus on expanding our physical network of stores, one of the criteria we evaluate is a valuation multiple between 3x to 7x of investment in intangibles to estimated annualized adjusted EBITDA, with various factors including location, ability to expand our network and talent considered in determining value. We also target an investment in intangibles as a percentage of annualized revenues in the range of 15% to 30%.

During 2021, we acquired 77 stores, opened one store, and divested nine stores. We invested $2.3 billion, net of floor plan debt, to acquire these stores and we expect these acquisitions to add nearly $7.0 billion in expected annual revenues.

We regularly optimize and balance our network through strategic divestitures to ensure continued high performance. We believe our disciplined approach provides us with attractive acquisition opportunities and expanded coast-to-coast coverage.

Thoughtful capital allocation
We manage our liquidity and available cash to support our long-term plan focused on growth through acquisitions, investments in our national e-commerce home solution, Driveway, and our existing business. Our free cash flow deployment strategy targets an allocation of 65% investment in acquisitions, 25% investment in capital expenditures, innovation, and diversification and 10% in shareholder return in the form of dividends and share repurchases. During 2021, we invested in our facilities, utilizing $260.4 million for capital expenditures, and paid $38.8 million in dividends. As of December 31, 2021, we had available liquidity of $1.5 billion, which was comprised of $174.8 million in cash and $1.3 billion availability on our credit facilities and unfloored new vehicle inventory. In addition, our unfinanced real estate could provide additional liquidity of approximately $1.0 billion.

Marketing
One of our core values, Earn Customers for Life, defines our market strategy by appealing to our consumers' desire for affordability, transparency and convenience. We employ national, regional and local brands to connect with consumers with advertising tailored to the individual brand and market. Utilizing data analysis and multi-channel communications, we strive to attract and retain customers throughout the vehicle ownership life cycle.

With a vast selection represented by the nation's largest vehicle inventory for sale online, we employ search engine optimization, search engine marketing, online display, re-targeting, social advertising, traditional media and direct marketing to reach consumers. Most consumers begin their shopping, buying or selling activity on our store websites, Driveway, and GreenCars. These 300+ online channels provide customers with simple, transparent ways to manage their vehicle ownership including: search new and used inventories, view current pricing, apply incentives and offers, calculate payments for purchase or lease, apply for financing, buy online, sell their vehicle, schedule service appointments, schedule vehicle pick-up and delivery, and provide us feedback about their experience. During 2021, our unique visitors increased 39% on a same store basis.

Total advertising expense, net of manufacturer credits, was $162.2 million in 2021, $97.4 million in 2020 and $111.9 million in 2019. In 2021, we spent 87% on digital, social, listings and owner communications, while 13% was spent on traditional media. In all of our communications, we seek to convey the promise of a positive customer experience, competitive pricing and wide selection. We expect the portion of spending in digital channels to continue to increase as traditional media evolves to online consumption models.

Our manufacturer partners influence a significant portion of our advertising expense. Certain advertising and marketing expenditures are offset by manufacturer cooperative programs, which require us to submit requests for reimbursement to manufacturers for qualifying advertising expenditures. These advertising credits are not tied to specific vehicles and are earned as qualifying expenses are incurred. These reimbursements are recognized as a reduction of advertising expense. Manufacturer cooperative advertising credits were $35.6 million in 2021, $23.9 million in 2020 and $27.9 million in 2019.

Franchise Agreements

Each of our stores operates under a separate Franchise Agreement with the manufacturer of the new vehicle brand it sells.

Typical automobile Franchise Agreements specify the locations within a designated market area at which the store may sell vehicles and related products and perform approved services. The designation of the market areas and the allocation of new vehicles among stores are at the discretion of the manufacturer. Franchise Agreements do not, however, guarantee exclusivity within a specified territory.

A Franchise Agreement may impose requirements on the store with respect to:

- facilities and equipment;
- inventories of vehicles and parts;
- minimum working capital;
- training of personnel; and
- performance standards for market share and customer satisfaction.

Each manufacturer closely monitors compliance with these requirements and requires each store to submit monthly financial statements. Franchise Agreements also grant a store the right to use and display manufacturers' trademarks, service marks and designs in the manner approved by each manufacturer.

We have determined the useful life of a Franchise Agreement is indefinite, even though certain Franchise Agreements are renewed after one to six years. In our experience, agreements are routinely renewed without substantial cost and there are legal remedies to help prevent termination. Certain Franchise Agreements have no termination date. In addition, state franchise laws protect franchised automotive retailers. Under certain laws, a manufacturer may not terminate or fail to renew a franchise without good cause or prevent any reasonable changes in the capital structure or financing of a store.

Our typical Franchise Agreement provides for early termination or non-renewal by the manufacturer upon:

- a change of management or ownership without manufacturer consent;
- insolvency or bankruptcy of the dealer;
- death or incapacity of the dealer/manager;
- conviction of a dealer/manager or owner of certain crimes;
- misrepresentation of certain sales or inventory information to the manufacturer;
- failure to adequately operate the store;
- failure to maintain any license, permit or authorization required for the conduct of business;
- poor market share; or
- low customer satisfaction index scores.

Franchise Agreements generally provide for prior written notice before a franchise may be terminated under most circumstances. We also sign master framework agreements with most manufacturers that impose additional requirements. See Item 1A. Risk Factors.

Competition

The retail automotive business is highly competitive. Currently, there are more than 16,500 new vehicle franchise dealers in the United States, many of which are independent stores managed by individuals, families or small retail groups. We compete primarily with other automotive retailers, both publicly- and privately-held and other online automotive retailers such as CarMax, Carvana, Shift and Vroom.

Vehicle manufacturers have designated specific marketing and sales areas within which only one dealer of a vehicle brand may operate. In addition, our Franchise Agreements typically limit our ability to acquire multiple dealerships of a given brand within a particular market area. Certain state franchise laws also restrict us from relocating our

dealerships, or establishing new dealerships of a particular brand, within any area that is served by another dealer with the same brand. To the extent that a market has multiple dealers of a particular brand, as certain markets we operate in do, we are subject to significant intra-brand competition.

We are larger and have more financial resources than most private automotive retailers with which we currently compete in the majority of our regional markets. We compete directly with retailers with similar or greater resources in our existing metro and non-metro markets. We also compete based on dealer reputation in the various markets. If we enter other new markets, we may face competitors that have access to greater financial resources or have strong brands. We do not have any cost advantage in purchasing new vehicles from manufacturers. We rely on advertising and merchandising, pricing, our customer guarantees and sales model, our sales expertise, service reputation and the location of our stores to sell new vehicles.

Regulation

Automotive and Other Laws and Regulations

We operate in a highly regulated industry. A number of state and federal laws and regulations affect our business. In every state in which we operate, we must obtain various licenses to operate our businesses, including dealer, sales and finance and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our business, including those relating to our sales, operations, financing, insurance, advertising and employment practices. These laws and regulations include state franchise laws and regulations, consumer protection laws, privacy laws, escheatment laws, anti-money laundering laws and federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to numerous federal, state and local laws and regulations. In recent years, there has been an increase in activity related to oversight of consumer lending by the Consumer Financial Protection Bureau (CFPB), which has broad regulatory powers. The CFPB has supervisory authority over large nonbank auto finance companies, including Driveway Finance Corporation. The CFPB can use this authority to conduct supervisory examinations to ensure compliance with various federal consumer protection laws. The CFPB does not have direct authority over automotive dealers; however, its regulation of larger automotive finance companies and other financial institutions could affect our financing activities. Claims arising out of actual or alleged violations of law may be asserted against us or our stores by individuals, a class of individuals, or governmental entities. These claims may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct store operations and fines.

The vehicles we sell are also subject to rules and regulations of various federal and state regulatory agencies.

Environmental, Health, and Safety Laws and Regulations

Our operations involve the use, handling, storage and contracting for recycling and/or disposal of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires and fuel. Consequently, our business is subject to a complex variety of federal, state and local requirements that regulate the environment and public health and safety.

Most of our stores use above ground storage tanks, and, to a lesser extent, underground storage tanks, primarily for petroleum-based products. Storage tanks are subject to periodic testing, containment, upgrading and removal under the Resource Conservation and Recovery Act and its state law counterparts. Clean-up or other remedial action may be necessary in the event of leaks or other discharges from storage tanks or other sources. In addition, water quality protection programs under the federal Water Pollution Control Act (commonly known as the Clean Water Act), the Safe Drinking Water Act and comparable state and local programs govern certain discharges from our operations. Similarly, certain air emissions from operations, such as auto body painting, may be subject to the federal Clean Air Act and related state and local laws. Health and safety standards promulgated by the Occupational Safety and Health Administration of the United States Department of Labor and related state agencies also apply.

Certain stores may become a party to proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, typically in connection with materials that were sent to former recycling, treatment and/or disposal facilities owned and operated by independent businesses. The remediation or clean-up of facilities where the release of a regulated hazardous substance occurred is required under CERCLA and other laws.

We incur certain costs to comply with environmental, health and safety laws and regulations in the ordinary course of our business. We do not anticipate, however, that the costs of compliance will have a material adverse effect on our business, results of operations, cash flows or financial condition, although such outcome is possible given the nature of our operations and the extensive environmental, public health and safety regulatory framework. We may become aware of minor contamination at certain of our facilities, and we conduct investigations and remediation at properties as needed. In certain cases, the current or prior property owner may conduct the investigation and/or remediation or we have been indemnified by either the current or prior property owner for such contamination. We do not currently expect to incur significant costs for remediation. However, we cannot provide assurance that material environmental commitments or contingencies will not arise in the future, or that they do not already exist but are unknown to us.

Human Capital

Driven by our mission statement, "Growth Powered by People," we place a high degree of value in each of our team members and their individual professional success. Promoting and hiring the best talent available, defining clear expectations, providing excellent training and rewarding performance helps us build dynamic teams to serve our customers. We cultivate an entrepreneurial, high-performance culture and strive to develop leaders from within. We continue to develop tools, training and growth opportunities that accelerate the depth of our talent.

As of December 31, 2021, we employed approximately 21,150 persons on a full-time equivalent basis in our North American network of 278 retail locations. Our total workforce was comprised of approximately 18% female employees and approximately 44% of minorities. Our management consisted of approximately 17% females and approximately 35% minorities in leadership positions. In both 2021 and 2020, approximately 95% of our workforce earned above minimum wage.

Some examples of our key programs and initiatives that are focused on attracting, retaining and developing our high performing workforce include:

- AMP program (Accelerate My Potential), which began in 2016, is designed to deepen the knowledge of future leaders in all aspects of our business and develop leadership skills to better position participants for a future as a general manager in one of our stores.
- Lithia Women Lead, which began in 2015, provides an avenue for women in the organization to connect, learn and develop. The program includes events throughout the year that provide women in the organization the opportunity to network, act as role models and inspire one another's growth.
- Culture Council, which began in 2021, is designed to promote diversity, equality and inclusion (DEI) in our workforce by identifying areas to improve, raising awareness, and integrating DEI elements into how we operate, train and develop our teams. The Culture Council is comprised of a diverse group of executive level and non-executive level members, who work together to have our employees reflect the diversity of our customers, reinforce our mission and culture and enhance employee engagement.
- Talent development promotes employee professional development through various programs including tuition reimbursement programs covering up to 75% of an employee's undergraduate or graduate tuition costs; Master Automotive Service Excellence (ASE) training and certification and Original Equipment Manufacturer (OEM) training for our technicians; and daily on-the-job training resources through our Learning Center.

We also continue to invest in and expand the roles and capabilities of our workforce to drive the development and support of our e-commerce and digital technology capabilities. We believe there is a competitive advantage to integrate and develop individuals with these skill sets and they are an integral part of supporting our five year growth plan and launch of Driveway. As our business evolves, we will remain focused on having human capital capabilities, systems and processes in place to support and align with our strategy.

Seasonality and Quarterly Fluctuations

In a stable environment, the automotive industry has generally experienced higher volumes of vehicle unit sales in the second and third quarters of each year due to consumer buying trends and the introduction of new vehicle models and, accordingly, we expect our revenues and operating results to generally be higher during these periods. In addition, we generally experience higher volume of luxury vehicles, which have higher average selling prices and gross profit per vehicle, during the fourth quarter. The timing of our acquisition activity, which varies, and ability to integrate stores into our existing cost structure has moderated this seasonality. However, if conditions occur that weaken automotive sales, such as severe weather in the geographic areas in which our dealerships operate, war,

high fuel costs, depressed economic conditions including unemployment or weakened consumer confidence or similar adverse conditions, or if our ability to acquire stores changes, our revenues for the year may be disproportionately adversely affected.

Available Information

We make available free of charge, on our website at www.lithiainvestorrelations.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are filed electronically with the SEC. The information found on our website is not part of this Annual Report on Form 10-K. You may also obtain copies of these reports by contacting Investor Relations at 877-331-3084.

Item 1A. Risk Factors

You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business operations.

Risks related to our business

The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.

Our business is heavily dependent on consumer demand and preferences. A downturn in overall levels of consumer spending may materially and adversely affect our revenues and gross profit margins. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. Additionally, other economic factors, such as rising and sustained periods of high crude oil and fuel prices, may impact consumer demand and preferences. As we operate in two countries, across 25 U.S. states and three Canadian Provinces, changes in and the severity of economic conditions may vary by market. Economic conditions may be anemic for an extended period of time, or deteriorate in the future. This would have a material adverse effect on our retail business, particularly sales of new and used vehicles.

Approximately 15.1 million, 14.6 million, and 17.1 million new vehicles were sold in the United States in 2021, 2020, and 2019, respectively. Certain industry analysts have predicted that new vehicle sales will be approximately 16 million for 2022. If new vehicle production exceeds the rate at which new vehicles are sold, our gross profit per vehicle could be adversely affected by this excess and any resulting changes in manufacturer incentive and marketing programs. See the risk factor "If manufacturers or distributors discontinue or change sales incentives, warranties and other promotional programs, our business, results of operations, financial condition and cash flows may be materially adversely affected” below. Economic conditions and the other factors described above may also materially adversely impact our sales of used vehicles, parts and repair and maintenance services, and automotive finance and insurance products.

The novel coronavirus has had and may continue to have an adverse effect on our business, financial condition, results of operations and cash flows.

The novel coronavirus (COVID-19) pandemic has resulted in governmental authorities implementing measures to reduce the spread of COVID-19, modifications to business practices and other disruptions that have adversely affected workforces, customers, supply chains, consumer sentiment, economies, and financial markets, including in states and regions in which we operate. These disruptions included the substantial slowing of our manufacturers’ production of new cars they supply to us, employees unable to work due to COVID-19 and altered customer engagement. The impact of the COVID-19 pandemic on our business and financial performance will depend on future developments, including the duration, severity and any resurgences of the pandemic, which are uncertain and cannot be predicted. Even after the pandemic has subsided, we may experience adverse effects to our business as a result of its economic impact, including any economic recession or downturn and lasting effects of changes to

business practices and consumer behaviors. Future pandemics or outbreaks could disrupt or have a similar effect on our business, financial condition, results of operations and cash flows.

Natural disasters and adverse weather conditions can disrupt our business.

Our dealerships are in states and regions in the U.S. and Canada in which actual or threatened natural disasters and severe weather events (such as hurricanes, earthquakes, fires, floods, landslides, wind and/or hail storms) or other extraordinary events have in the past, and may in the future, disrupt our dealership operations and impair the value of our dealership property. A disruption in our operations may adversely impact our business, results of operations, financial condition and cash flows. In addition to business interruption, the automotive retailing business is subject to substantial risk of property loss due to the significant concentration of property at dealership locations. The exposure on any single claim under our property and casualty insurance, medical insurance and workers' compensation insurance varies based upon type of coverage. Our maximum exposure on any single claim is $5.5 million, subject to certain aggregate limit thresholds.

The automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters and adverse weather events may affect the flow of inventory or parts to us or our manufacturing partners. Such disruptions could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Increasing competition among automotive retailers reduces our profit margins on vehicle sales and related businesses. Further, the use of the Internet in the car purchasing process could materially adversely affect us.

Automobile retailing is a highly competitive business. Our competitors include publicly and privately-owned dealerships, of which certain competitors are larger and have greater financial and marketing resources than we have. Many of our competitors sell the same or similar makes of new and used vehicles that we offer in our markets at competitive prices. We do not have any cost advantage in purchasing new vehicles from manufacturers due to the volume of purchases or otherwise.

Our finance and insurance business and other related businesses, which have higher margins than sales of new and used vehicles, are subject to strong competition from various financial institutions and others.

The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for vehicles and related finance and insurance services, which may further reduce margins for new and used vehicles and profits for related finance and insurance services. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with services offered on the Internet or are investing heavily in the development of their own Internet capabilities, which could materially adversely affect our business, results of operations, financial condition and cash flows.

Our Franchise Agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate or if existing franchised dealers increase their market share in our markets.

In addition, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. Our operating margins may decline over time as we expand into markets where we do not have a leading position.

Changes to the automotive industry and consumer views on car ownership could materially adversely affect our business, results of operations, financial condition and cash flows.

The automotive industry is predicted to experience rapid change in the years to come, including increases in ride-sharing services, advances in electric vehicle production and driverless technology. Ride-sharing services such as Uber and Lyft provide consumers with mobility options outside of the traditional car ownership and lease alternatives. Certain manufacturers and states have declared commitments to various electric vehicle and zero emissions goals, such as the state of California's executive order to require all new cars and passenger trucks sold in the state to be zero-emission vehicles by 2035. The overall impact of these options on the automotive industry is uncertain, and may include lower levels of new vehicle sales or sales through channels that do not include us.

Manufacturers continue to invest in increasing production and quality of electric vehicles, including Battery-Electric Vehicles (BEVs), Hybrid Electric Vehicles, and Plug-in Hybrid Electric Vehicles. BEVs generally require less maintenance than traditional cars and trucks. The effects of BEVs on the automotive industry are uncertain and may include reduced parts and service revenues, as well as changes in the level of sales of certain Finance and Insurance (F&I) products such as extended warranty and lifetime lube, oil and filter contracts.

Technological advances are also facilitating the development of driverless vehicles. The eventual timing of availability of driverless vehicles is uncertain due to regulatory requirements, technological hurdles, and uncertain consumer acceptance of these technologies. The effect of driverless vehicles on the automotive industry is uncertain and could include changes in the level of new and used vehicle sales, the price of new vehicles, and the role of franchised dealers, any of which could materially and adversely affect our business.

We compete in a dynamic industry, and we may invest significant resources to pursue strategies and develop new offerings that do not prove effective.

The automobile retailing industry is experiencing significant changes as the expectations and behaviors of customers are shifting, and the Internet has become a more significant part of the sales process. We are investing significant resources to drive the development of and support of our e-commerce and digital technology capabilities, including the launch of Driveway, our e-commerce home solution, and Driveway Finance Corporation, our in-house consumer financing business. Changes or additions to offerings may not attract or engage our customers, and may reduce confidence in our brands, expose us to increased market or legal risks, subject us to new laws and regulations, or otherwise harm our business.

Customers may prefer other channels for vehicle sales and related finance and insurance services, because they may offer different or superior platforms, or because customers find those platforms easier to use, faster, or more cost effective than our services. We may not successfully anticipate or keep pace with industry changes, and we may invest considerable financial resources, personnel, or other resources to pursue strategies that do not ultimately prove effective such that our results of operations and financial condition may be harmed.

A decline of available financing in the lending market may adversely affect our vehicle sales volume.

A significant portion of buyers finance their vehicle purchases. One of the primary finance sources used by consumers in connection with the purchase of a new or used vehicle is the manufacturer captive finance company. These captive finance companies rely, to a certain extent, on the public debt markets to provide the capital necessary to support their financing programs. In addition, the captive finance companies will occasionally change their loan underwriting criteria to alter the risk profile of their loan portfolio. In addition, sub-prime lenders have historically provided financing for consumers who, for a variety of reasons, including poor credit histories and lack of down payment, do not have access to more traditional finance sources. If lenders tighten their credit standards or there is a decline in the availability of credit in the lending market, the ability of consumers to purchase vehicles could be limited, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Adverse conditions affecting one or more key manufacturers may negatively affect our business, results of operations, financial condition and cash flows.

We depend on our manufacturers to provide a supply of vehicles which supports expected sales levels. Any event that adversely affects a manufacturer's ability to timely deliver new vehicles may adversely affect us by reducing our supply of popular new vehicles, leading to lower sales in our stores during those periods than would otherwise occur. For example, the shortage of chip supply and labor disruptions have caused a significant constraint in the supply of new cars. We depend on our manufacturers to deliver high-quality, defect-free vehicles. If a manufacturer experiences quality issues, our sales and financial performance may be adversely impacted. In addition, the discontinuance of a particular brand that is profitable to us could negatively impact our revenues and profitability.
Vehicle manufacturers would be adversely affected by economic downturns or recessions, adverse fluctuations in currency exchange rates, significant declines in the sales of their new vehicles, increases in interest rates, declines in their credit ratings, port closures, labor strikes or similar disruptions (including within their major suppliers), supply shortages or rising raw material costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products, product defects, vehicle recall campaigns, litigation, poor product mix or unappealing vehicle design, or other adverse events. These and other risks could materially adversely affect any manufacturer and limit its ability to profitably design, market, produce or distribute new vehicles, which, in turn, could materially adversely affect our business, results of operations, financial condition and cash flows.

We are subject to a concentration of risk in the event of financial distress, including potential reorganization or bankruptcy, of a major vehicle manufacturer. We purchase substantially all of our new vehicles from various manufacturers or distributors at the prevailing prices available to all franchised dealers. Our sales volume could be materially adversely impacted by a manufacturer's or distributor's inability to supply our stores with an adequate supply of vehicles.

In the event of a manufacturer or distributor bankruptcy, we could be held liable for damages related to product liability claims, intellectual property suits or other legal actions. These legal actions are typically directed towards the vehicle manufacturer and it is customary for manufacturers to indemnify us from exposure related to any judgments associated with the claims. However, if damages could not be collected from the manufacturer or distributor, we could be named in lawsuits and judgments could be levied against us.

Many new manufacturers are entering the automotive industry. New companies have raised capital to produce fully electric vehicles or to license battery technology to existing manufacturers. Tesla and Rivian have demonstrated the ability to successfully introduce electric vehicles to the marketplace. Foreign manufacturers from China and India are producing significant volumes of new vehicles and are entering the U.S. and selecting partners to distribute their products. Because the automotive market in the U.S. is mature and the overall level of new vehicle sales may not increase in the coming years, the success of new competitors will likely be at the expense of other, established brands. This could have a material adverse impact on our success in the future.

Federal regulations around fuel economy standards and "greenhouse gas" emissions have continued to increase. New requirements may adversely affect any manufacturer's ability to profitably design, market, produce and distribute vehicles that comply with such regulations. We could be adversely impacted in our ability to market and sell these vehicles at affordable prices and in our ability to finance these inventories. These regulations could have a material adverse effect on our business, results of operations, financial condition and cash flows.

If manufacturers or distributors discontinue or change sales incentives, warranties and other promotional programs, our business, results of operations, financial condition and cash flows may be materially adversely affected.

We depend upon the manufacturers and distributors for sales incentives, warranties and other programs that are intended to promote new vehicle sales or supplement dealer income. Manufacturers and distributors routinely make changes to their incentive programs. Key incentive programs include:
- customer rebates;
- dealer incentives on new vehicles;
- special financing rates on certified, pre-owned cars; and
- below-market financing on new vehicles and special leasing terms.

Our financial condition could be materially adversely impacted by a discontinuation or change in our manufacturers' or distributors' incentive programs. In addition, certain manufacturers use criteria such as a dealership's manufacturer-determined customer satisfaction index (CSI score), facility image compliance, employee training, digital marketing and parts purchase programs as factors governing participation in incentive programs. To the extent we do not meet minimum score requirements, we may be precluded from receiving certain incentives, which could materially adversely affect our business, results of operations, financial condition and cash flows.

Franchised automotive retailers perform factory authorized service work and sell original replacement parts on vehicles covered by warranties issued by the automotive manufacturer. For the year ended December 31, 2021, approximately 21% of our service, body and parts revenue was for work covered by manufacturer warranties or manufacturer-sponsored maintenance services. To the extent a manufacturer reduces the labor rates or markup of replacement parts for such warranty work, our service, body and parts sales volume could be adversely affected.

The ability of our stores to make new vehicle sales depends in large part upon the franchise agreements with manufacturers and, therefore, any disruption or change in our relationships could impact our business.

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently in short supply. If we cannot obtain sufficient quantities of the most popular models, our profitability may be adversely affected. Sales of less desirable models may reduce our profit margins.

Each of our stores operates pursuant to a Franchise Agreement with each of the respective manufacturers for which it serves as franchisee. Each of our stores may obtain new vehicles from manufacturers, service vehicles, sell new vehicles, and display vehicle manufacturers' brand only to the extent permitted under these agreements. As a result of the terms of our Franchise Agreements, manufacturers exert significant control over the day-to-day operations at our stores. Such agreements contain provisions for termination or non-renewal for a variety of causes, including service retention, facility compliance, customer satisfaction and sales and financial performance. From time to time, certain of our stores have failed to comply with certain provisions of their Franchise Agreements, and we cannot ensure that our stores will be able to comply with these provisions in the future.

Our Franchise Agreements expire at various times, and there can be no assurances that we will be able to renew these agreements on a timely basis or on acceptable terms or at all. Actions taken by a manufacturer to exploit its bargaining position in negotiating the terms of renewals of Franchise Agreements or otherwise could also have a material adverse effect on our revenues and profitability. If a manufacturer terminates or fails to renew one or more of our significant Franchise Agreements or a large number of our Franchise Agreements, such action could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our Franchise Agreements also specify that, except in certain situations, we cannot operate a franchise by another manufacturer in the same building as the manufacturer's franchised store. This may require us to build new facilities at a significant cost. Moreover, our manufacturers generally require that the store meet defined image standards. These commitments could require us to make significant capital expenditures.

Our Franchise Agreements do not give us the exclusive right to a given geographic area. Manufacturers may be able to establish new franchises or relocate existing franchises, subject to applicable state franchise laws. The establishment of or relocation of franchises in our markets could have a material adverse effect on the business, financial condition and results of operations of our stores in the market in which the action is taken.

Our indebtedness and lease obligations could materially adversely affect our financial health, limit our ability to finance future acquisitions and capital expenditures and prevent us from fulfilling our financial obligations. Much of our debt is secured by a substantial portion of our assets. Much of our debt has a variable interest rate component that may significantly increase our interest costs in a rising rate environment.

Our indebtedness and lease obligations could have important consequences to us, including the following:

- limitations on our ability to make acquisitions;
- impaired ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes;
- reduced funds available for our operations and other purposes, as a larger portion of our cash flow from operations would be dedicated to the payment of principal and interest on our indebtedness; and
- exposure to the risk of increasing interest rates as certain borrowings are, and will continue to be, at variable rates of interest.

In addition, our loan agreements and our senior note indentures contain covenants that limit our discretion with respect to business matters, including incurring additional debt, granting additional security interests in our assets, acquisition activity, disposing of assets and other business matters. Other covenants are financial in nature, including current ratio, fixed charge coverage and leverage ratio calculations. A breach of any of these covenants could result in a default under the applicable agreement. In addition, a default under one agreement could result in a default and acceleration of our repayment obligations under the other agreements under the cross-default provisions in such other agreements.

We have granted a security interest in a substantial portion of our assets to certain of our lenders and other secured parties, including those under our $3.8 billion syndicated credit facility. If we default on our obligations under those agreements, the secured parties may be able to foreclose upon their security interests and otherwise be entitled to obtain or control those assets.

Certain debt agreements contain subjective acceleration clauses based on a lender deeming itself insecure or if a "material adverse change" in our business has occurred. If these clauses are implicated, and the lender declares that an event of default has occurred, the outstanding indebtedness would likely be immediately due and owing.

If these events were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with these agreements.

In addition, the lenders' obligations to make loans or other credit accommodations under certain credit agreements is subject to the satisfaction of certain conditions precedent including, for example, that our representations and warranties in the agreement are true and correct in all material respects as of the date of the proposed credit extension. If any of our representations and warranties in those agreements are not true and correct in all material respects as of the date of a proposed credit extension, or if other conditions precedent are not satisfied, we may not be able to request new loans or other credit accommodations under those credit facilities, which could have a material adverse impact on our business, results of operations, financial condition and cash flows.

Additionally, at various times in the future, we will need to refinance portions of our debt. At the time we must refinance, the market for new debt, or our financial condition or asset valuations, might not be favorable. It is possible that financing to replace or renew our debt may be unfavorable, which would adversely affect our financial condition and results of operations. In certain cases, we may turn to equity or other alternative financing.

Our floor plan notes payable, credit facilities and a portion of our real estate debt are subject to variable interest rates. As of December 31, 2021, 41% of our total debt was variable rate. In the event interest rates increase, our borrowing costs may increase substantially. Additionally, fixed rate debt that matures may be renewed at interest rates significantly higher than current levels. As a result, this could have a material adverse impact on our business, results of operations, financial condition and cash flows. We may use interest rate derivatives to hedge a portion of our variable rate debt, when appropriate, based upon market conditions. See Note 12, Derivative Financial Instruments, related to current hedge activity.

We may not be able to satisfy our debt obligations upon the occurrence of a change in control under our debt instruments.

Upon the occurrence of a change in control as defined in our credit agreement, the agent under the credit agreement will have the right to declare all outstanding obligations immediately due and payable and to terminate the availability of future advances to us. Upon the occurrence of a change in control, as defined in the indentures governing our senior notes, the holders of our senior notes will have the right to require us to purchase all or any part of such holders' notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under the credit agreement in the event of a change in control or fundamental change. In the event we were unable to satisfy these obligations, it could have a material adverse impact on our business and our common stock holders. A "change in control" as defined in our credit agreement includes, among other events, the acquisition by any person, or two or more persons acting in concert, in either case other than Lithia Holdings Company, L.L.C., Sid DeBoer or Bryan DeBoer, of beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of our voting stock on a fully diluted basis.

We may experience greater credit losses in Driveway Finance Corporation's portfolio of auto loan and lease receivables than anticipated.

We are susceptible to the risk that customers who finance a vehicle purchase or lease a vehicle through a Driveway Finance Corporation auto loan or lease will be unable to repay the loan based on the original terms and that the fair value of the vehicle used as collateral against the loan may not be sufficient to ensure full repayment. Credit and residual value losses are an inherent risk of our auto loan and lease portfolio and could result in a material adverse effect on our results of operations.

We use a variety of assumptions in our estimate of the Driveway Finance Corporation's portfolio of auto loan receivables and lease receivables and as a result of these assumptions, we prepare an estimate of an allowance for loan losses. Although management will prepare an estimate it believes is appropriate based on the best available information, this allowance may not be a sufficient reserve for loan and lease losses. For example, sudden economic changes such as an economic downturn or a change in consumer spending may result in additional losses incurred that were not estimated in our original allowance. Losses in excess of our allowance for losses could have a material adverse effect on our business and results of operations.

The growth and success of our Driveway Finance Corporation business is dependent upon obtaining sufficient capital to grow our auto loan portfolio.

Changes in the availability or cost of financing to support our auto loan portfolio under Driveway Finance Corporation could adversely affect our results of operations. Our auto loan portfolio is funded through a combination of free cash flows from operations and securitized funding, including asset-backed securitization. Changes in the condition of the asset backed securitization market may result in increased costs to access funds in the market or require us to explore new financing options to fund new auto loans. In the event that there is no alternative financing available, we may be forced to pause our auto loan financing business for a period of time. The impact of reducing or pausing our auto loan financing business could result in a material adverse effect on our results of operations.

Risks associated with our international operations may negatively affect our business, results of operations and financial condition.

In the third quarter of 2021, we acquired dealerships located in Canada. While our operations outside of the U.S. currently represent a small portion of our revenue, we anticipate that our international operations will expand. We face regulatory, operational, political and economic risks and uncertainties with respect to our international operations that may be different from those in the United States. These risks may include, but are not limited to, the following:

- fluctuations in foreign currency translations within our financial statements driven by exchange rate volatility;
- inability to obtain or preserve franchise rights in the foreign countries in which we operate;
- compliance with changing laws and regulations;
- compliance with U.S. Foreign Corrupt Practices Act and other anti-corruption laws;

- wage inflation;
- treatment of revenue from international sources and changes to tax rules, including being subject to foreign tax laws;
- difficulties in managing foreign operations and dealing with different customs, practices and local regulations with which we are less familiar;
- large uncertainties, timing delays and expenses associated with tariffs, labor matters, import or export licenses and other trade barriers; and
- changes in a country's economic or political conditions, including inflation, recession and interest rate fluctuations, including uncertainties and instability in economic and market conditions caused by the COVID-19 pandemic.

Technology and Cybersecurity Risks

Changes to the retail delivery model and increased e-Commerce and omni-channel competition could adversely affect our business, results of operations, financial condition and cash flows.

The automotive industry is beginning to experience change and disruption in the retail delivery model, including growing competition in the used vehicle market from companies with a primarily online e-Commerce business model. Competition in this market includes companies such as Carvana, Vroom and Shift. In addition, larger traditional automotive retailers are transforming their models to support omni-channel retail experiences, providing consumers with vehicle purchasing experiences outside of the traditional brick and mortar automotive dealership model.

We continue to develop our own internal technology solutions to further expand the reach of our nationwide network of service and delivery points. We may face increased competition for market share with these other delivery models and omni-channel retailers over time which could materially and adversely affect our results of operations. There can be no assurance that our initiatives will be successful or that the amount we invest in these initiatives will result in our maintaining market share and continued or improved financial performance.

Breaches in our data security systems or in systems used by our vendor partners, including cyber-attacks or unauthorized data distribution by employees or affiliated vendors, or disruptions to access and connectivity of our information systems could impact our operations or result in the loss or misuse of customers' proprietary information.

Our information technology systems are important to operating our business efficiently. We employ information technology systems, including websites, that allow for the secure handling and processing of customers' proprietary information. The failure of our information technology systems, and those of our partner software and technology vendors, to perform as we anticipate could disrupt our business and could expose us to a risk of loss or misuse of this information, litigation and potential liability.

Aspects of our operations are subject to privacy, data use and data security regulations, which impact the way we use and handle data. In addition, regulators are proposing and adopting new laws or regulations that could require us to adopt certain cybersecurity and data handling practices. The changing privacy laws (e.g. California Consumer Privacy Act) create new individual privacy rights and impose increased obligations on companies handling personal data. Additionally, the expansion into Canada is subject to additional privacy and security regulations which also impact the way we handle and secure data across borders.

We collect, process, and retain personally identifiable information regarding customers, associates and vendors in the normal course of our business. Our internal and third-party systems are at risk from hackers or other individuals with malicious intent to gain unauthorized access to our systems. Cyber-attacks are growing in number and sophistication thus presenting an ongoing threat to systems, whether internal or external, used to operate the business on a day-to-day basis. We invest in commercially reasonable security technology to protect our data and business processes against many of these risks. We also purchase insurance to mitigate the potential financial impact of many of these risks. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, or degradation of

services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, as well as other operational and financial impacts derived from investigations, litigation, imposition of penalties or other means.

Regulatory Risks

If state dealer laws are repealed or weakened, our dealerships will be more susceptible to termination, non-renewal or renegotiation of their Franchise Agreements. Additionally, federal bankruptcy law can override protections afforded under state dealer laws.

State and provincial dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Certain U.S. state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or non-renewal. If dealer laws are repealed in the states where we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. In Canada, although laws differ by province, provincial law generally provides that both a manufacturer and dealer each has a common law and statutory duty of good faith and fair dealing in performance and enforcement of any Franchise agreement. Disputes are generally handled through the National Automobile Dealer Arbitration Program (NADAP). If a manufacturer wished to terminate a franchise, there is no guaranty that we would win such a dispute. Without the protection of state and provincial dealer laws, it may also be more difficult to renew our Franchise Agreements upon expiration or on terms acceptable to us.

In addition, these laws restrict the ability of automobile manufacturers to directly enter the retail market in the future. Manufacturer lobbying efforts and lawsuits may lead to the repeal or revision of these laws. For example, Tesla has received a favorable ruling in certain states allowing direct to consumer sales and service. In addition, many states have recently passed or are introducing legislation to permit direct to consumer auto sales in certain circumstances, allowing additional electric vehicle manufacturers such as Rivian to enter the market. If manufacturers obtain the ability to directly retail vehicles and do so in our markets, such competition could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The agency model may also have a material impact on our revenues, results of operations and financial condition. Some manufacturers are moving to an agency model in other countries, whereby the consumer places an order directly with the manufacturer and names a preferred delivery dealer. The agency model is being used by manufacturers such as Volkswagen in Germany for all EVs and Daimler in the U.K. and other European regions. If the agency model is implemented in the countries and regions in which we operate for the sale of electric vehicles this could negatively affect our revenues, results of operations and financial condition.

As evidenced by the bankruptcy proceedings of both Chrysler and GM in 2009, state dealer laws do not afford continued protection from manufacturer terminations or non-renewal of Franchise Agreements. No assurances can be given that a manufacturer will not seek protection under bankruptcy laws, or that, in this event, they will not seek to terminate franchise rights held by us.

Import product restrictions, currency valuations, and foreign trade risks may impair our ability to sell foreign vehicles or parts profitably.

A significant portion of the vehicles we sell are manufactured outside the U.S., and all of the vehicles we sell include parts manufactured outside the U.S. As a result, our operations are subject to customary risks of importing merchandise, including currency fluctuation, import duties, exchange rates, trade restrictions, work stoppages, transportation costs, natural or man-made disasters, and general political and socioeconomic conditions in other countries. The U.S. or the countries from which our products are imported, may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices. Changes in U.S. trade policies, including the U.S.-Mexico-Canada Agreement or policies intended to penalize foreign manufacturing or imports, and policies of foreign countries in reaction to those changes, could increase the prices we pay for some of the new vehicles and parts we sell. Any changes that increase the costs of vehicles and parts generally, to the extent passed on to customers, could negatively affect customer demand and our revenues and profitability. If not passed on to our customers, any cost increases will adversely affect our profitability. Any cost increase that

disproportionately applies to manufacturers that sell to us could adversely affect our business compared to other automobile retailers.

Our operations are subject to extensive governmental laws and regulations. If we are found to be in violation of or subject to liabilities under any of these laws, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.

We are subject to federal, state and local laws and regulations in the states in which we operate, such as those relating to franchising, motor vehicle sales, retail installment sales, leasing, finance and insurance, marketing, licensing, consumer protection, consumer privacy, escheatment, anti-money laundering, environmental, vehicle emissions and fuel economy, and health and safety. In addition, with respect to employment practices, we are subject to various laws and regulations, including complex federal, state and local wage and hour and anti-discrimination laws. New laws and regulations are enacted on an ongoing basis. With the number of stores we operate, the number of personnel we employ and the large volume of transactions we handle, it is possible that technical mistakes will be made. These regulations affect our profitability and require ongoing training. Current practices in stores may become prohibited. We are responsible for ensuring that continued compliance with laws is maintained. If there are unauthorized activities, the state and federal authorities have the power to impose civil penalties and sanctions, suspend or withdraw dealer licenses or take other actions. These actions could materially impair our activities or our ability to acquire new stores in those states where violations occurred. Further, private causes of action on behalf of individuals or a class of individuals could result in significant damages or injunctive relief.

We may be involved in legal proceedings arising from the conduct of our business, including litigation with customers, employee-related lawsuits, class actions, purported class actions and actions brought by or on behalf of governmental authorities. Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil fines and penalties and damage our reputation and sales.

Our financing activities are subject to federal truth-in-lending, consumer leasing and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws and regulations. Some states regulate finance, documentation and administrative fees that may be charged in connection with vehicle sales. In recent years, private plaintiffs and state attorneys general in the U.S. have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. These activities have led many lenders to limit the amounts that may be charged to customers as fee income for these activities. If these or similar activities were to significantly restrict our ability to generate revenue from arranging financing for our customers, we could be adversely affected.

If we or any of our employees at any individual dealership violate or are alleged to violate laws and regulations applicable to them or protecting consumers generally, we could be subject to individual claims or consumer class actions, administrative, civil or criminal investigations or actions and adverse publicity. Such actions could expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchises to conduct dealership operations.

Environmental laws and regulations govern, among other things, discharges into the air and water, storage of petroleum substances and chemicals, the handling and disposal of wastes and remediation of contamination arising from spills and releases. In addition, we may also have liability in connection with materials that were sent to third-party recycling, treatment and/or disposal facilities under federal and state statutes. These federal and state statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and expect to continue to incur capital and operating expenditures and other costs in complying with such federal and state statutes. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such potential liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able or willing to satisfy them. Failure to comply with applicable laws and regulations, or significant additional expenditures required to maintain compliance therewith, may have a material adverse effect on our business, results of operations, financial condition, cash flows and prospects.

Structural and Organizational Risks

Our ability to increase revenues and profitability through acquisitions depends on our ability to acquire and successfully integrate new vehicle franchises.

The U.S. and Canadian automobile industry is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. Accordingly, a principal component of our growth strategy is to make dealership acquisitions in our existing markets and in new geographic markets. Restrictions by our manufacturers and limitations on our access to capital resources may directly or indirectly limit our ability to acquire additional dealerships. In addition, increased competition for acquisitions, including from other national, regional and local dealership groups, and other strategic and financial buyers, some of which may have greater financial resources than us, could result in fewer acquisition opportunities for us and higher acquisition prices in the future.

We are required to obtain consent from the applicable manufacturer prior to the acquisition of a franchised store, which typically takes 60 to 90 days. In determining whether to approve an acquisition, a manufacturer considers factors including the number of such manufacturers' stores currently owned, ownership of stores in contiguous markets, performance of existing stores, frequency of acquisitions, and our financial condition. In the past, manufacturers have not consented to our purchase of franchised stores and we cannot assure you that manufacturers will approve future acquisitions timely, if at all, which could significantly impair the execution of our acquisition strategy.

We make a substantial capital investment when we acquire dealerships. We finance acquisitions activity with cash flows from our operations, borrowings under our credit arrangements, proceeds from our offering of senior notes, proceeds from mortgage financing and the issuance of shares of Common Stock. The size of our acquisition activity in recent years magnifies risks associated with debt service obligations. These risks include potential lower earnings per share, our inability to pay dividends and potential negative impacts to the debt covenants we negotiated under our credit agreement. In addition, issuances of equity securities could result in dilution to existing shareholders.

We face other risks commonly encountered with growth through acquisitions. These risks include, without limitation:
- failing to identify suitable acquisition candidates and negotiate acceptable terms;
- failing to assimilate the operations and personnel of acquired dealerships;
- straining our existing systems, procedures, structures and personnel, including by disrupting our ongoing business and diverting our management resources;
- failing to achieve expected performance levels;
- incurring significantly higher capital expenditures and operating expenses, including incurring additional facility renovation costs or other expenses required by the manufacturer;
- entering new, unfamiliar markets;
- encountering undiscovered liabilities and operational difficulties at acquired dealerships;
- failing to maintain uniform standards, controls and policies;
- impairing relationships with employees, manufacturers and customers; and
- overvaluing entities to be acquired.

Our failure to address these risks or other problems encountered in connection with our acquisitions could cause us to fail to realize the anticipated benefits of these acquisitions, cause us to incur unanticipated liabilities and otherwise harm our business. Any of these risks, if realized, could materially and adversely affect our business, financial condition and results of operations.

We are subject to substantial risk of loss under our various self-insurance programs including property and casualty, open lot vehicle coverage, workers' compensation and employee medical coverage. Our insurance does not fully cover all of our operational risks, and changes in the cost of insurance or the availability of insurance could materially increase our insurance costs or result in a decrease in our insurance coverage.

We have a significant concentration of our property values at each dealership location, including vehicle and parts inventories and our facilities. Natural disasters and severe weather events (such as hurricanes, earthquakes, fires, floods, landslides and wind or hail storms) or other extraordinary events subject us to property loss and business interruption. Illegal or unethical conduct by employees, customers, vendors and unaffiliated third parties can also impact our business. Other potential liabilities arising out of our operations may involve claims by employees, customers or third parties for personal injury or property damage and potential fines and penalties in connection with alleged violations of regulatory requirements.

Under our self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles and claims-handling expenses. Costs in excess of these retained risks may be insured under various contracts with third-party insurance carriers. As of December 31, 2021, we had total reserve amounts associated with these programs of $56.4 million.

The level of risk we retain may change in the future as insurance market conditions or other factors affecting the economics of our insurance purchasing change. The operation of automobile dealerships is subject to a broad variety of risks. In certain instances, our insurance may not fully cover an insured loss depending on the magnitude and nature of the claim. Accordingly, we cannot assure you that we will not be exposed to uninsured or underinsured losses that could have a material adverse effect on our business, financial condition, results of operations or cash flows. Additionally, changes in the cost of insurance or the availability of insurance in the future could substantially increase our costs to maintain our current level of coverage or could cause us to reduce our insurance coverage and increase the portion of our risks that we self-insure.

The loss of key personnel or the failure to attract additional qualified management personnel could adversely affect our operations and growth.

Our success depends to a significant degree on the efforts and abilities of our senior management. Further, we have identified Bryan B. DeBoer in most of our store Franchise Agreements as the individual who controls the franchises and upon whose financial resources and management expertise the manufacturers may rely when awarding or approving the transfer of any franchise. If we lose these key personnel, our business may suffer.

In addition, as we expand into new markets and develop our digital e-commerce solutions, we will need to hire additional managers, engineers, data scientists and other employees. The market for qualified employees in the automotive and technology-related industries is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified personnel could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, the lack of qualified managers or other employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

Risks related to investing in our Common stock

Oregon law and our Restated Articles of Incorporation may impede or discourage a takeover, which could impair the market price of our Common stock.

We are an Oregon corporation, and certain provisions of Oregon law and our Restated Articles of Incorporation may have anti-takeover effects. These provisions could delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in his or her best interest. These provisions may also affect attempts that might result in a premium over the market price for the shares held by shareholders and may make removal of the incumbent management and directors more difficult, which, under certain circumstances, could reduce the market price of our Common stock.

Our issuance of preferred stock could adversely affect holders of Common stock.

Our Board of Directors is authorized to issue a series of preferred stock without any action on the part of our holders of Common stock. Our Board of Directors also has the power, without shareholder approval, to set the terms of any such series of preferred stock that may be issued, including voting powers, preferences over our Common stock with respect to dividends or if we voluntarily or involuntarily dissolve or distribute our assets, and other terms. If we issue preferred stock in the future that has preference over our Common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our Common stock, the rights of holders of our Common stock or the price of our Common stock could be adversely affected.

Item 2. Properties

Our stores and other facilities consist primarily of vehicle showrooms, display lots, service facilities, collision repair and paint shops, supply facilities, vehicle storage lots, parking lots and offices in two countries, across 25 U.S states

and three Canadian provinces in the locations shown in the map under the Overview section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe our facilities are currently adequate for our needs and are in good repair. Some of our facilities do not currently meet manufacturer image or size requirements and we are actively working to find a mutually acceptable outcome in terms of timing and overall cost. We own our corporate headquarters in Medford, Oregon, and numerous other properties used in our operations. Certain of our owned properties are mortgaged. As of December 31, 2021, we had outstanding mortgage debt of $592.9 million. We also lease certain properties, providing future flexibility to relocate our retail stores as demographics, economics, traffic patterns or sales methods change. Most leases provide us the option to renew the lease for one or more lease extension periods. We also hold certain vacant facilities and undeveloped land for future expansion.

Our corporate headquarters is LEED certified and incorporates roof-mounted solar panels to offset energy usage. Two of our stores are also LEED certified, and we have completed solar projects at four others. Our stores also integrate energy-saving practices and materials. This includes practices such as recycling used tires, used engine oil and used oil filters; the use of waste oil heaters and carwash reclaim systems; using biodegradable products in our detail services and interior and exterior LED lighting. We also provide a complimentary, nationwide electric vehicle (EV) charging network, an important aspect in increasing the number of EVs on the road and thereby reducing emissions.

Item 3. Legal Proceedings

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

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common stock trades on the New York Stock Exchange under the symbol LAD. The number of shareholders of record and approximate number of beneficial holders of Common stock as of February 18, 2022 was 454 and 83,001, respectively.

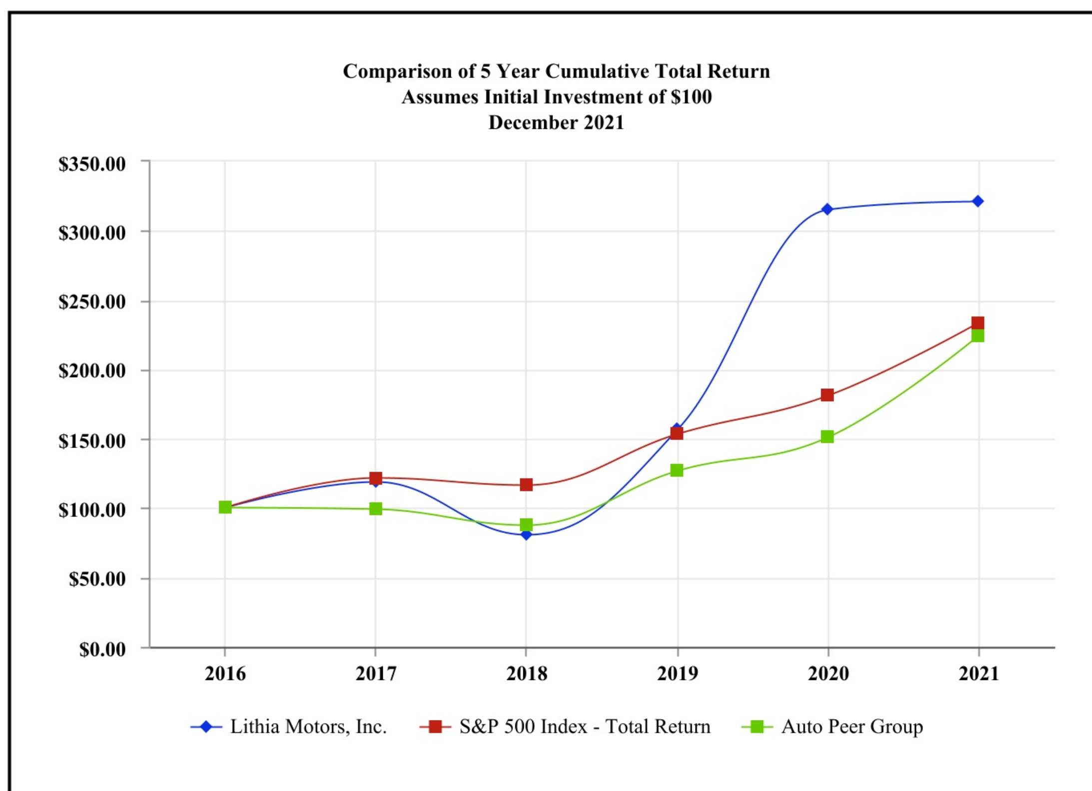
Equity Compensation Plan Information
Information regarding securities authorized for issuance under equity compensation plans is included in Item 12.

Repurchases of Equity Securities
We made the following repurchases of our common stock during the fourth quarter of 2021:

For the full calendar month of	Total number of shares purchased[2]	Average price paid per share	Total number of shares purchased as part of publicly announced plan[1]	Maximum dollar value of shares that may yet be purchased under publicly announced plan (in thousands)[1]
October	—	$ —	—	$ 187,522
November	249,648	286.94	249,614	865,898
December	507,269	282.18	507,269	722,757
Total	756,917	283.75	756,883	722,757

(1) On November 30, 2021, our Board of Directors approved an additional $750 million repurchase authorization of our common stock. This new authorization is in addition to the amount previously authorized by the Board for repurchase.
(2) 34 shares repurchased in the fourth quarter of 2021 were related to tax withholdings on vesting RSUs.

Stock Performance Graph
The stock performance graph and table that follow compare the cumulative total stockholder return on Lithia Motors, Inc.'s Common stock with the cumulative total return of the Standard & Poor's 500 Stock Index (S&P 500 Index), and an auto peer group index composed of Penske Automotive Group, AutoNation, Sonic Automotive, Group 1 Automotive, Asbury Automotive Group, and CarMax for the five years ended December 31, 2021. The peer group indexes utilize the same methods of presentation and assumptions for the total return calculation as does Lithia Motors and the S&P 500 Index. All companies in the peer group indexes are weighted in accordance with their market capitalizations.[1]



Company/Index	Base Period 2016	Indexed Returns for the Year Ended 2017	2018	2019	2020	2021
Lithia Motors, Inc.	$100.00	$ 118.55	$ 80.65	$ 156.91	$ 315.07	$ 320.87
S&P 500 Index - Total Return	100.00	121.83	116.49	153.17	181.35	233.41
Auto Peer Group	100.00	98.94	87.70	126.55	150.94	224.47

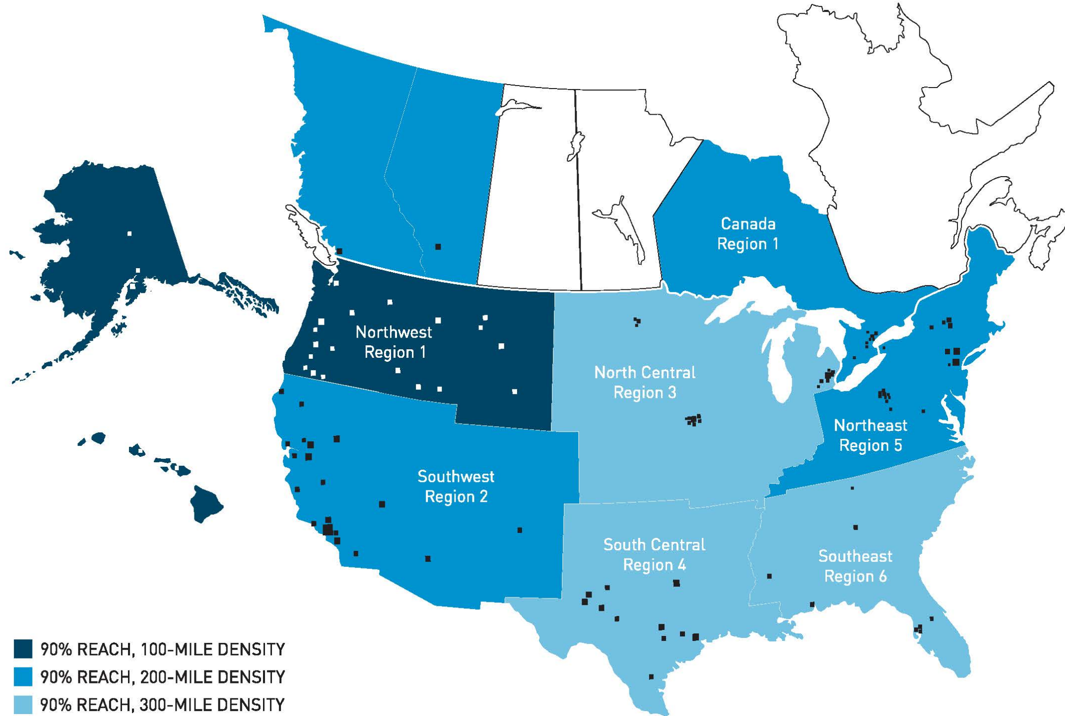
[1] The graph and table assume that $100 was invested on the last day of trading for the calendar year ended December 31, 2016 in Lithia Motors, Inc's Common stock, the S&P 500 Index, and peer group indexes, and that all dividends were reinvested. The S&P 500 Index was added as a comparison in the 2020 Form 10-K stock performance graph as a broad market index to replace the Russell 2000 Index going forward.

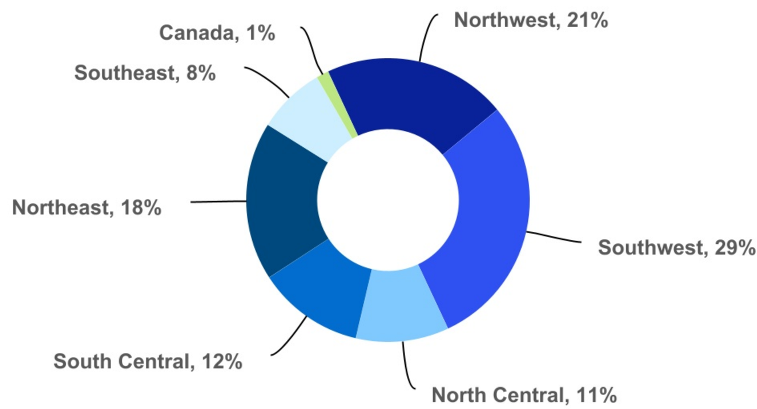
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Item 1. Business, Item 1A. Risk Factors, and our Consolidated Financial Statements and Notes thereto.

Overview

We are one of the largest automotive retailers in the United States and were ranked #231 on the Fortune 500 in 2021. As of February 18, 2022, we offered 40 brands of new vehicles and all brands of used vehicles in 278 stores in North America and online at over 300 websites. We offer a wide range of products and services including new and used vehicles, finance and insurance products and automotive repair and maintenance.





During the year ended December 31, 2021, we had net income of $1.1 billion, or $36.54 per diluted share, compared to net income of $470.3 million, or $19.53 per diluted share, during 2020. We experienced growth of revenue and gross profit in all major business lines in 2021 compared to 2020, primarily driven by increases in

volume related to acquisitions, complimented by organic growth in used vehicles, finance and insurance and service, body and parts sales. On a same store basis, new vehicle revenues and gross profits experienced growth primarily driven by increases in average selling price per retail unit. New vehicle unit sales have successfully recovered from the prior year, returning to levels experienced in 2019 in spite of nationwide new inventory shortages.

For the year ended December 31, 2021, new vehicle sales accounted for approximately 49% of our revenue and approximately 29% of our gross profit. Used vehicle retail sales accounted for approximately 32% of our revenue and approximately 19% of our gross profit. Our parts and service and finance and insurance operations accounted for approximately 14% of our revenue and contributed approximately 51% of our gross profit.

As of December 31, 2021, we had available liquidity of $1.5 billion, which was comprised of $174.8 million in cash and $1.3 billion availability on our credit facilities and unfloored new vehicle inventory. In addition, our unfinanced real estate could provide additional liquidity of approximately $1.0 billion. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.

Results of Operations

For the year ended December 31, 2021, we reported net income of $1.1 billion, or $36.54 per diluted share. For the years ended December 31, 2020 and 2019, we reported net income of $470.3 million, or $19.53 per diluted share, and $271.5 million, or $11.6 per diluted share, respectively.

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
($ in millions, except per vehicle data)	2021	2020	Change	%	2019	Change	%
Revenues							
New vehicle retail	$ 11,197.7	$ 6,773.9	$ 4,423.8	65.3 %	$ 6,799.1	$ (25.2)	(0.4)%
Used vehicle retail	7,255.3	3,998.4	3,256.9	81.5	3,527.2	471.2	13.4
Finance and insurance	1,051.3	579.8	471.5	81.3	518.6	61.2	11.8
Service, body and parts	2,110.9	1,348.7	762.2	56.5	1,325.1	23.6	1.8
Total revenues	22,831.7	13,124.3	9,707.4	74.0	12,672.7	451.6	3.6
Gross profit							
New vehicle retail	$ 1,218.5	$ 461.0	$ 757.5	164.3 %	$ 385.6	$ 75.4	19.6 %
Used vehicle retail	826.7	446.0	380.7	85.4	367.5	78.5	21.4
Finance and insurance	1,051.3	579.8	471.5	81.3	518.6	61.2	11.8
Service, body and parts	1,110.5	716.8	393.7	54.9	667.6	49.2	7.4
Total gross profit	4,259.0	2,225.6	2,033.4	91.4	1,953.8	271.8	13.9
Gross profit margins							
New vehicle retail	10.9 %	6.8 %	410 bp		5.7 %	110 bp	
Used vehicle retail	11.4	11.2	20 bp		10.4	80 bp	
Finance and insurance	100.0	100.0	0 bp		100.0	0 bp	
Service, body and parts	52.6	53.1	-50 bp		50.4	270 bp	
Total gross profit margin	18.7	17.0	170 bp		15.4	160 bp	
Retail units sold							
New vehicle retail	260,738	171,168	89,570	52.3 %	180,532	(9,364)	(5.2)%
Used vehicle retail	275,495	183,230	92,265	50.4	170,423	12,807	7.5
Average selling price per retail unit							
New vehicle retail	$ 42,946	$ 39,575	$ 3,371	8.5 %	$ 37,661	$ 1,914	5.1 %
Used vehicle retail	26,336	21,822	4,514	20.7	20,697	1,125	5.4
Average gross profit per retail unit							
New vehicle retail	$ 4,673	$ 2,693	$ 1,980	73.5 %	$ 2,136	$ 557	26.1 %
Used vehicle retail	3,001	2,434	567	23.3	2,156	278	12.9
Finance and insurance	1,961	1,636	325	19.9	1,478	158	10.7

Same Store Operating Data

We believe that same store comparisons are an important indicator of our financial performance. Same store measures demonstrate our ability to grow operations in our existing locations. Therefore, we have integrated same store measures into the discussion below.

Same store measures reflect results for stores that were operating in each comparison period, and only include the months when operations occurred in both periods. For example, a store acquired in November 2020 would be included in same store operating data beginning in December 2021, after its first complete comparable month of operations. The fourth quarter operating results for the same store comparisons would include results for that store in only the period of December for both comparable periods.

	Year Ended December 31,							
			2021 vs. 2020				2020 vs. 2019	
($ in millions, except per vehicle data)	2021	2020	Change	%	2020	2019	Change	%
Revenues								
New vehicle retail	$ 7,362.0	$ 6,463.6	$ 898.4	13.9 %	$ 5,827.0	$ 6,424.8	$ (597.8)	(9.3)%
Used vehicle retail	5,381.4	3,843.5	1,537.9	40.0	3,531.0	3,320.9	210.1	6.3
Finance and insurance	716.9	557.5	159.4	28.6	495.6	490.5	5.1	1.0
Service, body and parts	1,445.6	1,298.1	147.5	11.4	1,173.8	1,253.0	(79.2)	(6.3)
Total revenues	15,635.8	12,570.2	3,065.6	24.4	11,400.4	11,962.8	(562.4)	(4.7)
Gross profit								
New vehicle retail	$ 803.0	$ 443.6	$ 359.4	81.0 %	$ 405.0	$ 366.4	$ 38.6	10.5 %
Used vehicle retail	635.3	433.6	201.7	46.5	400.6	351.7	48.9	13.9
Finance and insurance	716.9	557.5	159.4	28.6	495.6	490.5	5.1	1.0
Service, body and parts	779.6	689.4	90.2	13.1	618.5	632.1	(13.6)	(2.2)
Total gross profit	2,961.7	2,145.6	816.1	38.0	1,940.3	1,855.8	84.5	4.6
Gross profit margins								
New vehicle retail	10.9 %	6.9 %	400 bp		7.0 %	5.7 %	130 bp	
Used vehicle retail	11.8	11.3	50 bp		11.3	10.6	70 bp	
Finance and insurance	100.0	100.0	— bp		100.0	100.0	— bp	
Service, body and parts	53.9	53.1	80 bp		52.7	50.4	230 bp	
Total gross profit margin	18.9	17.1	180 bp		17.0	15.5	150 bp	
Retail units sold								
New vehicle retail	168,927	162,771	6,156	3.8 %	145,686	169,639	(23,953)	(14.1)%
Used vehicle retail	203,956	175,622	28,334	16.1	161,441	159,295	2,146	1.3
Average selling price per retail unit								
New vehicle retail	$ 43,581	$ 39,710	$ 3,871	9.7 %	$ 39,997	$ 37,873	$ 2,124	5.6 %
Used vehicle retail	26,385	21,885	4,500	20.6	21,872	20,847	1,025	4.9
Average gross profit per retail unit								
New vehicle retail	$ 4,754	$ 2,725	$ 2,029	74.5 %	$ 2,780	$ 2,160	$ 620	28.7 %
Used vehicle retail	3,115	2,469	646	26.2	2,481	2,208	273	12.4
Finance and insurance	1,923	1,647	276	16.8	1,614	1,491	123	8.2

New Vehicles

Under our business strategy, we believe that our new vehicle sales create incremental profit opportunities through certain manufacturer incentive programs, providing used vehicle inventory through trade-ins, arranging of third party financing, vehicle service and insurance contracts, future resale of used vehicles acquired through trade-in and parts and service work.

During 2021, new vehicle revenues and gross profit grew 65.3% and 164.3%, respectively, compared to 2020. This improvement resulted from our accelerated growth through strategic acquisitions and strong recovery from the impact of the COVID-19 pandemic, driving new vehicle unit sales up 52.3% compared to 2020. New vehicle unit sales experienced strong headwinds in 2020, declining 5.2% over the prior year. Despite increasing average sales prices, new vehicle revenues remained relatively flat in 2020 compared to 2019.

While market demand remained high throughout 2021, there continues to be a shortage of available new vehicles for sale driven largely by certain component shortages in the manufacturers' supply chains. This imbalance has resulted in higher than normal average selling prices and gross profits per unit. The reduced levels of new vehicle availability are expected to continue into 2022. Throughout 2020, the impact of the COVID-19 pandemic on each of our markets varied. We experienced initial declines in new vehicle unit sales in the first half of the year and then saw continued incremental improvement each month following, with fourth quarter 2020 same store new vehicle unit sales nearing 2019 levels.

Same store new vehicle revenue was driven by an increase in unit volume of 3.8% and an increase in average selling prices of 9.7%. As the national new vehicle market plateaus, our stores focus on improving gross profit per new vehicle sold. On a same store basis, gross profit per new vehicle increased 74.5% during 2021 compared to 2020. Our recently acquired stores are also focused on improving gross profit per new vehicle as total company gross profit per unit increased 73.5% during 2021 compared to 2020. Pent-up demand and reduced inventory levels related to short-term production closures combined with increased manufacturer partner incentives contributed to these improvements in gross profit per unit. We believe these increases in gross profit per unit will return to normalized levels in 2022.

The same store new vehicle sales decrease in 2020 over 2019 of 9.3% included a decrease in unit sales of 14.1%, offset by an increase of 5.6% in average selling prices.

Used Vehicles

Used vehicle retail sales are a strategic focus for organic growth. We offer three categories of used vehicles: manufacturer certified pre-owned (CPO) vehicles; core vehicles, which are late-model vehicles with lower mileage; and value autos, which are vehicles with over 80,000 miles. We have established a company-wide target of achieving a per store average of 100 used retail units per month. Strategies to achieve this target include reducing wholesale sales and selling the full spectrum of used units, from late model CPO models to vehicles over ten years old. During 2021, our stores sold an average of 92 used vehicles per store per month. This compares to 78 used vehicles per store per month in 2020 and 77 in 2019.

Used vehicle demand remains high, due in part to the lower levels of new vehicle inventory available for sale. This demand is resulting in higher than normal average selling prices and gross profits per unit in 2021.

Used vehicle revenues increased 81.5% during 2021 compared to 2020 and 13.4% in 2020 compared to 2019. These increases are due to a combination of increased volume from acquisitions and organic growth in all categories of used vehicle sales at our seasoned stores. Excluding the impact of acquisitions, on a same store basis, used vehicle revenues increased 40.0% during 2021 and included a 16.1% increase in unit volume and a 20.6% increase in average selling price per retail unit compared to 2020. The revenue increase in 2021 was driven by an increase in our core vehicles of 46.2% and supported by increases in value auto and CPO vehicle categories of 47.3% and 22.4%, respectively. The increase in our core vehicle category includes a 21.5% increase in volume, complimented by a 20.3% increase in average selling price per vehicle.

Used vehicle gross profits increased 85.4% during 2021 compared to 2020 and 21.4% in 2020 compared to 2019. On a same store basis, used vehicle gross profit increased 46.5% in 2021 compared to 2020, led by the performance in our core vehicles of 44.3% and supported by increases in value auto and CPO vehicle categories of 46.3% and 52.8%, respectively. The increase in our core vehicle category was driven by both an increase in volume an increase in gross profit per unit. Gross profit per unit in our core vehicle category, which accounted for 60.0% of

our used vehicle unit sales in 2021, increased 18.8%, from $2,501 in 2020 to $2,970 in 2021. The increase in same store gross profit in our value auto category was driven by a 22.9% increase in gross profit per unit from $2,498 in 2020 to $3,071 in 2021. Our CPO category experienced a decrease in volume, with unit sales decreasing 0.4% in 2021 compared to 2020, but saw an increase in gross profit per unit of 53.5%, from $2,360 in 2020 to $3,621 in 2021.

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

Used vehicle revenues increased 6.3% in 2020 compared to 2019 on a same store basis due to increases in unit volume and average selling prices of 1.3% and 4.9%, respectively. Same store used vehicle gross profit also increased 13.9% in 2020 compared to 2019.

Our used vehicle operations provide an opportunity to generate sales to customers unable or unwilling to purchase a new vehicle, sell brands other than the store's new vehicle franchise(s), access additional used vehicle inventory through trade-ins and increase sales from finance and insurance products and parts and service.

Finance and Insurance

We believe that arranging timely vehicle financing is an important part of providing personal transportation solutions, and we attempt to arrange financing for every vehicle we sell. We also offer related products such as extended warranties, insurance contracts and vehicle and theft protection.

The increases in finance and insurance revenue in 2021 compared to 2020 and in 2020 compared to 2019, were primarily due to increased volume related to acquisitions, combined with expanded product offerings and increasing penetration rates. Third party extended warranty and insurance contracts yield higher profit margins than vehicle sales and contribute significantly to our profitability. During 2021, finance and insurance sales accounted for 4.6% of total revenues and 24.7% of total gross profits. On a same store basis, finance and insurance sales accounted for 4.6% of total revenues and 24.2% of total gross profits in 2021. Same store finance and insurance revenues increased 28.6% during 2021 compared to 2020 and 1.0% during 2020 compared to 2019. These increases were driven by increases in finance and insurance revenues per retail unit, combined with increases in used vehicle unit volume. On a same store basis, our finance and insurance revenues per retail unit increased $276 per unit to $1,923 in 2021 compared to 2020 and $123 per unit to $1,614 in 2020 compared to 2019. The increase in 2021 compared to 2020 was primarily due to increases in volume and increases in service contract and financing penetration rates of 40 basis points and 120 basis points, respectively, from 48.8% to 49.2% and from 74.4% to 75.6%, respectively.

Service, body and parts

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

Our service, body and parts revenue grew in all areas in 2021 compared to 2020 and grew in customer pay and warranty work in 2020 compared to 2019, primarily due to acquisitions. With more late-model units in operation, continued increase of vehicles in operation from 2015 to 2019, and a plateauing new vehicle market, we believe the increased number of units in operation will continue to benefit our service, body and parts revenue in the coming years as more late-model vehicles age, necessitating repairs and maintenance. We focus on retaining customers by offering competitively-priced routine maintenance and through our marketing efforts.

On a same store basis, service, body and parts revenue increased 11.4% during 2021, primarily driven by an increase in customer pay of 18.4%. Performance in parts wholesale and body shop also saw increases of 19.8% and 0.5%, respectively, compared to the same period of 2020.

Same store service, body and parts gross profit increased 13.1% during 2021 compared to 2020 and decreased 2.2% during 2020 compared to 2019, primarily as a result of shelter in place policies in effect during the first half of

2020. Our gross margins continue to increase as our mix has shifted towards customer pay, which has higher margins than other service work.

Segments

Certain financial information by segment is as follows:

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Revenues:							
Domestic	$ 6,975.3	$ 4,503.0	$ 2,472.3	54.9 %	$ 4,382.4	$ 120.6	2.8 %
Import	9,690.8	5,448.8	4,242.0	77.9	5,267.8	181.0	3.4
Luxury	6,114.8	3,152.0	2,962.8	94.0	2,991.9	160.1	5.4
	22,780.9	13,103.8	9,677.1	73.8	12,642.1	461.7	3.7
Corporate and other	50.8	20.5	30.3	NM	30.6	(10.1)	NM
	$ 22,831.7	$ 13,124.3	$ 9,707.4	74.0 %	$ 12,672.7	$ 451.6	3.6 %

NM - Not meaningful

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Segment income*:							
Domestic	$ 466.4	$ 230.0	$ 236.4	102.8 %	$ 123.4	$ 106.6	86.4 %
Import	813.4	249.8	563.6	225.6	153.9	95.9	62.3
Luxury	384.6	98.5	286.1	290.5	57.1	41.4	72.5
Total segment income for reportable segments	$ 1,664.4	$ 578.3	$ 1,086.1	187.8 %	$ 334.4	$ 243.9	72.9 %

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

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

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Total segment income for reportable segments	$ 1,664.4	$ 578.3	$ 1,086.1	187.8 %	$ 334.4	$ 243.9	72.9 %
Corporate and other	108.5	176.7	(68.2)	(38.6)	170.2	6.5	3.8
Depreciation and amortization	(127.3)	(92.3)	35.0	37.9	(82.4)	9.9	12.0
Other interest expense	(108.2)	(73.1)	35.1	48.0	(60.6)	12.5	20.6
Other income, net	(52.6)	58.9	(111.5)	NM	13.8	45.1	NM
Income before income taxes	$ 1,484.8	$ 648.5	$ 836.3	129.0 %	$ 375.4	$ 273.1	72.7 %

NM - Not meaningful

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
	2021	2020	Change	%	2019	Change	%
Retail new vehicle retail unit sales:							
Domestic	64,269	48,421	15,848	32.7 %	53,262	(4,841)	(9.1)%
Import	146,150	93,111	53,039	57.0	98,365	(5,254)	(5.3)
Luxury	50,715	30,087	20,628	68.6	29,238	849	2.9
	261,134	171,619	89,515	52.2	180,865	(9,246)	(5.1)
Allocated to management	(396)	(451)	55	12.2	(333)	(118)	(35.4)
	260,738	171,168	89,570	52.3 %	180,532	(9,364)	(5.2)%

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

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Revenue:							
New vehicle retail	$ 3,202.8	$ 2,235.0	$ 967.8	43.3 %	$ 2,287.5	$ (52.5)	(2.3)%
Used vehicle retail	2,458.6	1,461.0	997.6	68.3	1,264.7	196.3	15.5
Used vehicle wholesale	285.3	104.1	181.2	174.1	113.6	(9.5)	(8.4)
Finance and insurance	295.2	199.0	96.2	48.3	184.2	14.8	8.0
Service, body and parts	626.3	456.7	169.6	37.1	477.5	(20.8)	(4.4)
Fleet and other	107.1	47.2	59.9	126.9	54.9	(7.7)	(14.0)
	$ 6,975.3	$ 4,503.0	$ 2,472.3	54.9	$ 4,382.4	$ 120.6	2.8
Segment income	$ 466.4	$ 230.0	$ 236.4	102.8	$ 123.4	$ 106.6	86.4
New vehicle retail unit sales	64,269	48,421	15,848	32.7 %	53,262	(4,841)	(9.1)%

Total Revenue in our Domestic segment increased 54.9% in 2021 compared to 2020, driven by increases in all business lines. New vehicle unit sales increased 32.7%, driven by our acquisition activity. Same store units declined 2.7% in 2021 compared to 2020, primarily due to decreases in Chrysler and Ford. However, Domestic segment revenues benefited from improved used vehicle retail sales due to a 38.8% increase in volume and a 21.3% increase in average selling price per vehicle in 2021 compared to 2020. Finance and insurance revenue also contributed to the overall increase in Domestic segment revenue, driven by the increased used vehicle retail volume, combined with a 8.9% increase in finance and insurance income per retail unit sold to $1,923 per unit.

Strong performance in used vehicle retail and finance and insurance revenues in 2020 contributed to the 2.8% increase in revenue over 2019.

Our Domestic segment income increased 102.8% in 2021 compared to 2020 due to gross profit growth of 60.0%, with a decrease in floor plan interest expense of 19.9%, offset by an increase in SG&A of 45.2%. As a percentage of gross profit, SG&A decreased 610 basis points in 2021 compared to 2020.

Our Domestic segment income increased 86.4% in 2020 compared to 2019 due to gross profit growth of 12.1% with declines in SG&A and floor plan interest expense of 0.4% and 42.3%, respectively. As a percentage of gross profit, SG&A decreased 820 basis points in 2020 compared to 2019.

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

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Revenue:							
New vehicle retail	$ 4,961.1	$ 2,881.0	$ 2,080.1	72.2 %	$ 2,920.8	$ (39.8)	(1.4)%
Used vehicle retail	2,915.9	1,610.4	1,305.5	81.1	1,448.5	161.9	11.2
Used vehicle wholesale	369.2	126.0	243.2	193.0	112.1	13.9	12.4
Finance and insurance	559.7	281.5	278.2	98.8	247.4	34.1	13.8
Service, body and parts	836.0	517.2	318.8	61.6	496.2	21.0	4.2
Fleet and other	48.9	32.7	16.2	49.5	42.8	(10.1)	(23.6)
	$ 9,690.8	$ 5,448.8	$ 4,242.0	77.9	$ 5,267.8	$ 181.0	3.4
Segment income	$ 813.4	$ 249.8	$ 563.6	225.6	$ 153.9	$ 95.9	62.3
New vehicle retail unit sales	146,150	93,111	53,039	57.0 %	98,365	(5,254)	(5.3)%

Total Revenue in our Import segment increased 77.9% in 2021 compared to 2020, driven by increases in all business lines. New vehicle unit sales in our Import segment increased 57.0%, driven by our acquisition activity and a 5.7% increase on a same store basis. Import segment revenues benefited from improved used vehicle retail sales due to a 51.2% increase in volume and 19.7% increase in average selling price. Finance and insurance revenue also contributed to the overall increase in Import segment revenue, driven by the increased volume combined with a 28.9% increase in finance and insurance income per retail unit sold to $2,010 per unit.

The increase in our Import segment revenue in 2020 compared to 2019 was driven by increases in used vehicle retail, finance and insurance, and service, body and parts. New vehicle unit sales in our Import segment decreased 5.3%. However, Import segment revenues benefited from improved used vehicle retail revenue due to a 6.3% increase in volume, increases in finance and insurance revenues as a result of increased volume combined with a 13.8% increase in finance and insurance income per retail unit sold to $1,559 per unit, and improved service, body and parts revenues in 2020 compared to 2019.

Our Import segment income increased 225.6% in 2021 compared to 2020 due to gross profit growth of 106.7% with a decrease in floor plan interest expense of 4.1%, offset by an increase in SG&A expense of 68.8%. As a percentage of gross profit, SG&A decreased 1300 basis points in 2021 compared to 2020.

Our Import segment income increased 62.3% in 2020 compared to 2019 due to gross profit growth of 15.2% with only a minimal increase in SG&A expense of 7.0% and a decrease in floor plan interest expense of 28.3%. As a percentage of gross profit, SG&A decreased 550 basis points in 2020 compared to 2019.

Luxury

A summary of financial information for our Luxury segment follows:

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	**2021**	**2020**	**Change**	**%**	**2019**	**Change**	**%**
Revenue:							
New vehicle retail	$ 3,038.2	$ 1,659.4	$ 1,378.8	83.1 %	$ 1,588.8	$ 70.6	4.4 %
Used vehicle retail	1,884.8	927.9	956.9	103.1	813.3	114.6	14.1
Used vehicle wholesale	270.6	78.2	192.4	246.0	75.3	2.9	3.9
Finance and insurance	205.7	94.7	111.0	117.2	77.1	17.6	22.8
Service, body and parts	614.4	358.7	255.7	71.3	335.3	23.4	7.0
Fleet and other	101.1	33.1	68.0	205.4	102.1	(69.0)	(67.6)
	$ 6,114.8	$ 3,152.0	$ 2,962.8	94.0	$ 2,991.9	$ 160.1	5.4
Segment income	$ 384.6	$ 98.5	$ 286.1	290.5	$ 57.1	$ 41.4	72.5
New vehicle retail unit sales	50,715	30,087	20,628	68.6 %	29,238	849	2.9 %

The increase in our Luxury segment revenue in 2021 compared to 2020 resulted from increases in all business lines. New vehicle unit sales increased 68.6%, driven by our acquisition activity and an 8.4% increase on a same store basis. Our Luxury segment revenues also benefited from a 72.0% increase in used vehicle unit sales, a 27.5% increase in finance and insurance revenues per retail unit to $1,964 per unit and growth in service, body and parts during 2021 compared to 2020.

Our Luxury segment revenue increased in 2020 compared to 2019 across all major business lines. New vehicle unit sales increased 2.9% over the prior year. Our Luxury segment revenues also benefited from a 9.3% increase in used vehicle unit sales, a 15.9% increase in finance and insurance revenues per retail unit to $1,541 per unit and growth in service, body and parts during 2020 compared to 2019.

Our Luxury segment income increased 290.5% in 2021 compared to 2020. This increase was due to gross profit growth of 115.1% and decreased floor plan interest expense of 2.2%, offset by an increase in SG&A of 74.9%. As a percentage of gross profit, SG&A decreased 1410 basis points in 2021 compared to 2020.

Our Luxury segment income increased 72.5% in 2020 compared to 2019. This increase was due to gross profit growth of 14.2% and decreased floor plan interest expense of 26.6%, offset by an increase in SG&A of 8.0%. As a percentage of gross profit, SG&A decreased 430 basis points in 2020 compared to 2019.

Corporate and Other

Revenue attributable to Corporate and other includes the results of operations of our stand-alone collision centers, offset by certain unallocated reserve and elimination adjustments.

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Revenue, net	$ 50.8	$ 20.5	$ 30.3	NM	$ 30.6	$ (10.1)	NM
Segment income	108.5	176.7	(68.2)	(38.6)%	170.2	6.5	3.8 %

NM - not meaningful

The increase in Corporate and other revenues in 2021 compared to 2020 and decrease in 2020 compared to 2019 was primarily affected by our reserve for revenue reversals associated with unwound vehicle sales.

Internal corporate expense allocations are also used to increase comparability of our dealerships and reflect the capital burden a stand-alone dealership would experience. Examples of these internal allocations include internal rent expense, internal floor plan financing charges, and internal fees charged to offset employees within our corporate headquarters who perform certain dealership functions.

The decrease in Corporate and other income in 2021 compared to 2020 was primarily due to unrealized investment losses. The increase in Corporate and other segment income in 2020 compared to 2019 was primarily due increased gains on the divestiture of stores.

See Note 17 of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Form 10-K for additional information.

Asset Impairments

Asset impairments recorded as a component of operations consist of the following:

	Year Ended December 31,		
(Dollars in millions)	2021	2020	2019
Franchise value	$ 1.9	$ 4.4	$ 0.4
Goodwill	—	3.5	1.7
Long-lived assets	—	—	0.5
Total asset impairments	$ 1.9	$ 7.9	$ 2.6

Goodwill and franchise value for our reporting units are tested for impairment annually as of October 1 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We elected to perform qualitative franchise value and goodwill impairment tests as of October 1 each year. These non-cash impairment charges are included in the "Corporate and Other" category of our segment information.

During the third quarter of 2021, there was an indication of a triggering event at a certain reporting unit. We tested the goodwill and franchise value for this location. As a result, we identified it was more likely than not the fair values were less than the carrying amounts, and we recorded a non-cash impairment charge of $1.9 million, which was equal to the difference between the fair value and the carrying value for franchise value. This location was subsequently sold in the fourth quarter of 2021.

In the second quarter of 2020, there were indications of a triggering event at certain reporting units. We tested the franchise value and goodwill for these locations. As a result, we identified certain reporting units where it was more likely than not the fair values were less than the carrying amounts, and we recorded non-cash impairment charges of $4.4 million and $3.5 million, which was equal to the difference between the fair value and the carrying value for franchise value and goodwill, respectively. One of these locations was subsequently sold in the fourth quarter of 2020, with the remainder sold in 2021.

In the first quarter of 2019, we recorded an asset impairment of $0.5 million associated with certain real properties. The long-lived assets were tested for recoverability and were determined to have a carrying value exceeding their fair value. The impaired long-lived asset was subsequently sold in the second quarter of 2019.

As a result of our 2019 annual impairment testing, we identified certain reporting units where it was more likely than not the fair value was less than the carrying amount, and recorded non-cash impairment charges of $0.4 million and $1.7 million for franchise value and goodwill, respectively. These locations were subsequently sold in 2020.

See Note 1, Note 4, Note 5, and Note 13 of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Annual Report.

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

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Personnel	$ 1,747.7	$ 983.7	$ 764.0	77.7 %	$ 911.2	$ 72.5	8.0 %
Advertising	162.2	97.4	64.8	66.5	111.9	(14.5)	(13.0)
Rent	54.3	41.4	12.9	31.2	41.3	0.1	0.2
Facility costs	117.0	81.1	35.9	44.3	77.4	3.7	4.8
Gain on sale of assets	(2.3)	(18.2)	15.9	(87.4)	(9.7)	(8.5)	87.6
Other	383.0	242.9	140.1	57.7	241.7	1.2	0.5
Total SG&A	$ 2,461.9	$ 1,428.3	$ 1,033.6	72.4 %	$ 1,373.8	$ 54.5	4.0 %

	Year Ended December 31,				
			2021 vs. 2020		2020 vs. 2019
As a % of gross profit	2021	2020	Change	2019	Change
Personnel	41.0 %	44.2 %	(320) bps	46.6 %	(240) bps
Advertising	3.8	4.4	(60)	5.7	(130)
Rent	1.3	1.9	(60)	2.1	(20)
Facility costs	2.7	3.6	(90)	4.0	(40)
Gain on sale of assets	(0.1)	(0.8)	70	(0.5)	(30)
Other	9.1	10.9	(180)	12.4	(150)
Total SG&A	57.8 %	64.2 %	(640) bps	70.3 %	(610) bps

SG&A increased 72.4%, or $1.0 billion in 2021 compared to 2020. Overall increases in SG&A were primarily due to increased personnel costs resulting from our growth through acquisitions. Other expenses in 2021 included acquisition expenses of $20.2 million, compared to $3.0 million in 2020 and $5.8 million of storm related insurance charges, compared to $6.1 million in 2020. Gain on the sale of stores was $16.6 million in 2020 with no net gain or loss recognized in 2021.

On a same store basis and excluding non-core charges, adjusted SG&A as a percentage of gross profit was 42.5% in 2021 compared to 64.6% in 2020, which included decreases across all categories.

SG&A increased 4.0%, or $54.5 million, in 2020 compared to 2019. Overall increases in SG&A were primarily due to increased personnel costs which resulted from our growth through acquisitions, offset by decreases in advertising spend and gains on sales of assets. Other expenses in 2020 included acquisition expenses of $3.0 million, compared to $2.5 million in 2019 and $6.1 million of storm related insurance charges, compared to $9.5 million in 2019. Gains on the sale of stores were $16.6 million and $9.7 million in 2020 and 2019, respectively.

On a same store basis and excluding non-core charges, adjusted SG&A as a percentage of gross profit was 64.5% in 2020 compared to 70.2% in 2019, which included decreases seen across all categories.

SG&A adjusted for non-core charges was as follows:

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Personnel	$ 1,747.7	$ 983.7	$ 764.0	77.7 %	$ 911.2	$ 72.5	8.0 %
Advertising	162.2	97.4	64.8	66.5	111.9	(14.5)	(13.0)
Rent	54.3	41.4	12.9	31.2	41.3	0.1	0.2
Facility costs	117.0	81.1	35.9	44.3	77.4	3.7	4.8
Adjusted loss (gain) on sale of assets	(2.3)	(1.6)	(0.7)	43.8	0.0	(1.6)	NM
Adjusted other	357.0	233.8	123.2	52.7	229.7	4.1	1.8
Total adjusted SG&A	$ 2,435.9	$ 1,435.8	$ 1,000.1	69.7 %	$ 1,371.5	$ 64.3	4.7 %

	Year Ended December 31,				
			2021 vs. 2020		2020 vs. 2019
As a % of gross profit	2021	2020	Change	2019	Change
Personnel	41.0 %	44.2 %	(320) bps	46.6 %	(240) bps
Advertising	3.8	4.4	(60)	5.7	(130)
Rent	1.3	1.9	(60)	2.1	(20)
Facility costs	2.7	3.6	(90)	4.0	(40)
Adjusted loss (gain) on sale of assets	(0.1)	(0.1)	—	0.0	(10)
Adjusted other	8.5	10.5	(200)	11.8	(130)
Total adjusted SG&A	57.2 %	64.5 %	(730) bps	70.2 %	(570) bps

See "Non-GAAP Reconciliations" for more details.

Depreciation and Amortization

Depreciation and amortization is comprised of depreciation expense related to buildings, significant remodels or improvements, furniture, tools, equipment and signage and amortization related to tradenames.

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Depreciation and amortization	$ 127.3	$ 92.3	$ 35.0	37.9 %	$ 82.4	$ 9.9	12.0 %

Acquisition activity contributed to the increases in depreciation and amortization in 2021 compared to 2020 and in 2020 compared to 2019. We acquired approximately $559.8 million and $241 million of depreciable property as part of our 2021 and 2020 acquisitions, respectively. Capital expenditures totaled $260.4 million and $167.8 million, respectively, in 2021 and 2020. These investments increase the amount of depreciable assets. See the discussion under "Liquidity and Capital Resources" for additional information.

Operating Income

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

	Year Ended December 31,		
	2021	2020	2019
Operating margin	7.3 %	5.3 %	3.9 %
Operating margin adjusted for non-core charges(1)	7.4	5.3	3.9

(1) See "Non-GAAP Reconciliations" for additional information.

In 2021, our operating margin increased 200 basis points compared to 2020. In 2021, the increase in our operating margin was driven by a decrease in SG&A as a percentage of gross profit and increased total gross margin. Adjusting for non-core charges, including storm related insurance charges and acquisition expenses, our operating margin increased 210 basis points in 2021 compared to 2020.

In 2020, our operating margin increased 140 basis points compared to 2019. In 2020, the increase in our operating margin was driven by a decrease in SG&A as a percentage of gross profit and increased total gross margin.

Floor Plan Interest Expense and Floor Plan Assistance
Floor plan interest expense decreased $12.1 million in 2021 compared to 2020, primarily due to new vehicle inventory shortages and increasing consumer demand. Floor plan interest expense decreased 52.2% for pre-existing locations, offset by a 7.6% increase related to acquisition volume and a 9.4% increase related to increased interest rates.

Floor plan interest expense decreased $38.4 million in 2020 compared to 2019, primarily due to our ability to pay off our higher interest rate floor plan notes payable with the surplus liquidity generated from our senior note and equity offerings in 2020.

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

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

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Floor plan interest expense (new vehicles)	$ 22.3	$ 34.4	$ (12.1)	(35.2)%	$ 72.8	$ (38.4)	(52.7)%
Floor plan assistance (included as an offset to cost of sales)	(120.1)	(72.8)	(47.3)	65.0	(69.0)	(3.8)	5.5
Net new vehicle carrying costs (benefit)	$ (97.8)	$ (38.4)	$ (59.4)	154.7 %	$ 3.8	$ (42.2)	NM

Other Interest Expense
Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages, our used and service loaner vehicle inventory financing commitments, our revolving lines of credit, and issued senior notes.

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	2021	2020	Change	%	2019	Change	%
Mortgage interest	$ 24.9	$ 26.2	$ (1.3)	(5.0)%	$ 27.5	$ (1.3)	(4.7)%
Other interest	85.3	48.5	36.8	75.9	35.4	13.1	37.0
Capitalized interest	(2.0)	(1.6)	(0.4)	25.0	(2.3)	0.7	(30.4)
Total other interest expense	$ 108.2	$ 73.1	$ 35.1	48.0 %	$ 60.6	$ 12.5	20.6 %

The increase in other interest expense in 2021 compared to 2020 was due to the issuances of $800 million in aggregate principal amount of 3.875% senior notes due 2029 in May 2021 and $550 million in aggregate principal amount of 4.375% senior notes due 2031 in October 2020. These increases were offset by the payoff of our $300 million in aggregate principal amount of 5.250% senior notes in August 2021. See also Note 6 of Notes to Consolidated Financial Statements for additional information.

The increase in other interest expense in 2020 compared to 2019 was due to the issuances of $400 million in aggregate principal amount of 4.625% senior notes due 2027 in December 2019 and $550 million in aggregate principal amount of 4.375% senior notes due 2031 in October 2020, offset by decreases in our average borrowings on our credit facilities.

Other Income (Expense), Net
Other income (expense), net primarily includes other income associated interest income and other non-recurring transactions.

	Year Ended December 31,						
			2021 vs. 2020			2020 vs. 2019	
(Dollars in millions)	**2021**	**2020**	**Change**	**%**	**2019**	**Change**	**%**
Other income (expense), net	$ (52.6)	$ 58.9	$ (111.5)	NM	$ 13.8	$ 45.1	NM

The decrease in other income (expense), net in 2021 compared to 2020 was primarily due to a $66.4 million unrealized loss related to our investment in Shift Technologies, Inc. compared to a $43.8 million unrealized investment gain in 2020 for the same investment. We also recognized a $10.3 million loss in 2021 on the early redemption of our $300 million principal amount 5.250% senior notes originally due 2025. The increase in other income (expense), net in 2020 compared to 2019 was also due to the same unrealized investment gain in 2020 related to our investment in Shift Technologies, Inc.

Income Tax Provision
Our effective income tax rate was as follows:

	Year Ended December 31,		
	2021	**2020**	**2019**
Effective income tax rate	28.4 %	27.5 %	27.7 %
Effective income tax rate excluding non-core items(1)	26.8	27.6	27.6

(1) See "Non-GAAP Reconciliations" for more details

Our effective income tax rate was 28.4% for 2021 compared to 27.5% for 2020. Our 2021 effective income tax rate was negatively affected by a valuation allowance established for certain deferred tax assets not expected to be realized. The increase in tax rate was offset by stock awards vesting in the current period and a reduction in the current and deferred state tax rate due to legislative updates and changing state mix.

Excluding the valuation allowance established during 2021, our effective income tax rate excluding non-core items for 2021 would have been 26.8%, a decrease of 80 basis points compared to the rate for 2020.

Our effective income tax rate in 2020 was positively affected by an increase in pre-tax income, excess tax benefits on stock awards vesting in the current period, and a reduction in non-deductible expenses. Our current state effective tax rate was negatively impacted by the enactment of the Oregon Corporate Activity Tax beginning January 1, 2020, which was partially offset by favorable changes in our state rate due to acquisitions.

Non-GAAP Reconciliations

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

The following tables reconcile certain reported non-GAAP measures to the most comparable GAAP measure from our Consolidated Statements of Operations (in millions, except per share amounts):

	Year Ended December 31, 2021						
(In millions)	**As reported**	**Asset impairment**	**Investment loss**	**Insurance reserves**	**Acquisition expenses**	**Loss on redemption of senior notes**	**Adjusted**
Asset impairment	$ 1.9	$ (1.9)	$ —	$ —	$ —	$ —	$ —
Selling, general and administrative	2,461.9	—	—	(5.8)	(20.2)	—	2,435.9
Operating income	1,667.9	1.9	—	5.8	20.2	—	1,695.8
Other income (expense), net	(52.6)	—	66.4	—	—	10.3	24.1
Income before income taxes	$ 1,484.8	$ 1.9	$ 66.4	$ 5.8	$ 20.2	$ 10.3	$ 1,589.4
Income tax (provision) benefit	(422.1)	(0.5)	6.6	(1.6)	(5.1)	(2.7)	(425.4)
Net income	1,062.7	1.4	73.0	4.2	15.1	7.6	1,164.0
Net income attributable to non-controlling interest	(1.7)	—	—	—	—	—	(1.7)
Net income attributable to redeemable non-controlling interest	(0.9)	—	—	—	—	—	(0.9)
Net income attributable to Lithia Motors, Inc.	$ 1,060.1	$ 1.4	$ 73.0	$ 4.2	$ 15.1	$ 7.6	$ 1,161.4
Diluted earnings per share attributable to Lithia Motors, Inc.	$ 36.54	$ 0.05	$ 2.52	$ 0.14	$ 0.52	$ 0.26	$ 40.03
Diluted share count	29.0						

	Year Ended December 31, 2020							
(In millions)	**As reported**	**Net disposal gain on sale of stores**	**Asset impairment**	**Investment gains**	**Insurance reserves**	**Acquisition expenses**	**Tax attribute**	**Adjusted**
Asset impairment	$ 7.9	$ —	$ (7.9)	$ —	$ —	$ —	$ —	$ —
Selling, general and administrative	1,428.3	16.6	—	—	(6.1)	(3.0)	—	1,435.8
Operating income (loss)	697.1	(16.6)	7.9	—	6.1	3.0	—	697.5
Other income (expense), net	58.9	—	—	(43.8)	—	—	—	15.1
Income (loss) before income taxes	$ 648.5	$ (16.6)	$ 7.9	$ (43.8)	$ 6.1	$ 3.0	$ —	$ 605.1
Income tax (provision) benefit	(178.2)	4.6	(2.3)	12.1	(1.6)	(0.8)	(0.8)	(167.0)
Net income (loss)	$ 470.3	$ (12.0)	$ 5.6	$ (31.7)	$ 4.5	$ 2.2	$ (0.8)	$ 438.1
Diluted earnings (loss) per share attributable to Lithia Motors, Inc.	$ 19.53	$ (0.50)	$ 0.23	$ (1.32)	$ 0.19	$ 0.09	$ (0.03)	$ 18.19
Diluted share count	24.1							

(In millions)	Year Ended December 31, 2019 As reported	Net disposal gain on sale of stores	Asset impairment	Insurance reserves	Acquisition expenses	Adjusted
Asset impairment	$ 2.6	$ —	$ (2.6)	$ —	$ —	$ —
Selling, general and administrative	1,373.8	9.7	—	(9.5)	(2.5)	1,371.5
Operating income (loss)	495.0	(9.7)	2.6	9.5	2.5	499.9
Income (loss) before income taxes	$ 375.4	$ (9.7)	$ 2.6	$ 9.5	$ 2.5	$ 380.3
Income tax (provision) benefit	(103.9)	2.8	(0.7)	(2.6)	(0.7)	(105.1)
Net income (loss)	$ 271.5	$ (6.9)	$ 1.9	$ 6.9	$ 1.8	$ 275.2
Diluted earnings per share attributable to Lithia Motors, Inc.	$ 11.60	$ (0.30)	$ 0.08	$ 0.30	$ 0.08	$ 11.76
Diluted share count	23.4					

Liquidity and Capital Resources

We manage our liquidity and capital resources in the context of our overall business strategy, continually forecasting and managing our cash, working capital balances and capital structure to meet the short-term and long-term obligations of our business while maintaining liquidity and financial flexibility. Our free cash flow deployment strategy targets an allocation of 65% investment in acquisitions, 25% investment in capital expenditures, innovation, and diversification and 10% in shareholder return in the form of dividends and share repurchases.

Cash flows from operations and borrowings under our credit facilities are our main sources for liquidity. In addition to the above sources of liquidity, potential sources to fund our business strategy include financing of real estate and proceeds from debt or equity offerings. 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.

Available Sources

Below is a summary of our immediately available funds:

(Dollars in millions)	As of December 31, 2021	2020	Change	%
Cash, restricted cash, and cash equivalents	$ 174.8	$ 162.4	$ 12.4	7.6 %
Unfinanced new vehicles	—	113.4	(113.4)	NM
Available credit on the credit facilities	1,344.8	1,237.1	107.7	8.7 %
Total current available funds	$ 1,519.6	$ 1,399.5	$ 120.1	8.6 %

NM - Not meaningful

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

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Net cash provided by operating activities	$ 1,797.2	$ 544.6	$ 524.5
Net cash used in investing activities	(2,890.4)	(1,605.8)	(463.0)
Net cash provided by (used in) financing activities	1,106.7	1,139.8	(9.1)

Operating Activities

Cash provided by operating activities increased $1.3 billion in 2021 compared to 2020, primarily as a result of improved profitability, lower inventory turns compared to the prior year and growth in our business through acquisitions.

Borrowings from and repayments to our syndicated credit facility related to our new vehicle inventory floor plan financing are presented as financing activities. Additionally, the cash paid for inventory purchased as part of an

acquisition is presented as an investing activity, while the subsequent flooring of the inventory is included in floor plan notes payable cash activities.

To better understand the impact of these items, adjusted net cash provided by operating activities is presented below:

	Year Ended December 31,				
			2021 vs. 2020		2020 vs. 2019
(Dollars in millions)	2021	2020	Change	2019	Change
Net cash provided by operating activities – as reported	$ 1,797.2	544.6	$ 1,252.6	$ 524.5	$ 20.1
Less: Net repayments on floor plan notes payable: non-trade	(685.3)	(20.6)	(664.7)	(54.6)	34.0
Add: Temporary pay down of outstanding borrowings on floor plan notes payable: non-trade	—	113.4	(113.4)	—	113.4
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(355.5)	(255.0)	(100.5)	(80.0)	(175.0)
Net cash provided by operating activities – adjusted	$ 756.4	$ 382.4	$ 374.0	$ 389.9	$ (7.5)

Inventories are the most significant component of our cash flow from operations. As of December 31, 2021, our new vehicle days' supply was 24 days, or 26 days lower than our days' supply as of December 31, 2020. Our days' supply of used vehicles was 61 days, which was four days lower than our days' supply as of December 31, 2020. We calculate days' supply of inventory based on current inventory levels, including 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 $2.9 billion and $1.6 billion, respectively, for 2021 and 2020. 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:

	Year Ended December 31,				
			2021 vs. 2020		2020 vs. 2019
(Dollars in millions)	2021	2020	Change	2019	Change
Capital expenditures	$ (260.4)	$ (167.8)	$ (92.6)	$ (124.9)	$ (42.9)
Cash paid for acquisitions, net of cash acquired	(2,699.3)	(1,503.3)	(1,196.0)	(366.6)	(1,136.7)
Cash paid for other investments	(10.2)	(11.2)	1.0	(7.2)	(4.0)
Proceeds from sales of stores	76.3	57.5	18.8	46.7	10.8

Capital Expenditures

Below is a summary of our capital expenditure activities:

	Year Ended December 31,		
(Dollars in millions)	2021	2020	2019
Post-acquisition capital improvements	$ 37.2	$ 32.5	$ 33.9
Facilities for open points	14.1	—	5.4
Purchase of facilities for existing operations	21.9	29.6	3.1
Existing facility improvements	81.6	48.7	50.2
Maintenance	105.6	57.0	32.3
Total capital expenditures	$ 260.4	$ 167.8	$ 124.9

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.

Acquisitions

Growth through acquisitions is a key component of our long-term strategy that enables us to increase our network of locations, support maintaining a diverse franchise and geographic mix and improve our ability to serve customers through wider selection and improved proximity. Our disciplined approach focuses on acquiring new vehicle franchises that are accretive and cash flow positive at reasonable valuations.

We are able to subsequently floor new vehicle inventory acquired as part of an acquisition; however, the cash generated by these transactions are 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:

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Number of stores acquired	77	30	9
Number of stores opened	1	—	—
Number of franchises added	—	—	1
Cash paid for acquisitions, net of cash acquired	$ (2,699.3)	$ (1,503.3)	$ (366.6)
Add: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	355.5	255.0	80.0
Cash paid for acquisitions, net of cash acquired – adjusted	$ (2,343.8)	$ (1,248.3)	$ (286.6)

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 financing activities, adjusted for borrowing on floor plan facilities: non-trade was as follows:

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Cash provided by (used in) financing activities, as reported	$ 1,106.7	1,139.8	$ (9.1)
Add: Net repayments on floor plan notes payable: non-trade	685.3	20.6	54.6
Cash provided by financing activities, as adjusted	$ 1,792.0	$ 1,160.4	$ 45.5

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

	Year Ended December 31,				
			2021 vs. 2020		2020 vs. 2019
(Dollars in millions)	**2021**	**2020**	**Change**	**2019**	**Change**
Net borrowings (repayments) on lines of credit	$ 325.4	$ (110.0)	$ 435.4	$ (314.6)	$ 204.6
Principal payments on long-term debt and finance lease liabilities, other	(486.5)	(6.3)	(480.2)	(11.0)	4.7
Proceeds from the issuance of long-term debt	1,161.8	606.5	555.3	420.3	186.2
Proceeds from the issuance of common stock	1,136.2	790.4	345.8	11.0	779.4
Payment of debt issuance costs	(14.7)	(10.8)	(3.9)	(5.8)	(5.0)
Repurchases of common stock	(230.7)	(50.6)	(180.1)	(3.2)	(47.4)
Dividends paid	(38.8)	(29.1)	(9.7)	(27.6)	(1.5)

Borrowing and Repayment Activity
During 2021, we raised net proceeds of $1.2 billion through the issuance of debt, including the issuance of $800.0 million in aggregate principal amount of 3.875% senior notes due 2029 and $344.4 million through non-recourse notes payable secured by a portion of our Driveway Finance auto loan receivable portfolio. Using these proceeds we repaid $325.4 million, net, on our lines of credit and redeemed our $300 million in aggregate principal amount of 5.250% senior notes at a redemption price equal to 102.625% of the principal amount of the notes plus accrued and unpaid interest thereon. These funds were primarily used for acquisitions, share repurchases and capital expenditures.

Our debt to total capital ratio, excluding floor plan notes payable, was 42.4% at December 31, 2021 compared to 44.5% at December 31, 2020.

Equity Transactions
In May 2021, we completed the public offering of 3,571,428 shares of our Common stock, no par value per share, which included the exercise in full by the underwriters of their option to purchase up to 465,838 additional shares of our Common stock, at the public offering price of $322.00 per share. We received $1.11 billion from the offering, net of the underwriting discount and before deducting the offering expenses of $0.6 million.

In November 2021, our Board of Directors authorized the repurchase of up to $750 million of our Common stock. This new authorization is in addition to the amount previously authorized by the Board for repurchase. As of December 31, 2021, we had $722.8 million available for repurchase under the program. The authority to repurchase does not have an expiration date.

During 2021, we paid dividends on our Common Stock as follows:

Dividend paid:	Dividend amount per share	Total amount of dividend (in millions)
March 2021	$ 0.31	$ 8.3
May 2021	0.35	9.3
August 2021	0.35	10.6
November 2021	0.35	10.6

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:

(Dollars in millions)	Outstanding as of December 31, 2021	Remaining Available as of December 31, 2021
Floor plan notes payable: non-trade	$ 835.9	$ — (1)
Floor plan notes payable	354.2	—
Used and service loaner vehicle inventory financing commitments	500.0	267.4 (2)
Revolving lines of credit	219.9	1,077.4 (2),(3)
Real estate mortgages	592.9	—
Finance lease obligations	53.6	—
Non-recourse notes payable	317.6	—
4.625% Senior notes due 2027	400.0	—
4.375% Senior notes due 2031	550.0	—
3.875% Senior notes due 2029	800.0	—
Other debt	1.9	—
Unamortized debt issuance costs	(26.5)	— (4)
Total debt	$ 4,599.5	$ 1,344.8

(1) As of December 31, 2021, we had a $2.2 billion new vehicle floor plan commitment as part of our credit facility.
(2) The amounts available on the credit facilities are limited based on borrowing base calculations and fluctuates monthly.
(3) Available credit is based on the borrowing base amount effective as of November 30, 2021. This amount is reduced by $33.5 million for outstanding letters of credit.

(4) Debt issuance costs are presented on the balance sheet as a reduction from the carrying amount of the related debt liability. See Note 6 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Credit Facility
On April 29, 2021, we amended our existing syndicated credit facility (credit facility), comprised of 20 financial institutions, including eight manufacturer-affiliated finance companies, extending the maturity date to April 2026.

This credit facility provides for a total financing commitment of $3.75 billion, which may be further expanded, subject to lender approval and the satisfaction of other conditions, up to a total of $4.25 billion. The initial allocation of the financing commitment is for up to $750 million in used vehicle inventory floorplan financing, up to $750 million in revolving financing for general corporate purposes, including acquisitions and working capital, up to $2.15 billion in new vehicle inventory floorplan financing, and up to $100 million in service loaner vehicle floorplan financing. We have the option to reallocate the commitments under this credit facility, provided that each of the used vehicle floor plan commitment and the aggregate revolving loan commitment may not be more than the 20% of the amount of the aggregate commitment, and the aggregate service loaner vehicle floorplan commitment may not be more than the 3% of the amount of the aggregate commitment. All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

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

The interest rate on the credit facility varies based on the type of debt, with the rate of one-month LIBOR plus 1.10% for new vehicle floor plan financing, one-month LIBOR plus 1.40% for used vehicle floor plan financing, 1.20% for service loaner floor plan financing and a variable interest rate on the revolving financing ranging from the one-month LIBOR plus 1.00% to 2.00% depending on our leverage ratio. The annual interest rates associated with our floor plan commitments are as follows:

Commitment	Annual Interest Rate at December 31, 2021
New vehicle floor plan	1.20%
Used vehicle floor plan	1.50%
Service loaner floor plan	1.30%
Revolving line of credit	1.10%

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, 2021
Current ratio	Not less than 1.10 to 1	1.82 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	5.53 to 1
Leverage ratio	Not more than 5.75 to 1	1.48 to 1

As of December 31, 2021, we were in compliance with all covenants. We expect to remain in compliance with the financial and restrictive covenants in our credit facility and other debt agreements. However, no assurances can be provided that we will continue to remain in compliance with the financial and restrictive covenants.

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

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

Floor Plan Notes Payable

We have floor plan agreements with manufacturer-affiliated finance companies for certain new vehicles and vehicles that are designated for use as service loaners. The interest rates on these floor plan notes payable commitments vary by manufacturer and are variable rates. As of December 31, 2021, $354.2 million was outstanding on these agreements. Borrowings from, and repayments to, manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Other Lines of Credit

Our other lines of credit include commitments of up to $20 million, secured by certain assets from select Chrysler locations, a commitment of $60 million with Ford Motor Credit Company, secured by certain assets from all Ford locations, and $39 million secured by assets at our Canadian stores. These other lines of credit mature in 2022 and have interest rates up to 5.65%. As of December 31, 2021, no amounts were outstanding on these other lines of credit.

On July 14, 2020, we entered into a five-year real estate backed facility with eight financial institutions, including two manufacturer affiliated finance companies, maturing in July 2025. The real-estate backed credit facility currently provides a total financing commitment of up to $238.8 million in working capital financing for general corporate purposes, including acquisitions and working capital, collateralized by real estate and certain other assets owned by us. The interest rate on this credit facility uses one-month LIBOR plus a margin ranging from 2.00%-2.50% based on our leverage ratio, or a base rate of 0.75% plus a margin. The facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. Financial covenants include requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, consistent with those under our existing syndicated credit facility with U.S. Bank National Association as administrative agent. As of December 31, 2021, no amounts were outstanding on the real estate backed facility.

On July 31, 2020, we entered into a securitization facility which provides initial commitments for borrowings of up to $300 million and matures in July 2022. As of December 31, 2021, we had $90 million drawn on the securitization facility, which is included as part of "Revolving lines of credit" in the "Summary of Outstanding Balances on Credit Facilities and Long-Term Debt" table above.

On April 12, 2021, we entered into a credit agreement with Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey), as lender. The credit agreement matures in April 2023 and provides for a revolving line of credit facility (Ally credit facility) of up to $300.0 million and is secured by real estate owned by us. The Ally credit facility will bear interest at a rate per annum equal to the greater of 3.00% or the prime rate designated by Ally Bank, minus 25 basis points. The Ally credit facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties. Financial covenants, including the requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, are the same as the requirements under our existing syndicated credit facility with U.S. Bank National Association. The covenants restrict us from disposing of assets and granting additional security interests. As of December 31, 2021, no amounts were outstanding on the Ally credit facility.

On August 30, 2021, we entered into a credit agreement with The Bank of Nova Scotia. The credit agreement makes available three primary lines of credit including a working capital revolving credit facility of up to $50 million CAD, up to $300 million CAD floor plan financing for new and used vehicles; and $350 million CAD to provide wholesale lease financing. The credit facilities accrue interest at rates equal to the Lender's prime lending rate or the Canadian Dollar Offered Rate plus, in each case, a spread, with the spreads ranging from 0.25% per annum to 1.50% per annum. The credit agreement includes various financial and other covenants typical of such agreements. All indebtedness under this agreement is due on demand.

Non-Recourse Notes Payable
Driveway Finance Corporation auto loans receivable are primarily funded through our warehouse facilities and asset-backed term funding transactions. These non-recourse funding vehicles are structured to legally isolate the auto loans receivable, and we would not expect to be able to access the assets of our non-recourse funding vehicles, even in insolvency, receivership or conservatorship proceedings. Similarly, the investors in the non-recourse notes payable have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loans receivable. We do, however, continue to have the rights associated with the interest we retain in these non-recourse funding vehicles.

In November 2021, we issued $344.4 million in non-recourse notes payable related to the asset-backed term funding transaction.

3.875% Senior Notes due 2029
On May 27, 2021, we issued $800 million in aggregate principal amount of 3.875% notes due 2029 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the notes from May 27, 2021 and is payable semiannually on June 1 and December 1. We may redeem the notes in whole or in part, on or after June 1, 2024, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any, to, but, excluding, the redemption date. Prior to June 1, 2024, we may redeem up to 40% of the aggregate principal amount of the Senior Notes with funds in an aggregate amount up to the net cash proceeds of certain equity offerings at a redemption price equal to 103.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to June 1, 2024, we may redeem some or all of the notes at a price equal to 100% of the principal amount, plus a "make-whole" premium, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

Below is a summary of outstanding senior notes issued:

Description	Maturity Date	Interest Payment Dates	Principal Amount
4.625% Senior notes due 2027	December 15, 2027	June 15, December 15	$400 million
4.375% Senior notes due 2031	January 15, 2031	January 15, July 15	$550 million
3.875% Senior notes due 2029	June 1, 2029	June 1, December 1	$800 million

On August 1, 2021, we redeemed in full the aggregate $300 million principal amount of our 5.250% senior notes due 2025 at a redemption price equal to 102.625% of the principal amount of the notes plus accrued and unpaid interest thereon.

Real Estate Mortgages, Finance Lease Obligations, and Other Debt
We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 1.8% to 5.3% at December 31, 2021. The mortgages are payable in various installments through June 1, 2038. As of December 31, 2021, we had fixed interest rates on 71.2% of our outstanding mortgage debt.

We have finance lease obligations with some of our leased real estate. Interest rates related to this debt ranged from 1.9% to 8.5% at December 31, 2021. The leases have terms extending through August 2037.

Our other debt includes sellers' notes. The interest rates associated with our other debt ranged from 5.0% to 10.0% at December 31, 2021. This debt, which totaled $1.9 million at December 31, 2021, is due in various installments through April 2027.

Contractual Obligations
Our cash requirements greater than twelve months from contractual obligations and commitments include:

Debt Obligations and Interest Payments
Refer to Note 6, Credit Facilities and Long-Term Debt, of the notes to the consolidated financial statements for further information of our obligations and the timing of expected payments.

Contract Obligations
Refer to Note 7, Commitments and Contingencies, of the notes to the consolidated financial statements for further information of our obligations and the timing of expected payments.

Operating and Finance Leases

Refer to Note 11, Leases, of the notes to the consolidated financial statements for further information of our obligations and the timing of expected payments.

LIBOR Transition

We are working closely and cooperatively with our lending partners to update LIBOR-based agreements. We expect to transition all of our LIBOR-based agreements to appropriate replacement rates well before the June 30, 2023 LIBOR cessation. We do not anticipate this transition to have any material impact to our financials.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenues and expenses at the date of the financial statements. Certain accounting policies require us to make difficult and subjective judgments on matters that are inherently uncertain. The following accounting policies involve critical accounting estimates because they are particularly dependent on assumptions made by management. While we have made our best estimates based on facts and circumstances available to us at the time, different estimates could have been used in the current period. Changes in the accounting estimates we used are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations.

Our most critical accounting estimates include those related to goodwill and franchise value, and acquisitions. We also have other key accounting policies for valuation of accounts receivable and expense accruals. However, these policies either do not meet the definition of critical accounting estimates described above or are not currently material items in our financial statements. We review our estimates, judgments and assumptions periodically and reflect the effects of revisions in the period that they are deemed to be necessary. We believe that these estimates are reasonable. However, actual results could differ materially from these estimates.

Goodwill and Franchise Value

We are required to test our goodwill and franchise value for impairment at least annually, or more frequently if conditions indicate that an impairment may have occurred. Goodwill is tested for impairment at the reporting unit level. Our reporting units are individual retail automotive 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 have the option to qualitatively or quantitatively assess goodwill for impairment and, in 2021, we evaluated our goodwill using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying amount, we would further evaluate for potential impairment.

As of December 31, 2021, we had $977.3 million of goodwill on our balance sheet associated with 201 reporting units. No reporting unit accounted for more than 2.2% of our total goodwill as of December 31, 2021. The annual goodwill impairment analysis, which we perform as of October 1 of each year, resulted in no indications of impairment in 2021 or 2020. In 2019, our annual analyses resulted in an impairment charge of $1.7 million. During the third quarter of 2021, there was an indication of a triggering event at a certain reporting unit. We tested the goodwill for this location, which resulted in no goodwill impairment charges recorded. During the second quarter of 2020, there was an indication of a triggering event at certain reporting units. As a result, we identified certain reporting units where it was more likely than not the fair values were less than the carrying amounts, and we recorded a non-cash impairment charge of $3.5 million.

We have determined the appropriate unit of accounting for testing franchise rights for impairment is on an individual store basis. We have the option to qualitatively or quantitatively assess indefinite-lived intangible assets for impairment. In 2021, we evaluated our indefinite-lived intangible assets using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the individual store's franchise value exceeds the carrying amount, the franchise value is not impaired, and the second step is not necessary. If the qualitative assessment determines it is more likely than not that the fair value is less than the carrying amount, then a quantitative valuation of our franchise value is performed. An impairment charge is recorded to the extent the fair value is less than the carrying value.

As of December 31, 2021, we had $799.1 million of franchise value on our balance sheet associated with 201 stores. No individual store accounted for more than 8.4% of our total franchise value as of December 31, 2021. The annual franchise value impairment analysis, which we perform as of October 1 each year, resulted in no indications of impairment in 2021 or 2020. In 2019, our annual analysis resulted in an impairment charge of $0.4 million. During the third quarter of 2021, there were indications of impairment at a certain reporting unit. We tested the franchise value for this location, which resulted in an impairment charge of $1.9 million. During the second quarter of 2020, there was an indication of a triggering event at certain reporting units. As a result, we identified certain reporting units where it was more likely than not the fair values were less than the carrying amounts, and we recorded a non-cash impairment charge of $4.4 million.

We are subject to financial statement risk to the extent that our goodwill or franchise rights become impaired due to decreases in the fair value. A future decline in performance, decreases in projected growth rates or margin assumptions or changes in discount rates could result in a potential impairment, which could have a material adverse impact on our financial position and results of operations. Furthermore, if a manufacturer becomes insolvent, we may be required to record a partial or total impairment on the franchise value and/or goodwill related to that manufacturer. No individual manufacturer accounted for more than 4.6% of our total franchise value and goodwill as of December 31, 2021.

See Note 1 and Note 5 of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Annual Report.

Acquisitions
We account for acquisitions using the purchase method of accounting which requires recognition of assets acquired and liabilities assumed at fair value as of the date of the acquisition. Determination of the estimated fair value assigned to each asset acquired or liability assumed can materially impact the net income in subsequent periods through depreciation and amortization and potential impairment charges.

The most significant items we generally acquire in a transaction are inventory, long-lived assets, intangible franchise rights and goodwill. The fair value of acquired inventory is based on manufacturer invoice cost and market data. We estimate the fair value of property and equipment based on a market valuation approach. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. We apply an income approach for the fair value of intangible franchise rights which discounts the projected future net cash flow using an appropriate discount rate that reflects the risks associated with such projected future cash flow.

See Note 1 and Note 15 of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks relating to market fluctuations in interest rates and equity values. We do not acquire our market risk sensitive instruments for trading purposes.

Variable Rate Debt
Our syndicated 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, 3-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. As of December 31, 2021, we had $2.1 billion outstanding under such agreements at a weighted average interest rate of 1.43% per annum. A 10% increase in interest rates, or 14.3 basis points, would increase annual interest expense by approximately $2.2 million, net of tax, based on amounts outstanding as of December 31, 2021.

As of December 31, 2020, we had $2.0 billion outstanding under such agreements at a weighted average interest rate of 1.46% per annum. A 10% increase in interest rates, or 14.6 basis points, would increase annual interest expense by approximately $2.1 million, net of tax, based on amounts outstanding as of December 31, 2020.

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.

As of December 31, 2021, we had $2.5 billion of long-term fixed interest rate debt outstanding and recorded on the balance sheet, with maturity dates between April 1, 2022 and July 1, 2038. 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 $2.6 billion as of December 31, 2021.

As of December 31, 2020, we had $2.0 billion of long-term fixed interest rate debt outstanding and recorded on the balance sheet, with maturity dates between January 1, 2020 and August 31, 2038. 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 $2.0 billion as of December 31, 2020.

Foreign Currency Exchange Risk
The functional currency of our Canadian subsidiaries is the CAD. Our exposure to fluctuating exchange rates relates to the effects of translating financial statements of those subsidiaries into our reporting currency, which we do not hedge against based on our investment strategy in these foreign operations. A 10% devaluation in average exchange rates for the CAD to the USD would have resulted in a $32.3 million or 0.1% decrease to our revenues for the year ended December 31, 2021.

We had no subsidiaries with foreign currency for the year ended December 31, 2020.

Equity Price Risk
We are subject to equity price risk with respect to our equity investment in Shift Technologies, Inc. (Shift), which has a readily determinable fair value following Shift going public in a reverse-merger deal with Insurance Acquisition, a special purpose acquisition company, in the fourth quarter of 2020. During the period that we hold this equity investment, unrealized gains and losses will be recorded as the fair market value of this security changes over time. The fair value of this equity security was $40.9 million at December 31, 2021. A hypothetical 10% change in the equity price of this security would result in an approximate change to unrealized gain or loss of $4 million. The selected 10% hypothetical change in the equity price is not intended to reflect a best or worst case scenario, as equity price changes could be smaller or larger due to the nature of equity markets.

The fair value of this equity security was $107.3 million at December 31, 2020. A hypothetical 10% change in the equity price of this security would result in an approximate change to unrealized gain or loss of $11 million.

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 monitoring our mix of fixed rate and variable rate debt. We currently utilize bank debt, mortgage financing, high-yield debt and internally generated cash flows for growth and investment. We monitor our credit ratings and evaluate the benefit and cost of various debt types to manage, and minimize as best as possible, our interest cost.

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. Exhibits and Financial Statement Schedules of Part IV of this document.

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 SEC 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, 2021. 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 seventy-seven stores acquired in 2021, which represented 20% of consolidated total assets as of December 31, 2021 and 18% of consolidated revenues for the year ended December 31, 2021.

Based on our assessment, our management concluded that, as of December 31, 2021, 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, 2021, which is included in Item 8. Financial Statements and Supplementary Financial Data of this Form 10-K.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item will be included in our Proxy Statement for our 2022 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2021, is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item will be included in our Proxy Statement for our 2022 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2021, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table summarizes equity securities authorized for issuance as of December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (2)
Equity compensation plans approved by shareholders	466,860	$ — (1)	2,292,788
Equity compensation plans not approved by shareholders	—	—	—
Total	466,860	$ —	2,292,788

(1) There is no exercise price associated with our restricted stock units.
(2) Includes 983,435 shares available pursuant to our 2013 Amended and Restated Stock Incentive Plan and 1,309,353 shares available pursuant to our Employee Stock Purchase Plan.

The additional information required by this item will be included in our Proxy Statement for our 2022 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2021, 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 2022 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2021, is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Our independent registered public accounting firm is KPMG LLP, Portland, OR, Auditor Firm ID: 185.

Information required by this item will be included in our Proxy Statement for our 2022 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2021, 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
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2021 and 2020	F-5
Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019	F-6
Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019	F-7
Consolidated Statements of Equity and Redeemable Non-controlling Interest for the years ended December 31, 2021, 2020 and 2019	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019	F-9
Notes to Consolidated Financial Statements	F-11

There are no schedules required to be filed herewith.

Exhibit Index

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

Exhibit	Description
3.1	Restated Articles of Incorporation of Lithia Motors, Inc. (incorporated by reference to exhibit 3.1 to the Company's Form 10-Q filed July 28, 2021).
3.2	Second Amended and Restated Bylaws of Lithia Motors, Inc. (incorporated by reference to exhibit 3.2 to the Company's Form 8-K filed April 25, 2019).
4.1	Indenture, dated as of December 9, 2019, among Lithia Motors, Inc., the Guarantors and the Trustee (incorporated by reference to exhibit 4.1 to Form 8-K dated December 9, 2019 and filed with the Securities and Exchange Commission on December 13, 2019).
4.2	Form of 4.625% Senior Notes due 2027 (included as part of exhibit 4.1)(incorporated by reference to exhibit 4.1 to Form 8-K dated December 9, 2019 and filed with the Securities and Exchange Commission on December 13, 2019).
4.3	Indenture, dated as of October 9, 2020, among Lithia Motors, Inc., the Guarantors and the Trustee (incorporated by reference to exhibit 4.1 to Form 8-K dated October 9, 2020 and filed with the Securities and Exchange Commission on October 9, 2020).
4.4	Form of 4.375% Senior Notes due 2031 (included as part of exhibit 4.1)(incorporated by reference to exhibit 4.1 to Form 8-K dated October 9, 2020 and filed with the Securities and Exchange Commission on October 9, 2020).
4.5	Indenture, dated as of May 27, 2021, among Lithia Motors, Inc., the Guarantors and the Trustee (incorporated by reference to exhibit 4.1 to the Company's Form 8-K filed May 27, 2021).
4.6	Form of 3.875% senior notes due 2029 (included as part of exhibit 4.1 to the Company's Form 8-K filed May 27, 2021).
4.7	Description of the Registrant's Securities under Section 12 of the Exchange Act of 1934
10.1*	Amended and Restated 2009 Employee Stock Purchase Plan (incorporated by reference to exhibit 10.1 to Form 8-K dated April 25, 2019 and filed with the Securities and Exchange Commission on April 25, 2019)
10.2*	Lithia Motors, Inc. 2013 Amended and Restated Stock Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed May 2, 2013)

Exhibit	Description
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 (2019 Performance- and Time-Vesting) (for Senior Executives)(incorporated by reference to exhibit 10.3.3 to the Company's Form 10-K for the year ended December 31, 2018)
10.3.1*	Form of Restricted Stock Unit Agreement (2020 Performance- and Time-Vesting) (for Senior Executives)(incorporated by reference to exhibit 10.3.3 to the Company's Form 10-K for the year ended December 31, 2019)
10.3.2*	Form of Restricted Stock Unit Agreement (2021 Performance- and Time-Vesting) (for Senior Executives)(incorporated by reference to exhibit 10.3.3 to the Company's Form 10-K for the year ended December 31, 2020)
10.3.3*	Form of Restricted Stock Unit Agreement (Performance- and Time-Vesting) (for Senior Executives) for awards beginning in 2022
10.4	Lithia Motors, Inc. Short-Term Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed December 22, 2020).
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	Fourth Amended and Restated Loan Agreement, dated April 29, 2021, 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 May 4, 2021).
10.7*	Amended and Restated Split-Dollar Agreement (incorporated by reference to exhibit 10.17 to the Company's Form 10-K for the year ended December 31, 2012)
10.8*	Form of Indemnity Agreement for each Named Executive Officer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed May 29, 2009)
10.9*	Form of Indemnity Agreement for each non-management Director (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed May 29, 2009)
10.10*	Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2016)
10.10.1*	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award for Sidney DeBoer (incorporated by reference to exhibit 10.22.1 to the Company's Form 10-K for the year ended December 31, 2010)
10.10.2*	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award (incorporated by reference to exhibit 10.22.2 to the Company's Form 10-K for the year ended December 31, 2010)
10.10.3*	Amendment to Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (Executive Management Non-Qualified Deferred Compensation and Supplemental Executive Retirement Plan)(incorporated by reference to exhibit 10.10.3 to the Company's Form 10-K filed February 21, 2019)
10.11*	Transition Agreement dated September 14, 2015 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed September 17, 2015)
10.11.1*	Amendment to Transition Agreement dated January 22, 2019 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed January 25, 2019)
10.11.2*	Class B Conversion Agreement dated January 22, 2019 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed January 25, 2019)

Exhibit	Description
10.12*	Director Service Agreement effective January 1, 2016 between Lithia Motors, Inc. and Sidney B. DeBoer (incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed September 17, 2015)
10.13*	Form of Employment and Change in Control Agreement dated February 4, 2016 between Lithia Motors, Inc. and Bryan DeBoer (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed February 5, 2016)(1)
10.14	Credit Agreement, dated July 14, 2020, among Lithia Motors, Inc., the subsidiaries of Lithia Motors Inc. party thereto from time to time, the lenders party thereto from time to time, and Wells Fargo Bank, National Association (incorporated by reference to exhibit 10.1 to Form 8-K filed July 16, 2020).
10.15	Credit Agreement dated April 12, 2021, among Lithia Motors, Inc., Lithia Real Estate, Inc., and Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey) (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed April 15, 2021).
10.16	Amended and Restated Loan Agreement, dated December 31, 2020, among SCFC Business Services LLC, Driveway Finance Corporation, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A. (incorporated by reference to exhibit 10.1 to the Company's 8-K filed June 9, 2021).
10.17	Amendment No. 1 to Amended and Restated Loan Agreement, dated June 4, 2021, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A. (incorporated by reference to exhibit 10.2 to the Company's 8-K filed June 9, 2021).
10.18	Commitment Letter by The Bank of Nova Scotia (incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed September 3, 2021).
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover page formatted as Inline XBRL and contained in Exhibit 101.

(1) Substantially similar agreements exist between Lithia Motors, Inc. and each of Michael Cavanaugh, Marguerite Celeste, John Criddle, Tom Dobry, Gary Glandon, Scott Hillier, George Hines, Christopher S. Holzshu, Edward Impert, Charles Lietz, Tina Miller, Thomas Naso, Bryan Osterhout, Kelly Porter, Jodi Rasor, Ross Sherman, and David Stork. The "Cash Change in Control Benefits" under the agreements with Michael Cavanaugh, John Criddle, Gary Glandon, Edward Impert, Charles Lietz, Kelly Porter, Jodi Rasor, and Ross Sherman provide for 12 months of base salary rather than 24 months.

SIGNATURES

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

Date: February 18, 2022

LITHIA MOTORS, INC.
Registrant

By: /s/ Bryan B. DeBoer
Bryan B. DeBoer
Chief Executive Officer, President, Director, and Principal 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 18, 2022:

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

/s/ Tina Miller
Tina Miller
Chief Financial Officer, Senior Vice President, and Principal Accounting Officer

/s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Director

/s/ Susan O. Cain
Susan O. Cain
Director

/s/ Shauna McIntyre
Shauna McIntyre
Director

/s/ Louis P. Miramontes
Louis P. Miramontes
Director

/s/ Kenneth E. Roberts
Kenneth E. Roberts
Director

/s/ David J. Robino
David J. Robino
Director

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of Lithia Motors, Inc. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, equity and redeemable non-controlling interest, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 18, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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

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

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

Assessment of the Company's impairment tests over goodwill and franchise value
As disclosed in Note 1 and Note 5 to the consolidated financial statements, the Company had goodwill and indefinite-lived franchise value intangible assets with a book value of $977.3 million and $799.1 million, respectively, at December 31, 2021. As described in Note 1 to the consolidated financial statements, the Company tested its goodwill and franchise value intangibles assets for impairment using a qualitative assessment as of October 1, 2021. During the third quarter of 2021, the Company identified indications of a triggering event at a certain store. Management tested the goodwill and franchise value for this store and recorded non-cash impairment charges of $0 million and $1.9 million, which were equal to the difference between the fair value and the carrying value for goodwill and franchise value, respectively. The impairment charge for franchise value reduced the carrying value to zero at this store. The qualitative annual

assessment was performed at each individual store level as of October 1, 2021 and the Company determined that no additional impairment existed in 2021.

We identified the assessment of the Company's qualitative impairment tests over goodwill and franchise value for stores whose current operating results indicate a higher risk of potential impairment as a critical audit matter. The tests included the evaluation of qualitative factors such as future revenue growth and profitability as well as comparable dealership sales, that required especially subjective auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's goodwill and franchise value impairment assessment processes, including controls related to the identification and development of relevant qualitative factors. We compared key financial metrics across stores with similar demographics, including historical and future dealership level revenue growth and profitability, and evaluated differences for potential indicators of impairments. We evaluated the Company's intent and ability to carry out a particular course of action by evaluating the Company's past history of carrying out its stated intentions. Additionally, we evaluated information about recent comparable dealership sales to identify potential indicators of impairment.

/s/ KPMG LLP

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

Portland, Oregon
February 18, 2022

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting
We have audited Lithia Motors, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, equity and redeemable non-controlling interest, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated February 18, 2022 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired seventy-seven stores during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, all of these acquired stores' internal control over financial reporting. The total assets of these seventy-seven stores represented approximately 20% of consolidated total assets as of December 31, 2021 and approximately 18% of consolidated revenues for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of these seventy-seven stores.

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

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

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

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

/s/ KPMG LLP

Portland, Oregon
February 18, 2022

CONSOLIDATED BALANCE SHEETS

(In millions)	December 31, 2021	2020
Assets		
Current assets:		
Cash, restricted cash, and cash equivalents	$ 174.8	$ 162.5
Accounts receivable, net of allowance for doubtful accounts of $17.3 and $5.9	910.0	614.0
Inventories, net	2,385.5	2,492.9
Other current assets	63.0	70.5
Total current assets	3,533.3	3,339.9
Property and equipment, net of accumulated depreciation of $422.6 and $338.0	3,052.6	2,197.5
Operating lease right-of-use assets	395.9	264.0
Goodwill	977.3	593.0
Franchise value	799.1	350.2
Other non-current assets	2,388.7	1,157.5
Total assets	$ 11,146.9	$ 7,902.1
Liabilities and equity		
Current liabilities:		
Floor plan notes payable	$ 354.2	$ 234.2
Floor plan notes payable: non-trade	835.9	1,563.0
Current maturities of long-term debt	223.7	66.0
Trade payables	235.4	158.2
Accrued liabilities	753.6	458.3
Total current liabilities	2,402.8	2,479.7
Long-term debt, less current maturities	3,185.7	2,064.7
Deferred revenue	191.2	155.7
Deferred income taxes	191.0	146.3
Non-current operating lease liabilities	361.7	246.7
Other long-term liabilities	151.3	147.5
Total liabilities	6,483.7	5,240.6
Redeemable non-controlling interest	34.0	—
Equity:		
Preferred stock - no par value; authorized 15.0 shares; none outstanding	—	—
Common stock - no par value; authorized 125.0 shares; issued and outstanding 29.5 and 26.3	1,711.6	788.2
Class B common stock - no par value; no shares authorized; issued and outstanding none and 0.2	—	—
Additional paid-in capital	58.3	41.4
Accumulated other comprehensive loss	(3.0)	(6.3)
Retained earnings	2,859.5	1,838.2
Total stockholders' equity - Lithia Motors, Inc.	4,626.4	2,661.5
Non-controlling interest	2.8	—
Total equity	4,629.2	2,661.5
Total liabilities, redeemable non-controlling interest and equity	$ 11,146.9	$ 7,902.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)	Year Ended December 31, 2021	2020	2019
Revenues:			
New vehicle retail	$ 11,197.7	$ 6,773.9	$ 6,799.1
Used vehicle retail	7,255.3	3,998.4	3,527.2
Used vehicle wholesale	957.1	308.7	301.2
Finance and insurance	1,051.3	579.8	518.6
Service, body and parts	2,110.9	1,348.7	1,325.1
Fleet and other	259.4	114.8	201.5
Total revenues	22,831.7	13,124.3	12,672.7
Cost of sales:			
New vehicle retail	9,979.2	6,313.0	6,413.5
Used vehicle retail	6,428.6	3,552.4	3,159.6
Used vehicle wholesale	913.7	296.7	297.5
Service, body and parts	1,000.4	631.9	657.5
Fleet and other	250.8	104.7	190.8
Total cost of sales	18,572.7	10,898.7	10,718.9
Gross profit	4,259.0	2,225.6	1,953.8
Asset impairments	1.9	7.9	2.6
Selling, general and administrative	2,461.9	1,428.3	1,373.8
Depreciation and amortization	127.3	92.3	82.4
Operating income	1,667.9	697.1	495.0
Floor plan interest expense	(22.3)	(34.4)	(72.8)
Other interest expense	(108.2)	(73.1)	(60.6)
Other (expense) income, net	(52.6)	58.9	13.8
Income before income taxes	1,484.8	648.5	375.4
Income tax provision	(422.1)	(178.2)	(103.9)
Net income	1,062.7	470.3	271.5
Net income attributable to non-controlling interests	(1.7)	—	—
Net income attributable to redeemable non-controlling interest	(0.9)	—	—
Net income attributable to Lithia Motors, Inc.	$ 1,060.1	$ 470.3	$ 271.5
Basic earnings per share attributable to Lithia Motors, Inc.	$ 36.81	$ 19.74	$ 11.70
Shares used in basic per share calculations	28.8	23.8	23.2
Diluted earnings per share attributable to Lithia Motors, Inc.	$ 36.54	$ 19.53	$ 11.60
Shares used in diluted per share calculations	29.0	24.1	23.4
Cash dividends paid per share	$ 1.36	$ 1.22	$ 1.19

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)	Year Ended December 31, 2021	2020	2019
Net income	$ 1,062.7	$ 470.3	$ 271.5
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(1.1)	—	—
Gain (loss) on cash flow hedges, net of tax (provision) benefit of $(1.6), $2.0 and $0.3	4.4	(5.6)	(0.7)
Total other comprehensive income (loss), net of tax	3.3	(5.6)	(0.7)
Comprehensive income	1,066.0	464.7	270.8
Comprehensive income attributable to non-controlling interest	(1.7)	—	—
Comprehensive income attributable to redeemable non-controlling interest	(0.9)	—	—
Comprehensive income attributable to Lithia Motors, Inc.	$ 1,063.4	$ 464.7	$ 270.8

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY AND REDEEMABLE NON-CONTROLLING INTEREST

	Year Ended December 31,		
(In millions)	**2021**	**2020**	**2019**
Total equity, beginning balances	$ 2,661.5	$ 1,467.7	$ 1,197.2
Common stock[1], beginning balances	788.2	20.5	—
Compensation for stock and stock option issuances and excess tax benefits from option exercises	17.8	11.6	12.7
Issuance of stock in connection with employee stock plans	25.9	13.3	11.0
Class B common stock converted to class A common stock	—	0.1	—
Repurchase of class A common stock	(230.7)	(34.4)	(3.2)
Equity issuances, net of issuance costs	1,110.4	777.1	—
Common stock[1], ending balances	1,711.6	788.2	20.5
Class B common stock[1], beginning balances	—	0.1	0.1
Class B common stock converted to class A common stock	—	(0.1)	—
Class B common stock[1], ending balances	—	—	0.1
Additional paid-in capital, beginning balances	41.4	46.0	35.0
Compensation for stock and stock option issuances and excess tax benefits from option exercises	16.9	11.6	3.5
Option premiums received	—	—	7.5
Repurchase of class A common stock	—	(16.2)	—
Additional paid-in capital, ending balances	58.3	41.4	46.0
Accumulated other comprehensive loss, beginning balances	(6.3)	(0.7)	—
Foreign currency translation adjustment	(1.1)	—	—
Gain (loss) on cash flow hedges, net of tax (provision) benefit of $(1.6), $2.0 and $0.3	4.4	(5.6)	(0.7)
Accumulated other comprehensive loss, ending balances	(3.0)	(6.3)	(0.7)
Retained earnings, beginning balances	1,838.2	1,401.8	1,162.1
Adjustment to adopt ASC 326 (2020), ASC 842 (2019)	—	(4.8)	0.9
Net income attributable to Lithia Motors, Inc.	1,060.1	470.3	271.5
Dividends paid	(38.8)	(29.1)	(27.6)
Option premiums paid	—	—	(5.1)
Retained earnings, ending balances	2,859.5	1,838.2	1,401.8
Non-controlling interest, beginning balances	—	—	—
Issuance related to business combinations	1.1	—	—
Net income attributable to non-controlling interest	1.7	—	—
Non-controlling interest, ending balances	2.8	—	—
Total equity, ending balances	$ 4,629.2	$ 2,661.5	$ 1,467.7
Redeemable non-controlling interest, beginning balances	$ —	$ —	$ —
Acquired redeemable non-controlling interest	33.1	—	—
Net income attributable to redeemable non-controlling interest	0.9	—	—
Redeemable non-controlling interest, ending balances	$ 34.0	$ —	$ —

[1] Prior to June 7, 2021, common stock was classified as Class A common stock. The Class A common stock reclassification as common stock occurred in connection with the elimination of our classified common stock structure following the conversion of all Class B common stock to Class A common stock.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net income	$ 1,062.7	$ 470.3	$ 271.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Asset impairments	1.9	7.9	2.6
Depreciation and amortization	127.3	92.4	82.4
Stock-based compensation	34.7	23.2	16.2
Loss on redemption of senior notes	10.3	—	—
Gain on disposal of other assets	(2.5)	(1.7)	(0.1)
Gain from disposal activities	—	(16.6)	(9.7)
Unrealized investment loss (gain)	66.4	(43.4)	—
Deferred income taxes	43.1	17.2	40.1
Amortization of operating lease right-of-use assets	39.0	28.9	31.6
(Increase) decrease (net of acquisitions and dispositions):			
Trade receivables, net	(147.1)	(113.4)	24.4
Inventories	674.6	228.8	(19.7)
Other assets	(579.8)	(101.3)	5.4
Increase (decrease) (net of acquisitions and dispositions):			
Floor plan notes payable	116.1	(204.1)	100.7
Trade payables	78.4	28.2	(1.8)
Accrued liabilities	233.0	113.1	(7.8)
Other long-term liabilities and deferred revenue	39.1	15.1	(11.3)
Net cash provided by operating activities	1,797.2	544.6	524.5
Cash flows from investing activities:			
Notes receivable issued	—	(12.5)	(12.5)
Principal payments received on notes receivable	—	25.0	—
Capital expenditures	(260.4)	(167.8)	(124.9)
Proceeds from sales of assets	3.3	6.5	1.5
Cash paid for other investments	(10.3)	(11.2)	(7.2)
Cash paid for acquisitions, net of cash acquired	(2,699.3)	(1,503.3)	(366.6)
Proceeds from sales of stores	76.3	57.5	46.7
Net cash used in investing activities	(2,890.4)	(1,605.8)	(463.0)
Cash flows from financing activities:			
Repayments on floor plan notes payable: non-trade, net	(685.3)	(20.6)	(54.6)
Borrowings on lines of credit	2,830.6	1,825.4	3,167.0
Repayments on lines of credit	(2,505.2)	(1,935.4)	(3,481.6)
Principal payments on long-term debt and finance lease liabilities, scheduled	(59.3)	(29.4)	(26.0)
Principal payments on long-term debt and finance lease liabilities, other	(486.5)	(6.3)	(11.0)
Proceeds from issuance of long-term debt	1,161.8	606.5	420.3
Payment of debt issuance costs	(14.7)	(10.8)	(5.8)
Proceeds from issuance of common stock	1,136.2	790.4	11.0
Repurchase of common stock	(230.7)	(50.6)	(3.2)
Dividends paid	(38.8)	(29.1)	(27.6)
Payments of contingent consideration related to acquisitions	(1.4)	(0.3)	—
Other financing activities	—	—	2.4
Net cash provided by (used in) financing activities	1,106.7	1,139.8	(9.1)
Effect of exchange rate changes on cash, restricted cash, and cash equivalents	2.5	—	—
Increase in cash, restricted cash, and cash equivalents	16.0	78.6	52.4
Cash, restricted cash, and cash equivalents at beginning of year	162.5	84.0	31.6
Cash, restricted cash, and cash equivalents at end of year	$ 178.5	$ 162.5	$ 84.0

See accompanying notes to consolidated financial statements.

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

(In millions)	Year Ended December 31, 2021	2020	2019
Reconciliation of cash, restricted cash, and cash equivalents to the consolidated balance sheets			
Cash and cash equivalents	$ 153.0	$ 160.2	$ 84.0
Restricted cash from collections on auto loans receivable	21.8	2.3	—
Cash, restricted cash, and cash equivalents	$ 174.8	$ 162.5	$ 84.0
Restricted cash on deposit in reserve accounts, included in other non-current assets	3.7	—	—
Total cash, restricted cash, and cash equivalents reported in the Consolidated Statements of Cash Flows	$ 178.5	$ 162.5	$ 84.0
Supplemental cash flow information:			
Cash paid during the period for interest	$ 130.1	$ 107.7	$ 135.8
Cash paid during the period for income taxes, net	369.1	135.0	38.4
Floor plan debt paid in connection with store disposals	8.7	38.4	18.6
Non-cash activities:			
Debt issued in connection with acquisitions	$ 355.6	$ —	$ 26.4
Contingent consideration in connection with acquisitions	0.9	14.3	—
Debt assumed in connection with acquisitions	4.0	—	—
Right-of-use assets obtained in exchange for lease liabilities[1]	171.8	55.4	260.3

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

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Business

We are one of the largest automotive retailers in the United States and are among the fastest growing companies in the Fortune 500 (#231-2021) with 278 stores representing 40 brands in two countries, across 25 U.S. states and three Canadian provinces. We offer vehicles online and through our nationwide retail network. Our "Growth Powered by People" strategy drives us to innovate and continuously improve the customer experience.

Basis of Presentation

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

Cash, Restricted Cash, and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and cash in bank accounts without restrictions. Restricted cash consisted of collections of principal, interest and fee payments on auto loans receivable that are restricted for repayment on borrowings on our securitization facility before being unrestricted.

Accounts Receivable

Accounts receivable classifications include the following:

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

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

The balance of auto loan receivables is made up primarily of loans secured by the related vehicle. More than 95% of the portfolio is aged less than 60 days past due with less than 5% on non-accrual status. As of December 31, 2021, the allowance for credit losses related to auto loan and lease receivables was $25.0 million and was included in allowance for doubtful accounts and other non-current assets. In accordance with Topic 326, the allowance for loan losses is estimated based on our historical write-off experience, current conditions and forecasts as well as the value of any underlying assets securing these loans and is reviewed monthly. Consideration is given to recent delinquency trends and recovery rates. Account balances are charged against the allowance upon reaching 120 days past due status. The annual activity for charges and subsequent recoveries is immaterial. The remainder of our receivables are due primarily from manufacturer partners and various third-party lenders. The historical losses related to these balances are immaterial.

The long-term portion of accounts receivable was included as a component of other non-current assets in the Consolidated Balance Sheets. See Note 2.

Inventories

Inventories are valued at the lower of net realizable value or cost, using the specific identification method for new vehicles, pooled approach for used vehicles, and the lower of cost (first-in, first-out) or market method for parts. The cost of new and used vehicle inventories includes the cost of any equipment added, reconditioning and

transportation. Certain acquired inventories are valued using the last-in first-out (LIFO) method. The LIFO reserve associated with this inventory as of December 31, 2021 and 2020 was immaterial.

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

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

Property and Equipment

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

The range of estimated useful lives is as follows:

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

The cost for maintenance, repairs and minor renewals is expensed as incurred, while significant remodels and betterments are capitalized. In addition, interest on borrowings for major capital projects, significant remodels, and betterments is 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, 2021, 2020 and 2019, we recorded capitalized interest of $2.0 million, $1.6 million and $2.3 million, respectively.

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

Leased property meeting certain criteria are recorded as finance leases. We have finance leases for certain locations, expiring at various dates through August 1, 2037. Our finance lease right-of-use assets are included in property and equipment on our Consolidated Balance Sheets. Amortization of finance lease right-of-use assets is computed on a straight-line basis over the term of the lease, unless the lease transfers title or it contains a bargain purchase option, in which case, it is amortized over the asset's useful life and is included in depreciation expense. Finance lease liabilities are recorded as the lesser of the estimated fair market value of the leased property or the net present value of the aggregated future minimum payments and are included in current maturities of long-term debt and long-term debt on our Consolidated Balance Sheets. Interest associated with these obligations is included in other interest expense in the Consolidated Statements of Operations. See Note 7 and Note 11.

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

Goodwill

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

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

We test our goodwill for impairment on October 1 of each year. In 2021, we evaluated our goodwill using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying amount, we would further evaluate for potential impairment. See Note 5 and Note 13.

Franchise Value

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

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

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

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

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

We test our franchise value for impairment on October 1 of each year. In 2021, we evaluated our franchise value using a qualitative assessment process. If the qualitative factors discussed above determine that it is more likely than not that the fair value of the individual store's franchise value exceeds the carrying amount, the franchise value is not impaired and the second step is not necessary. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying value, then a quantitative valuation of our franchise value is performed and an impairment would be recorded. See Note 5 and Note 13.

Financing and Securitization Transactions

We maintain a revolving funding program composed of a warehouse facility that we use to fund auto loans receivable originated by Driveway Finance Corporation.

We use term securitizations to provide long-term funding for most of the auto loans receivable initially funded through the warehouse facility. In these transactions, a pool of auto loans receivable is sold to a bankruptcy-remote, special purpose entity that, in turn, transfers the receivables to a special purpose securitization trust. The securitization trust issues asset-backed securities, secured or otherwise supported by the transferred receivables, and the proceeds from the sale of the asset-backed securities are used to finance the securitized receivables.

We are required to evaluate term securitization trusts for consolidation. In our capacity as servicer, we have the power to direct the activities of the trusts that most significantly impact the economic performance of the trusts. In addition, we have the obligation to absorb losses (subject to limitations) and the rights to receive any returns of the trusts, which could be significant. Accordingly, we are the primary beneficiary of the trusts and are required to consolidate them.

We recognize transfers of auto loans receivable into the warehouse facility and asset-backed term funding transactions, including term securitizations (together, "non-recourse funding vehicles"), as secured borrowings, which result in recording the auto loans receivable and the related non-recourse notes payable on our consolidated balance sheets.

These receivables can only be used as collateral to settle obligations of the related non-recourse funding vehicles. The non-recourse funding vehicles and investors have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. We have not provided financial or other support to the non-recourse funding vehicles that was not previously contractually required, and there are no additional arrangements, guarantees or other commitments that could require us to provide financial support to the non-recourse funding vehicles.

See Note 2 and Note 6 for additional information on auto loans receivable and non-recourse notes payable.

Restricted Cash on Deposit in Reserve Accounts

The restricted cash on deposit in reserve accounts is for the benefit of holders of non-recourse notes payable, and these funds are not expected to be available to the company or its creditors. In the event that the cash generated by the related receivables in a given period was insufficient to pay the interest, principal and other required payments, the balances on deposit in the reserve accounts would be used to pay those amounts. Restricted cash on deposit in reserve accounts is invested in money market securities and was $3.7 million as of December 31, 2021, with no amounts as of December 31, 2020 and 2019.

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:

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Advertising expense, gross	$ 197.8	$ 121.3	$ 139.8
Manufacturer cooperative advertising credits	(35.6)	(23.9)	(27.9)
Advertising expense, net	$ 162.2	$ 97.4	$ 111.9

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 and auto loan receivable originations are deferred and charged to expense in proportion to the associated revenue to be recognized.

Legal Costs

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

Stock-Based Compensation

Compensation costs associated with equity instruments exchanged for employee and director services are measured at the grant date, based on the fair value of the award. If there is a performance-based element to the award, the expense is recognized based on the estimated attainment level, estimated time to achieve the attainment level and/or the vesting period. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The fair value of non-vested stock awards is based on the closing price of our common stock on the date of grant. We account for forfeitures of stock-based awards as they occur. See Note 10.

Income and Other Taxes

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

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

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

Concentration of Risk and Uncertainties

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

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

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

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

We enter into Franchise Agreements with the manufacturers. The Franchise Agreements generally limit the location of the dealership and provide the auto manufacturer approval rights over changes in dealership management and ownership. The auto manufacturers are also entitled to terminate the Franchise Agreement if the dealership is in

material breach of the terms. Our ability to expand operations depends, in part, on obtaining consents of the manufacturers for the acquisition of additional dealerships. See also "Goodwill" and "Franchise Value" above.

We have a credit facility with a syndicate of 20 financial institutions, including eight manufacturer-affiliated finance companies. Several of these financial institutions also provide vehicle financing for certain new vehicles, vehicles that are designated for use as service loaners and mortgage financing. This credit facility is the primary source of floor plan financing for our new vehicle inventory and also provides used vehicle financing and a revolving line of credit. The term of the facility extends through January 2025. At maturity, our financial condition could be materially adversely impacted if lenders are unable to provide credit that has typically been extended to us or with terms unacceptable to us. Our financial condition could be materially adversely impacted if these providers incur losses in the future or undergo funding limitations. See Note 6.

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

Use of Estimates

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

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

Estimates are also used in our allowance for loan losses, which represents the net credit losses expected over the remaining contractual life of our managed receivables. Because net loss performance can vary substantially over time, estimating net losses requires assumptions about matters that are uncertain. The allowance for loan losses is determined using a net loss timing curve, primarily based on the composition of the portfolio of managed receivables and historical gross loss and recovery trends. Determining the appropriateness of the allowance for loan losses requires management to exercise judgement about matters that are inherently uncertain, including the timing and distribution of net losses that could materially affect the allowance or loan losses and, therefore, net earnings.

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

We offer a limited warranty on the sale of most retail used vehicles. This warranty is based on mileage and time. We also offer a mileage and time based warranty on parts used in our service repair work and on tire purchases. The cost that may be incurred for these warranties is estimated at the time the related revenue is recorded. A reserve for these warranty liabilities is estimated based on current sales levels, warranty experience rates and estimated costs per claim. The annual activity for reserve increases and claims is immaterial. As of December 31, 2021 and 2020, the accrued warranty balance was $0.6 million and $0.5 million, respectively.

Fair Value of Assets Acquired and Liabilities Assumed

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

We estimate the fair value of property and equipment based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under

this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value.

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

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

Revenue Recognition

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

New Retail Vehicle and Used Retail Vehicle Sales

Revenue from the retail sale of a vehicle is recognized at a point in time, as all performance obligations are satisfied when a contract is signed by the customer, financing has been arranged or collectibility is probable and the control of the vehicle is transferred to the customer. The transaction price for a retail vehicle sale is specified in the contract with the customer and includes all cash and non-cash consideration. In a retail vehicle sale, customers often trade in their current vehicle. The trade-in is measured at its stand-alone selling price in the contract, utilizing various third-party pricing sources. There are no other non-cash forms of consideration related to retail sales. All vehicle rebates are applied to the vehicle purchase price at the time of the sale and are therefore incorporated into the price of the contract at the time of the exchange. We do not allow the return of new or used vehicles, except where mandated by state law.

Service, Body and Parts Sales

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

We are the obligor on our lifetime oil contracts. Revenue is allocated to these performance obligations and is recognized over time as services are provided to the customer. The amount of revenue recognized is calculated, net of cancellations, using an input method, which most closely depicts performance of the contracts. Our contract liability balances were $239.0 million and $194.1 million as of December 31, 2021, and December 31, 2020, respectively; and we recognized $35.0 million and $31.1 million of revenue in the years ended December 31, 2021, and December 31, 2020, respectively, related to our opening contract liability balances. Our contract liability balance is included in accrued liabilities and deferred revenue.

Finance and Insurance Sales

Revenue from finance and insurance sales is recognized, net of estimated charge-backs, at the time of the sale of the related vehicle. As a part of the vehicle sale, we seek to arrange financing for customers and sell a variety of add-ons, such as extended warranty service contracts. These products are inherently attached to the governing vehicle and performance of the obligation cannot be performed without the underlying sale of the vehicle. We act as an agent in the sale of these contracts as the pricing is set by the third-party provider, and our commission is preset. A portion of the transaction price related to sales of finance and insurance contracts is considered variable consideration and is estimated and recognized upon the sale of the contract under the new standard. Our contract asset balance was $9.6 million and $8.2 million as of December 31, 2021, and December 31, 2020, respectively; and is included in trade receivables and other non-current assets.

Segment Reporting

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

Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Chrysler, General Motors and Ford. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, Subaru, Nissan, Hyundai, Volkswagen, Kia, and Mazda. Our Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured by BMW, Mercedes-Benz, Audi, Lexus, Acura, Porsche, Jaguar, Land Rover, Mini, Infiniti, Rolls-Royce, Lamborghini, McLaren, and Pagani. The franchises in each segment also sell used vehicles, parts and automotive services, and automotive finance and insurance products.

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

We define our chief operating decision maker (CODM) to be certain members of our executive management group. Historical and forecasted operational performance is evaluated on a store-by-store basis and on a consolidated basis by the CODM. We derive the operating results of the segments directly from our internal management reporting system. The accounting policies used to derive segment results are substantially the same as those used to determine our consolidated results, except for the internal allocation within Corporate and other discussed above. Our CODM does not regularly review capital expenditures on a reporting unit level. Performance measurement of each reportable segment by the CODM is based on several metrics, including earnings from operations. The CODM uses these results, in part, to evaluate the performance of, and to allocate resources, mainly with expected inventory and working capital requirements, to each of the reportable segments. See Note 17.

Reclassifications

Certain immaterial reclassifications of amounts previously reported have been made to the accompanying Consolidated Financial Statements to maintain consistency and comparability between periods presented. We reclassified certain components within cash provided by operating activities and changes in restricted cash within the Consolidated Statements of Cash Flows.

Note 2. Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
(Dollars in millions)	**2021**	**2020**
Contracts in transit	$ 304.9	$ 286.8
Trade receivables	125.5	67.0
Vehicle receivables	106.6	61.8
Manufacturer receivables	120.5	118.1
Auto loan and lease receivables	829.2	175.6
Other receivables	43.2	11.6
	1,529.9	720.9
Less: Allowance for doubtful accounts	(17.3)	(5.9)
Less: Long-term portion of accounts receivable, net[1]	(602.6)	(101.0)
Total accounts receivable, net	$ 910.0	$ 614.0

[1]The long-term portions of accounts receivable and allowance for doubtful accounts were included as a component of other non-current assets in the Consolidated Balance Sheets. See Note 1 for additional information on the allowance for credit losses related to auto loan receivables.

Our auto loan receivables include amounts due from customers related to vehicle sales financed through Driveway Finance Corporation and are presented net of an allowance for estimated loan losses. Lease receivables include amounts related to vehicles leased through Pfaff Leasing and are also presented net of an allowance for estimated losses. The balance of auto loan and lease receivables is made up primarily of loans and leases secured by the related vehicles.

	December 31,	
(Dollars in millions)	**2021**	**2020**
Total Auto loan and lease receivables	$ 829.2	$ 175.6
Less: Allowance for loan and lease losses	(25.0)	(12.9)
Auto loan and lease receivables, net	$ 804.2	$ 162.7

Below is a breakdown of the current and long term portions of our auto loan and lease receivables:

	December 31,	
(Dollars in millions)	**2021**	**2020**
Current portion of auto loan and lease receivables, net of allowance of $13.6 and $2.1	$ 224.5	$ 78.6
Long term portion of auto loan and lease receivables, net of allowance of $11.4 and $10.8	579.7	84.1
Auto loan and lease receivables, net	$ 804.2	$ 162.7

Our allowance for loan and lease losses represents the net credit losses expected over the remaining contractual life of our managed receivables. The allowances for credit losses related to auto loan and lease receivables consisted of the following changes during the period:

	Year Ended December 31,	
(Dollars in millions)	**2021**	**2020**
Allowance at beginning of period	$ 12.9	$ 12.4
Charge-offs	(16.6)	(10.1)
Recoveries	8.8	1.5
Provision expense	17.4	9.1
Allowance at end of period	22.5	12.9
Lease portfolio loss reserve	2.5	—
Total balance at end of period	$ 25.0	$ 12.9

Ending auto loan receivables (principal balances) by FICO score:

	Year Ended December 31,	
(Dollars in millions)	**2021**	**2020**
<599[1]	$ 83.2	$ 59.9
600-699	437.6	79.3
700-774	166.8	25.2
775+	37.4	10.3
Total auto loan receivables	725.0	174.7
Lease portfolio and accrued interest	104.2	0.9
Total auto loan and lease receivables	$ 829.2	$ 175.6

[1]Includes loans that are originated with no FICO score available.

Note 3. Inventories

The components of inventories consisted of the following:

	December 31,	
(Dollars in millions)	**2021**	**2020**
New vehicles	$ 812.9	$ 1,556.6
Used vehicles	1,418.3	835.9
Parts and accessories	154.3	100.4
Total inventories	$ 2,385.5	$ 2,492.9

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

Note 4. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
(Dollars in millions)	**2021**	**2020**
Land	$ 965.6	$ 699.3
Building and improvements	1,748.5	1,149.7
Service equipment	159.9	123.6
Furniture, office equipment, signs and fixtures	507.3	512.9
	3,381.3	2,485.5
Less accumulated depreciation	(422.6)	(338.0)
	2,958.7	2,147.5
Construction in progress	93.9	50.0
	$ 3,052.6	$ 2,197.5

Long-Lived Asset Impairment Charges
We recorded no impairment charges in 2021 and 2020 associated with property and equipment. In 2019, we recorded an impairment charge of $0.5 million associated with property and equipment. The long-lived assets were tested for recoverability and were determined to have a carrying value exceeding their fair value.

Note 5. Goodwill and Franchise Value

The following is a roll-forward of goodwill:

(Dollars in millions)	**Domestic**	**Import**	**Luxury**	**Consolidated**
Balance as of December 31, 2019 [1]	$ 171.8	$ 197.3	$ 85.5	$ 454.6
Additions through acquisitions [2]	33.3	94.3	17.3	144.9
Reductions through divestitures	(0.1)	(0.7)	(2.2)	(3.0)
Reductions from impairments	(0.5)	(3.0)	—	(3.5)
Balance as of December 31, 2020 [1]	204.5	287.9	100.6	593.0
Additions through acquisitions [3]	101.0	188.7	105.8	395.5
Reductions through divestitures	(1.5)	(8.4)	(1.3)	(11.2)
Balance as of December 31, 2021 [1]	$ 304.0	$ 468.2	$ 205.1	$ 977.3

(1) Net of accumulated impairment losses of $299.3 million recorded during the year ended December 31, 2008.
(2) Our purchase price allocation for the 2019 acquisitions were finalized in 2020. As a result, we added $144.9 million of goodwill.
(3) Our purchase price allocation for the 2020 acquisitions were finalized in 2021. As a result, we added $395.5 million of goodwill. Our purchase price allocation for the 2021 acquisitions are preliminary and goodwill is not yet allocated to our segments. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 15.

The following is a roll-forward of franchise value:

(Dollars in millions)	**Franchise Value**
Balance as of December 31, 2019	$ 306.7
Additions through acquisitions[1]	51.9
Reductions through divestitures	(4.0)
Reductions from impairments	(4.4)
Balance as of December 31, 2020	350.2
Additions through acquisitions[2]	459.7
Reductions through divestitures	(8.9)
Reductions from impairments	(1.9)
Balance as of December 31, 2021	$ 799.1

(1) Our purchase price allocation for the 2019 acquisitions were finalized in 2020. As a result, we added $51.9 million of franchise value.
(2) Our purchase price allocation for the 2020 acquisitions were finalized in 2021. As a result, we added $459.7 million of franchise value. Our purchase price allocation for the 2021 acquisitions are preliminary and is not yet allocated to our segments. See Note 15.

Note 6. Credit Facilities and Long-Term Debt

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

(Dollars in millions)	December 31, 2021	December 31, 2020
Floor plan notes payable: non-trade	$ 835.9	$ 1,563.0
Floor plan notes payable	354.2	234.2
Total floor plan debt	$ 1,190.1	$ 1,797.2
Used and service loaner vehicle inventory financing commitments	$ 500.0	$ —
Revolving lines of credit	219.9	39.0
Real estate mortgages	592.9	611.5
Finance lease obligations	53.6	246.4
Non-recourse notes payable	317.6	—
5.250% Senior notes due 2025	—	300.0
4.625% Senior notes due 2027	400.0	400.0
4.375% Senior notes due 2031	550.0	550.0
3.875% Senior notes due 2029	800.0	—
Other debt	1.9	2.4
Total long-term debt outstanding	3,435.9	2,149.3
Less: unamortized debt issuance costs	(26.5)	(18.6)
Less: current maturities (net of current debt issuance costs)	(223.7)	(66.0)
Long-term debt	$ 3,185.7	$ 2,064.7

Credit Facility
On April 29, 2021, we amended our existing syndicated credit facility (credit facility), comprised of 20 financial institutions, including 8 manufacturer-affiliated finance companies, extending the maturity date to April 2026.

This credit facility provides for a total financing commitment of $3.75 billion, which may be further expanded, subject to lender approval and the satisfaction of other conditions, up to a total of $4.25 billion. The initial allocation of the financing commitment is for up to $750 million in used vehicle inventory floorplan financing, up to $750 million in revolving financing for general corporate purposes, including acquisitions and working capital, up to $2.15 billion in new vehicle inventory floorplan financing, and up to $100 million in service loaner vehicle floorplan financing. We have the option to reallocate the commitments under this credit facility, provided that each of the used vehicle floor plan commitment and the aggregate revolving loan commitment may not be more than the 20% of the amount of the aggregate commitment, and the aggregate service loaner vehicle floorplan commitment may not be more than the 3% of the amount of the aggregate commitment. All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

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

The interest rate on the credit facility varies based on the type of debt, with the rate of one-month LIBOR plus 1.10% for new vehicle floor plan financing, one-month LIBOR plus 1.40% for used vehicle floor plan financing, 1.20% for service loaner floor plan financing and a variable interest rate on the revolving financing ranging from the one-month LIBOR plus 1.00% to 2.00% depending on our leverage ratio. The annual interest rates associated with our floor plan commitments are as follows:

Commitment	Annual Interest Rate at December 31, 2021
New vehicle floor plan	1.20%
Used vehicle floor plan	1.50%
Service loaner floor plan	1.30%
Revolving line of credit	1.10%

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, 2021
Current ratio	Not less than 1.10 to 1	1.82 to 1
Fixed charge coverage ratio	Not less than 1.20 to 1	5.53 to 1
Leverage ratio	Not more than 5.75 to 1	1.48 to 1

Other Lines of Credit
Our other lines of credit include commitments of up to $80.0 million, secured by certain assets from select Chrysler locations and all Ford locations. These other lines of credit mature in 2022 and have interest rates up to 5.65%. As of December 31, 2021, no amounts were outstanding on these other lines of credit.

On July 14, 2020, we entered into a five-year real estate backed facility with eight financial institutions, including two manufacturer affiliated finance companies, maturing in July 2025. The real-estate backed credit facility currently provides a total financing commitment of up to $238.8 million in working capital financing for general corporate purposes, including acquisitions and working capital, collateralized by real estate and certain other assets owned by us. The interest rate on this credit facility uses one-month LIBOR plus a margin ranging from 2.00%-2.50% based on our leverage ratio, or a base rate of 0.75% plus a margin. The facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. Financial covenants include requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, consistent with those under our existing syndicated credit facility with U.S. Bank National Association as administrative agent. As of December 31, 2021, no amounts were outstanding on the real estate backed facility.

On July 31, 2020, we entered into a securitization facility which provides initial commitments for borrowings of up to $300 million and matures in July 2022. As of December 31, 2021, we had $90 million drawn on the securitization facility, which is included as part of "Revolving lines of credit" in the "Summary of Outstanding Balances on Credit Facilities and Long-Term Debt" table above.

On April 12, 2021, we entered into a credit agreement with Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey), as lender. The credit agreement matures in April 2023 and provides for a revolving line of credit facility (Ally credit facility) of up to $300.0 million and is secured by real estate owned by us. The Ally credit facility will bear interest at a rate per annum equal to the greater of 3.00% or the prime rate designated by Ally Bank, minus 25 basis points. The Ally credit facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties. Financial covenants, including the requirements to maintain minimum current and fixed charge coverage ratios, and a maximum leverage ratio, are the same as the requirements under our existing syndicated credit facility with U.S. Bank National Association. The covenants restrict us from disposing of assets and granting additional security interests. As of December 31, 2021, no amounts were outstanding on the Ally credit facility.

On August 30, 2021, we entered into a credit agreement with The Bank of Nova Scotia. The credit agreement makes available three primary lines of credit including a working capital revolving credit facility of up to $50 million CAD, up to $300 million CAD floor plan financing for new and used vehicles; and $350 million CAD to provide wholesale lease financing. The credit facilities accrue interest at rates equal to the Lender’s prime lending rate or the Canadian Dollar Offered Rate plus, in each case, a spread, with the spreads ranging from 0.25% per annum to 1.50% per annum. The credit agreement includes various financial and other covenants typical of such agreements. All indebtedness under this agreement is due on demand.

Floor Plan Notes Payable
We have floor plan agreements with manufacturer-affiliated finance companies for certain new vehicles and vehicles that are designated for use as service loaners. The interest rates on these floor plan notes payable commitments vary by manufacturer and are variable rates. As of December 31, 2021, $354.2 million was outstanding on these agreements at interest rates ranging up to 4.75%. Borrowings from and repayments to manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

Non-Recourse Notes Payable
Driveway Finance Corporation auto loans receivable are primarily funded through our warehouse facilities and asset-backed term funding transactions. These non-recourse funding vehicles are structured to legally isolate the auto loans receivable, and we would not expect to be able to access the assets of our non-recourse funding vehicles, even in insolvency, receivership or conservatorship proceedings. Similarly, the investors in the non-recourse notes payable have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loans receivable. We do, however, continue to have the rights associated with the interest we retain in these non-recourse funding vehicles.

In November 2021, we issued $344.4 million in non-recourse notes payable related to the asset-backed term funding transaction.

3.875% Senior Notes due 2029
On May 27, 2021, we issued $800 million in aggregate principal amount of 3.875% notes due 2029 to eligible purchasers in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. Interest accrues on the notes from May 27, 2021 and is payable semiannually on June 1 and December 1. We may redeem the notes in whole or in part, on or after June 1, 2024, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any, to, but, excluding, the redemption date. Prior to June 1, 2024, we may redeem up to 40% of the aggregate principal amount of the Senior Notes with funds in an aggregate amount up to the net cash proceeds of certain equity offerings at a redemption price equal to 103.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to June 1, 2024, we may redeem some or all of the notes at a price equal to 100% of the principal amount, plus a "make-whole" premium, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

Below is a summary of outstanding senior notes issued:

Description	Maturity Date	Interest Payment Dates	Principal Amount
4.625% Senior notes due 2027	December 15, 2027	June 15, December 15	$400 million
4.375% Senior notes due 2031	January 15, 2031	January 15, July 15	$550 million
3.875% Senior notes due 2029	June 1, 2029	June 1, December 1	$800 million

On August 1, 2021, we redeemed in full the aggregate $300 million principal amount of our 5.250% senior notes due 2025 at a redemption price equal to 102.625% of the principal amount of the notes plus accrued and unpaid interest thereon. This early redemption resulted in a $10.3 million loss on extinguishment of debt, presented as a component of "Other (expense) income, net" in our Consolidated Statement of Operations for the year ended December 31, 2021.

Real Estate Mortgages, Finance Lease Obligations, and Other Debt
We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 1.8% to 5.3% at December 31, 2021. The mortgages are payable in various installments through June 1, 2038. As of December 31, 2021, we had fixed interest rates on 71.2% of our outstanding mortgage debt.

We have finance lease obligations with some of our leased real estate. Interest rates related to this debt ranged from 1.9% to 8.5% at December 31, 2021. The leases have terms extending through August 2037.

Our other debt includes sellers' notes. The interest rates associated with our other debt ranged from 5.0% to 10.0% at December 31, 2021. This debt, which totaled $1.9 million at December 31, 2021, is due in various installments through April 2027.

Future Principal Payments
The schedule of future principal payments associated with real estate mortgages, finance lease liabilities, our senior notes and other debt as of December 31, 2021 was as follows:

Year Ending December 31,	(Dollars in millions)
2022	$ 97.6
2023	62.8
2024	86.0
2025	53.5
2026	64.7
Thereafter	2,033.8
Total principal payments	$ 2,398.4

This table does not include future payments related to vehicle floor plan, revolving lines of credit, and non-recourse notes payable.

Note 7. Commitments and Contingencies

Charge-Backs for Various Contracts
We have recorded a liability of $96.3 million as of December 31, 2021 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:

Year Ending December 31,	(Dollars in millions)
2022	$ 67.0
2023	19.6
2024	7.0
2025	2.2
2026	0.4
Thereafter	0.1
Total	$ 96.3

Lifetime Lube, Oil and Filter Contracts
We retain the obligation for lifetime lube, oil and filter service contracts sold to our customers and assumed the liability of certain existing lifetime lube, oil and filter contracts. These amounts are recorded as a contract liability. At the time of sale, we defer the full sale price and recognize the revenue based on the rate we expect future costs to be incurred. As of December 31, 2021, we had a contract liability balance of $240.5 million associated with these contracts and estimate the contract liability will be recognized as follows:

Year Ending December 31,	(Dollars in millions)
2022	$ 48.2
2023	38.8
2024	30.7
2025	25.3
2026	21.4
Thereafter	76.1
Total	$ 240.5

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

We periodically evaluate the estimated future costs of these assumed contracts and record a charge if future expected claim and cancellation costs exceed the contract liability to be recognized. As of December 31, 2021, we had a reserve balance of $2.4 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, 2021 and 2020, we had liabilities associated with these programs of $56.4 million and $39.1 million, respectively, recorded as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

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

Note 8. Equity and Redeemable Non-controlling Interest

Common Stock
The shares of Common stock are not convertible into any other series or class of our securities. Holders of Common stock are entitled to one vote for each share held of record. The Common stock vote together as a single class on all matters submitted to shareholders.

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

On November 30, 2021, our Board of Directors approved an additional $750 million repurchase authorization of our common stock. This new authorization is in addition to the amount previously authorized by the Board for repurchase. Share repurchases under our authorization were as follows:

	Repurchases Occurring in 2021		Cumulative Repurchases as of December 31, 2021	
	Shares	**Average Price**	**Shares**	**Average Price**
Share repurchase authorization	756,883	$ 283.75	4,475,931	$ 117.80

As of December 31, 2021, we had $722.8 million available for repurchases pursuant to our share repurchase authorization.

In addition, during 2021, we repurchased 54,318 shares at an average price of $292.98 per share, for a total of $15.9 million, related to tax withholdings associated with the vesting of RSUs. The repurchase of shares related to tax withholdings associated with stock awards does not reduce the number of shares available for repurchase as approved by our Board of Directors.

The following is a summary of our repurchases in the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,		
	2021	**2020**	**2019**
Shares repurchased pursuant to repurchase authorizations	756,883	563,953	—
Total purchase price (in millions)	$ 214.8	$ 46.1	$ —
Average purchase price per share	$ 283.75	$ 81.71	$ —
Shares repurchased in association with tax withholdings on the vesting of RSUs	54,318	30,620	40,356

Dividends

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

Quarter declared	Dividend amount per share	Total amount of dividends paid (in millions)
2019		
First quarter	$ 0.29	$ 6.7
Second quarter	0.30	7.0
Third quarter	0.30	7.0
Fourth quarter	0.30	6.9
2020		
First quarter	$ 0.30	$ 7.0
Second quarter	0.30	6.8
Third quarter	0.31	7.1
Fourth quarter	0.31	8.2
2021		
First quarter	$ 0.31	$ 8.3
Second quarter	0.35	9.3
Third quarter	0.35	10.6
Fourth quarter	0.35	10.6

Follow-On Public Offering

On May 24, 2021, we completed the public offering of 3,571,428 shares of our common stock, no par value per share, which included the exercise in full by the underwriters of their option to purchase up to 465,838 additional shares of our common stock, at the public offering price of $322.00 per share. We received $1.11 billion from the offering, net of the underwriting discount and before deducting the offering expenses of $0.6 million.

ATM Equity Offering Agreement

On July 24, 2020, we entered into an ATM Equity Offering[SM] Sales Agreement with BofA Securities, Inc. and Jefferies LLC acting as sales agents and/or principals and Bank of America, N.A. and Jefferies LLC acting as forward purchasers, pursuant to which we may offer and sell, from time to time through the sales agents, shares of our Common stock, no par value, having an aggregate gross sales price of up to $400.0 million. To date, no sales have been made under the program.

Redeemable Non-controlling Interest

On August 30, 2021, the Company expanded into Canada through a partnership with Toronto-based Pfaff Automotive Partners. As part of the acquisition, the Company was granted the right to purchase (Call Option), and granted Pfaff Automotive a right to sell (Put Option), the remaining interest after a three-year period, with a purchase price based on Pfaff's pro rata share of assets at the date of exercise of the Call or Put Option, as applicable. As a result of this redemption feature, the Company recorded redeemable non-controlling interest, at its preliminary estimate of acquisition-date fair value, that is classified as mezzanine equity in the accompanying consolidated balance sheets at December 31, 2021. The non-controlling interest is adjusted each reporting period for income (loss) attributable to the non-controlling interest and adjustments in fair value.

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

We have a defined contribution 401(k) plan and trust covering substantially all full-time employees. The annual contribution to the plan is at the discretion of our Board of Directors. Contributions of $18.8 million, $9.0 million, and $9.8 million were recognized for the years ended December 31, 2021, 2020 and 2019, respectively. Employees may contribute to the plan if they meet certain eligibility requirements.

We offer a non-qualified deferred compensation and supplemental executive retirement plan (the "SERP") to provide certain employees the ability to accumulate assets for retirement on a tax deferred basis. We may, depending on position, also make discretionary contributions to the SERP. These discretionary contributions could

vest immediately or over a period of up to seven years based on the employee's age. Additionally, a participant may defer a portion of his or her compensation and receive the deferred amount upon certain events, including termination or retirement.

The following is a summary related to our SERP:

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Compensation expense	$ 1.4	$ 1.2	$ 0.9
Total discretionary contribution	$ 0.9	$ 0.9	$ 0.3
Guaranteed annual return	5.00 %	5.00 %	5.00 %

As of December 31, 2021 and 2020, the balance due to participants was $51.9 million and $43.3 million, respectively, and was included as a component of other long-term liabilities in the Consolidated Balance Sheets.

Note 10. Stock-Based Compensation

2009 Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan (the "2009 ESPP") allows for the issuance of 3.0 million shares of our 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 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,	**2021**
Shares purchased pursuant to 2009 ESPP	103,374
Weighted average per share price of shares purchased	$ 286.61
Weighted average per share discount from market value for shares purchased	$ 50.58

As of December 31,	**2021**
Shares available for purchase pursuant to 2009 ESPP	1,309,353

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

2013 Stock Incentive Plan

Our 2013 Stock Incentive Plan, as amended, (the "2013 Plan") allows for the grant of a total of 3.8 million shares in the form of stock appreciation rights, qualified stock options, nonqualified stock options, restricted share awards and restricted stock unit awards (RSUs) to our officers, key employees, directors and consultants. The 2013 Plan is administered by the Compensation Committee of the Board of Directors and permits accelerated vesting of outstanding awards upon the occurrence of certain changes in control. As of December 31, 2021, 983,435 shares of Common stock were available for future grants. As of December 31, 2021, there were no stock appreciation rights, qualified stock options, nonqualified stock options or restricted share awards outstanding.

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

	RSUs	Weighted average per share price, grant date fair value
Balance, December 31, 2020	519,612	$ 100.78
Granted	127,666	312.83
Vested	(141,857)	107.50
Forfeited	(38,561)	188.99
Balance, December 31, 2021	466,860	159.85

We granted 33,665 time-vesting RSUs to members of our Board of Directors and employees in 2021. Each grant entitles the holder to receive shares of our Common stock upon vesting. A portion of the RSUs vest over four years, beginning on the second anniversary of the grant date, for employees and vests quarterly for our Board of Directors, over their service period.

Certain key employees were granted 94,001 performance and time-vesting RSUs in 2021. Of these, 74,187 shares were earned based on attaining various target levels of operational performance. Based on the levels of performance achieved in 2021, a weighted average attainment level of 79.0% for these RSUs was met. These RSUs will vest over four years from the grant date.

Stock-Based Compensation
As of December 31, 2021, unrecognized stock-based compensation related to outstanding, but unvested RSUs was $21.9 million, which will be recognized over the remaining weighted average vesting period of 2.7 years.

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

Year Ended December 31,	2021	2020	2019
Per share intrinsic value of non-vested stock granted	$ 312.83	$ 130.89	$ 75.73
Weighted average per share discount for compensation expense recognized under the 2009 ESPP	50.58	22.97	17.83
Fair value of non-vested stock that vested during the period (in millions)	107.5	108.5	92.0
Stock-based compensation recognized in Consolidated Statements of Operations, as a component of selling, general and administrative expense (in millions)	34.7	23.2	16.2
Tax benefit recognized in Consolidated Statements of Operations (in millions)	11.9	3.7	2.7
Cash received from options exercised and shares purchased under all share-based arrangements (in millions)	29.6	14.8	11.3
Tax deduction realized related to stock options exercised (in millions)	41.8	13.6	9.8

Note 11. Leases

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

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 25 or more years. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

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

We rent or sublease certain real estate to third parties.

The table below presents the lease-related liabilities and finance lease ROU assets recorded on the Consolidated Balance Sheets:

(Dollars in millions)	December 31, 2021	December 31, 2020
Operating lease liabilities:		
Current portion included in accrued liabilities	$ 49.0	$ 30.8
Noncurrent operating lease liabilities	361.7	246.7
Total operating lease liabilities	410.7	277.5
Finance lease liabilities:		
Current portion included in current maturities of long-term debt	16.3	6.0
Long-term portion of lease liabilities in long-term debt	37.3	240.4
Total finance lease liabilities	53.6	246.4
Total lease liabilities	$ 464.3	$ 523.9
Finance lease right-of-use assets:		
Total finance lease right-of-use assets [1]	$ 58.7	$ 253.9
Weighted-average remaining lease term:		
Operating leases	8 years	5 years
Finance leases	11 years	12 years
Weighted-average discount rate:		
Operating leases	4.12 %	4.69 %
Finance leases	2.42 %	4.12 %

[1] Finance lease right-of-use assets included in property and equipment, net of accumulated depreciation.

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

(Dollars in millions)	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating lease cost [1]	$ 53.1	$ 41.6
Variable lease cost [2]	3.5	3.1
Amortization of finance lease right-of-use assets	5.9	4.5
Interest on finance lease liabilities	4.2	3.4
Sublease income	(6.4)	(4.9)
Total lease costs	$ 60.3	$ 47.7

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

Rent expense, net of sublease income, for all operating leases was $41.3 million for the year ended December 31, 2019. This amount is included as a component of selling, general and administrative expenses in our Consolidated Statements of Operations.

As of December 31, 2021, the maturities of our operating and finance lease liabilities were as follows:

(Dollars in millions)	Operating Lease Liabilities	Finance Lease Liabilities
Year Ending December 31,		
2021	$ 60.5	$ 18.3
2022	54.1	3.6
2023	47.8	9.2
2024	44.7	2.9
2025	40.6	2.9
Thereafter	256.1	29.9
Total minimum lease payments	503.8	66.8
Less:		
Present value adjustment	(93.1)	(13.2)
Total lease liabilities	$ 410.7	$ 53.6

Note 12. Derivative Financial Instruments

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

To hedge the business exposure to rising interest rates on a portion of our variable rate debt, we entered into a five-year, zero-cost interest rate collar, with an aggregate notional amount of $300 million, effective June 1, 2019. This instrument hedges interest rate risk related to a portion of our $1.6 billion of non-trade floor plan notes payable.

The table below presents the liabilities related to the zero-cost interest rate collar:

(Dollars in millions)	Accrued Liabilities	Other Long-Term Liabilities	Total
Balance as of December 31, 2018	$ —	$ —	$ —
Amounts reclassified from AOCI to floorplan interest expense	—	—	—
Loss recorded from interest rate collar	(0.1)	(0.9)	(1.0)
Balance as of December 31, 2019	(0.1)	(0.9)	(1.0)
Amounts reclassified from AOCI to floorplan interest expense	1.8	—	1.8
Loss recorded from interest rate collar	(4.3)	(5.1)	(9.4)
Balance as of December 31, 2020	(2.6)	(6.0)	(8.6)
Amounts reclassified from AOCI to floorplan interest expense	2.8	—	2.8
Loss recorded from interest rate collar	(2.1)	5.3	3.2
Balance as of December 31, 2021	$ (1.9)	$ (0.7)	$ (2.6)

As of December 31, 2021, the amount of net losses we expect to reclassify from AOCI into interest expense in earnings within the next twelve months is $1.9 million. However, the actual amount reclassified could vary due to future changes in the fair value of these derivatives.

We also entered into four other, immaterial and offsetting, derivative arrangements that do not qualify for hedge accounting. These are related to a securitization facility, effective October 2, 2020 and June 15, 2021. We purchased and sold offsetting interest rate caps, all of which are 5-years long with notional amounts totaling $225 million. As of December 31, 2021, the balance in all four agreements was an offsetting $6.4 million and was located in other current assets and accrued liabilities, respectively.

See Note 13 for information on the fair value of the derivative contracts.

Note 13. Fair Value Measurements

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

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

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

We have investments primarily consisting of our investment in Shift Technologies, Inc. (Shift), a San Francisco-based digital retail company. Shift has a readily determinable fair value following Shift going public in a reverse-merger deal with Insurance Acquisition, a special purpose acquisition company, in the fourth quarter of 2020. We calculated the fair value of this investment using quoted prices for the identical asset (Level 1) and recorded the fair value as part of other non-current assets. An additional component of our investment in Shift consists of shares in escrow subject to release upon certain market conditions being met. The fair value of this component of our investment in Shift is measured using observable Level 2 market expectations at each measurement date and is recorded as part of other non-current assets. For the year ended December 31, 2021, we recognized a $66.4 million unrealized investment loss related to Shift, which was recorded as a component of other (expense) income, net.

We have fixed rate debt primarily consisting of amounts outstanding under our senior notes and real estate mortgages. We calculated the estimated fair value of the senior notes using quoted prices for the identical liability (Level 1) and calculated the estimated fair value of the fixed rate real estate mortgages using a discounted cash flow methodology with estimated current interest rates based on a similar risk profile and duration (Level 2). The fixed cash flows are discounted and summed to compute the fair value of the debt. As of December 31, 2021, our real estate mortgages and other debt, which includes finance lease liabilities, had maturity dates between April 1, 2022 and July 1, 2038.

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

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

There were no changes to our valuation techniques during the year ended December 31, 2021.

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

Fair Value at December 31, 2021	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Investments	$ 40.4	$ 0.5	$ —

Fair Value at December 31, 2020	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Investments	$ 97.9	$ 9.4	$ —

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

Fair Value at December 31, 2021	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Derivative asset	$ —	$ 6.4	$ —
Derivative liability	$ —	$ 8.9	$ —

Fair Value at December 31, 2020	**Level 1**	**Level 2**	**Level 3**
Measured on a recurring basis:			
Derivative asset	$ —	$ 0.5	$ —
Derivative liability	$ —	$ 9.0	$ —

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

December 31,	2021	2020
Carrying value		
5.250% Senior notes due 2025	$ —	$ 300.0
4.625% Senior notes due 2027	400.0	400.0
4.375% Senior notes due 2031	550.0	550.0
3.875% Senior notes due 2029	800.0	—
Non-recourse notes payable	317.6	—
Real estate mortgages and other debt	477.6	714.8
	$ 2,545.2	$ 1,964.8
Fair value		
5.250% Senior notes due 2025	$ —	$ 311.6
4.625% Senior notes due 2027	420.0	425.0
4.375% Senior notes due 2031	583.0	589.9
3.875% Senior notes due 2029	815.0	—
Non-recourse notes payable	316.8	—
Real estate mortgages and other debt	488.7	713.2
	$ 2,623.5	$ 2,039.7

During the third quarter of 2021, we recognized asset impairments of $1.9 million related to the franchise value associated with certain dealership locations indicating carrying values less than fair values. These locations were subsequently sold in the fourth quarter of 2021.

In the second quarter of 2020, we recognized asset impairments of $4.4 million and $3.5 million related to the franchise value and goodwill, respectively, associated with certain dealership locations indicating carrying values less than fair values. Certain of these locations were subsequently sold in the fourth quarter of 2020, with the remainder sold in 2021.

In the first quarter of 2019, we recorded an asset impairment of $0.5 million associated with certain real properties. The long-lived assets were tested for recoverability and were determined to have a carrying value exceeding their fair value. The impaired long-lived asset was subsequently sold in the second quarter of 2019. In the fourth quarter of 2019, we recognized asset impairments of $0.4 million and 1.7 million related to the franchise value and goodwill, respectively, associated with certain dealership locations indicating carrying values less than fair values. These locations were subsequently sold in 2020.

Note 14. Income Taxes

Income Tax Provision

The income tax provision was as follows:

	Year Ended December 31,		
(Dollars in millions)	2021	2020	2019
Current:			
Federal	$ 266.2	$ 108.9	$ 40.0
State	111.6	50.3	24.0
Foreign	1.2	—	—
	379.0	159.2	64.0
Deferred:			
Federal	38.2	17.6	34.7
State	3.8	1.4	5.2
Foreign	1.1	—	—
	43.1	19.0	39.9
Total	$ 422.1	$ 178.2	$ 103.9

At December 31, 2021 and 2020, we had income taxes payable of $43.0 million and $33.1 million, respectively included as a component of accrued liabilities in our Consolidated Balance Sheets.

The reconciliation between amounts computed using the federal income tax rate of 21% and our income tax provision is shown in the following tabulation:

	Year Ended December 31,		
(Dollars in millions)	2021	2020	2019
Federal tax provision at statutory rate	$ 311.7	$ 136.2	$ 78.8
State taxes, net of federal income tax benefit	85.4	40.4	23.6
Non-deductible items	4.8	2.8	2.6
Permanent differences related to stock compensation	(2.6)	(0.5)	0.2
Net change in valuation allowance	25.3	0.5	(0.5)
General business credits	(2.3)	(1.3)	(0.9)
Foreign Rate Differential	0.5	—	—
Other	(0.7)	0.1	0.1
Income tax provision	$ 422.1	$ 178.2	$ 103.9

Deferred Taxes

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

	December 31,	
(Dollars in millions)	2021	2020
Deferred tax assets:		
Deferred revenue and cancellation reserves	$ 95.3	$ 64.2
Allowances and accruals, including state tax carryforward amounts	72.8	55.6
Lease liability	107.6	73.4
Credits and other	0.6	3.4
Valuation allowance	(26.4)	(1.1)
Total deferred tax assets	249.9	195.5
Deferred tax liabilities:		
Inventories	(20.1)	(44.9)
Goodwill	(112.3)	(76.5)
Property and equipment, principally due to differences in depreciation	(185.9)	(139.0)
Right of use asset	(103.7)	(69.8)
Prepaid expenses and other	(18.9)	(11.6)
Total deferred tax liabilities	(440.9)	(341.8)
Total	$ (191.0)	$ (146.3)

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, 2021, we had a $26.4 million valuation allowance recorded associated with our deferred tax assets. Of the total valuation allowance, $24.3 million relates to our investment in Shift Technologies Inc. (Shift) and $2.1 million relates to state net operating losses generated in current and previous years. As a result of the significant reduction in value of our investment in Shift during the fourth quarter of 2021 and no readily available capital gains to offset a capital loss when realized, we determined that it is more likely than not that the Shift deferred tax asset will not be realized. The state NOL valuation allowance increased $1.0 million in the current year as a result of losses incurred, the benefits of which are not expected to be realized.

As of December 31, 2021, we had state net operating loss (NOL) carryforward amounts totaling approximately $3.7 million, tax effected, with expiration dates through 2041. We believe that it is more likely than not that the benefit from certain state NOL carryforward amounts will not be realized. In recognition of this risk, we have

recorded a valuation allowance of $2.1 million on the deferred tax assets relating to these state NOL carryforwards as discussed above.

We have taken the position that we intend to indefinitely reinvest the earnings of our Canadian subsidiaries to ensure there is sufficient working capital to expand operations in Canada. Accordingly, we have not recorded a deferred tax liability related to foreign withholding taxes on approximately $4.6 million of undistributed earnings of these Canadian subsidiaries as of December 31, 2021. An immaterial amount of tax would be payable upon the remittance of these undistributed earnings.

Unrecognized Tax Benefits
We had no unrecognized tax benefits recorded as of December 31, 2019. The following is a reconciliation of our unrecognized tax benefits for December 31, 2021 and 2020:

(Dollars in millions)		
Balance, December 31, 2019	$	—
Increase related to tax positions taken - current year		0.2
Balance, December 31, 2020		0.2
Increase related to tax positions taken - current year		0.1
Balance, December 31, 2021	$	0.3

Open tax years at December 31, 2021 included the following:

Federal	2018 - 2021
States (28)	2017 - 2021
Canada	2021

Note 15. Acquisitions

In 2021, we completed the following acquisitions:

- In February 2021, Fields Chrysler Jeep Dodge Ram and Land Rover Orlando in Florida.
- In March 2021, Fink Auto Group in Florida.
- In March 2021, Avondale Nissan in Arizona.
- In April 2021, The Suburban Collection in Michigan.
- In April 2021, Planet Honda in New Jersey.
- In May 2021, Superstore Auto Group in Nevada.
- In May 2021, Center BMW and Center Acura in California.
- In June 2021, Southwest Kia Group in Arizona.
- In June 2021, Herrin-Gear Toyota in Mississippi.
- In June 2021, Michael's Subaru and Michael's Toyota in Washington.
- In July 2021, Koby Subaru in Alabama.
- In August 2021, Rock Honda in California.
- In August 2021, Pfaff Automotive Partners in Canada.
- In September 2021, Curry Honda in Georgia.
- In September 2021, Orange Coast Chrysler Dodge Jeep Ram Fiat in California.
- In November 2021, Coral Springs Audi and Fort Lauderdale Audi in Florida.
- In November 2021, Pfaff Harley-Davidson in Canada.
- In December 2021, Elder Ford of Tampa in Florida.
- In December 2021, Elder Ford of Troy and Elder Ford of Romeo in Michigan.

Revenue and operating income contributed by the 2021 acquisitions subsequent to the date of acquisition were as follows:

(Dollars in millions)		Year Ended December 31, 2021
Revenue	$	4,130.0
Operating income		211.3

In 2020, we completed the following acquisitions:

- In February 2020, Sacramento Lexus and Roseville Lexus in California.
- In June 2020, Hank's Body Shop in Billings, Montana.
- In June 2020, Chrysler Dodge Jeep Ram of Bend and Nissan of Bend in Oregon.
- In July 2020, Subaru of Thousand Oaks in California.
- In July 2020, BMW of San Francisco in California.
- In August 2020, John Eagle Auto Group,a ten store platform in Texas.
- In September 2020, Knoxville Chrysler Dodge Jeep Ram in Tennessee.
- In October 2020, Latham Ford in New York.
- In November 2020, nine stores from Keyes Auto Group: eight in California and one in Arizona.
- In November 2020, Ramsey Subaru and Mazda in Iowa.
- In November 2020, Sterling Motorcars in Virginia.

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

The following tables summarize the consideration paid for the acquisitions and the preliminary amount of identified assets acquired and liabilities assumed as of the acquisition date:

	Year Ended December 31,	
(Dollars in millions)	**2021**	**2020**
Cash paid, net of cash acquired	$ 2,697.5	$ 1,503.1
Contingent consideration	—	4.6
Preliminary fair value of redeemable non-controlling interest	33.1	—
Debt and finance lease obligations	356.0	218.9
Total consideration paid	$ 3,086.6	$ 1,726.6

	Year Ended December 31,	
(Dollars in millions)	**2021**	**2020**
Trade receivables, net	$ 1.3	$ 0.2
Inventories	626.2	358.9
Property and equipment	767.5	529.9
Other assets	1,726.2	858.4
Floor plan notes payable	(4.0)	(13.1)
Other liabilities	(30.6)	(8.5)
	3,086.6	1,725.8
Goodwill	—	0.8
Total net assets acquired and liabilities assumed	$ 3,086.6	$ 1,726.6

In 2021, the Company expanded into Canada through a partnership with Toronto-based Pfaff Automotive Partners. As part of the acquisition, the Company was granted the right to purchase (Call Option), and granted Pfaff Automotive a right to sell (Put Option), the remaining interest after a three-year period, with a purchase price based on Pfaff's pro rata share of assets at the date of exercise of the Call or Put Option, as applicable. As a result of this redemption feature, the Company recorded redeemable non-controlling interest, at its preliminary estimate of acquisition-date fair value, that is classified as mezzanine equity in the accompanying consolidated balance sheets at December 31, 2021.

The purchase price allocations for the 2021 acquisitions are preliminary as we have not obtained all of the detailed information to finalize the opening balance sheet related to real estate purchased, leases assumed and the allocation of franchise value to each reporting unit. Management has recorded the purchase price allocations based on the information that is currently available.

We expect substantially all of the goodwill related to acquisitions completed in 2021 to be deductible for federal income tax purposes.

The purchase price allocations for the 2020 acquisitions were finalized in 2021, including amounts posted to contingent consideration, real estate, franchise value, and goodwill, reducing the amounts posted to "Other assets" shown in the table above.

We account for franchise value as an indefinite-lived intangible asset. We recognized $20.2 million and $3.0 million, respectively, in acquisition related expenses as a component of selling, general and administrative expenses in the Consolidated Statements of Operations in 2021 and 2020, respectively.

The following unaudited pro forma summary presents consolidated information as if the acquisitions had occurred on January 1 of the year:

	Year Ended December 31,	
(Dollars in millions, except for per share amounts)	**2021**	**2020**
Revenue	$ 25,519.8	$ 19,528.5
Net income	1,123.7	621.4
Basic net income per share	39.02	26.08
Diluted net income per share	38.73	25.80

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

Note 16. Net Income Per Share of Common Stock

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

Prior to June 7, 2021, our common stock was classified as Class A common stock. The Class A common stock reclassification as common stock occurred pursuant to an amendment and restatement of our Articles of Incorporation in connection with the elimination of our classified common stock structure following the conversion of all Class B common stock to Class A common stock. Prior to the reclassification, except with respect to voting and transfer rights, the rights of the holders of our Class A and Class B common stock were identical. Under our Articles of Incorporation, the Class A and Class B common stock shared equally in any dividends, liquidation proceeds or other distribution with respect to our common stock and the Articles of Incorporation can only be amended by a vote of the shareholders. Additionally, Oregon law provides that amendments to our Articles of Incorporation that would adversely alter the rights, powers or preferences of a given class of stock, must be approved by the class of stock adversely affected by the proposed amendment. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B Common shares as if the earnings for the year had been distributed. Because the liquidation and dividend rights were identical, the undistributed earnings are allocated on a proportionate basis.

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

	Year Ended December 31,					
	2021		2020		2019	
(Dollars in millions, except for per share amounts)	Class A	Class B	Class A	Class B	Class A	Class B
Net income from continuing operations applicable to common stockholders	$ 1,059.5	$ 0.6	$ 460.9	$ 9.4	$ 264.5	$ 7.0
Reallocation of distributed net income due to conversion of class B to class A common shares outstanding	—	—	0.6	—	0.7	—
Conversion of class B common shares into class A common shares	0.6	—	8.9	—	6.3	—
Net income attributable to Lithia Motors, Inc. and applicable to common stockholders - diluted	$ 1,060.1	$ 0.6	$ 470.3	$ 9.4	$ 271.5	$ 7.0
Weighted average common shares outstanding – basic	28.8	—	23.3	0.5	22.6	0.6
Conversion of class B common shares into class A common shares	—	—	0.5	—	0.6	—
Effect of employee stock purchases and restricted stock units on weighted average common shares	0.2	—	0.3	—	0.2	—
Weighted average common shares outstanding – diluted	29.0	—	24.1	0.5	23.4	0.6
Basic earnings per share attributable to Lithia Motors, Inc.	$ 36.81	$ 36.81	$ 19.74	$ 19.74	$ 11.70	$ 11.70
Diluted earnings per share attributable to Lithia Motors, Inc.	$ 36.54	$ 36.54	$ 19.53	$ 19.53	$ 11.60	$ 11.60

The effects of antidilutive securities on Class A and Class B common stock were evaluated for the years ended 2021, 2020, and 2019 and were determined to be immaterial.

Note 17. Segments

Certain financial information on a segment basis is as follows:

	Year Ended December 31,		
(Dollars in millions)	2021	2020	2019
Revenues:			
Domestic	$ 6,975.3	$ 4,503.0	$ 4,382.4
Import	9,690.8	5,448.8	5,267.8
Luxury	6,114.8	3,152.0	2,991.9
	22,780.9	13,103.8	12,642.1
Corporate and other	50.8	20.5	30.6
	$ 22,831.7	$ 13,124.3	$ 12,672.7
Segment income*:			
Domestic	$ 466.4	$ 230.0	$ 123.4
Import	813.4	249.8	153.9
Luxury	384.6	98.5	57.1
Total segment income for reportable segments	$ 1,664.4	$ 578.3	$ 334.4

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

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Total segment income for reportable segments	$ 1,664.4	$ 578.3	$ 334.4
Corporate and other	108.5	176.7	170.2
Depreciation and amortization	(127.3)	(92.3)	(82.4)
Other interest expense	(108.2)	(73.1)	(60.6)
Other (expense) income, net	(52.6)	58.9	13.8
Income before income taxes	$ 1,484.8	$ 648.5	$ 375.4

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Floor plan interest expense:			
Domestic	$ 24.7	$ 30.9	$ 53.6
Import	30.3	31.6	44.1
Luxury	21.7	22.2	30.2
	76.7	84.7	127.9
Corporate and other	(54.4)	(50.3)	(55.1)
	$ 22.3	$ 34.4	$ 72.8

(Dollars in millions)	December 31, 2021	2020
Total assets:		
Domestic	$ 1,574.7	$ 1,262.4
Import	1,858.1	1,654.7
Luxury	1,407.1	1,132.4
Corporate and other	6,307.0	3,852.6
	$ 11,146.9	$ 7,902.1

Note 18. Related Party Transactions

Transition Agreement

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

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

The balance associated with this agreement was $13.0 million and $13.9 million as of December 31, 2021 and 2020, respectively, and was included as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

Note 19. Changes in Accounting Policies

In 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)," which replaces the existing incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, Topic 326 made changes to the accounting for available-for-sale debt securities. We adopted Topic 326 using a modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2020

are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. We recorded a decrease to retained earnings, net of tax, of $4.8 million as of January 1, 2020 for the cumulative effect of adopting Topic 326. The transition adjustment is related to updating our allowance for loan loss methodology related to our auto loan receivables. Our methodology incorporates a combination of historical loan loss experience, current conditions and forecasts, as well as the value of any underlying assets securing the receivables.

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

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

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

Note 20. Net Investment in Operating Leases

In the third quarter of 2021, we acquired a leasing portfolio as a part of our acquisition of the Pfaff Automotive Partners consisting of both sales-type financing and operating leases.

Net investment in operating leases consists primarily of lease contracts for vehicles with individuals and business entities. Assets subject to operating leases are depreciated using the straight-line method over the term of the lease to reduce the asset to its estimated residual value. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

Net investment in operating leases was as follows:

(in millions)	December 31, 2021	December 31, 2020
Vehicles, at cost[1]	$ 66.0	$ —
Accumulated depreciation[1]	(0.9)	—
Net investment in operating leases	$ 65.1	$ —

[1]Vehicles, at cost and accumulated depreciation are recorded in other non-current assets, on the Consolidated Balance Sheets.

EXHIBIT 4.7

DESCRIPTION OF THE REGISTRANT'S SECURITIES

REGISTERED PURSUANT TO SECTION 12 OF THE

SECURITIES EXCHANGE ACT OF 1934

Description of Common Stock

This section describes the general terms and provisions of the shares of our Common Stock and Preferred Stock based on the provisions of our Restated Articles of Incorporation, as amended (our "Articles"), our Second Amended and Restated Bylaws (our "Bylaws") and applicable provisions of the Oregon Business Corporation Act ("OBCA"). This description is not complete and is subject to, and is qualified in its entirety by, reference to our Articles, Bylaws and the OBCA.

Authorized Capital Stock

Our authorized capital stock consists of 125,000,000 shares of Common Stock and 15,000,000 shares of Preferred Stock, each with no par value.

Voting

Holders of Common Stock are entitled to one vote for per share on all matters submitted to a vote of shareholders, including the election of directors. Holders of shares of Common Stock are not entitled to cumulative voting rights.

Dividends and Other Rights

Subject to the preferences applicable to any Preferred Stock outstanding at the time, holders of shares of Common Stock are entitled to dividends if, when and as declared by the Board of Directors from funds legally available therefor, and are entitled, in the event of liquidation, to share ratably in all assets remaining after payment of liabilities and Preferred Stock preferences, if any. Each share of Common Stock is treated equally with respect to dividends and distributions.

The OBCA allows an Oregon business corporation to make a distribution, including payment of dividends, only if, after giving effect to the distribution, in the judgment of the Board of Directors: (a) the corporation would be able to pay its debts as they become due in the usual course of business; and (b) the corporation's total assets would at least equal the sum of its total liabilities plus, unless the articles of incorporation permit otherwise, the amount that would be needed if the corporation were to be dissolved at the time of the distribution to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. From time to time, our credit facilities may restrict or prohibit the paying of dividends without our lenders' consent.

Holders of Common Stock have no preemptive rights nor rights to subscribe for additional securities. Shares of Common Stock are not redeemable and there are no sinking fund provisions. Shares of Common Stock are not convertible into any other series or class of our securities.

Transfer Agent; Listing

The transfer agent and registrar for the Common Stock is Broadridge, Edgewood, New York. Our outstanding shares of Common Stock are listed on the New York Stock Exchange under the symbol "LAD."

Preferred Stock

The Board of Directors may, without further action of our shareholders, issue shares of Preferred Stock in one or more series and fix the rights and preferences thereof, including the dividend rights, dividend rates, conversion rights, voting rights, rights and terms of redemption and sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or the designations of such series, and increase or decrease the number of shares of any such series (but not below the number of such shares then outstanding). The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of holders of any Preferred Stock that may be issued in the future. Issuance of Preferred Stock provides desirable flexibility in connection with acquisitions, raising capital or other corporate purposes. However, our Board of Directors, without further shareholder approval, can issue Preferred Stock with voting and conversion rights that would adversely affect the voting power and other rights of the holders of Common Stock.

Anti-Takeover Effects

Certain provisions of Oregon law and our Articles, summarized in the following paragraphs, may have anti-takeover effects and could delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder’s best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders, and may make removal of the incumbent management and directors more difficult.

Authorized Shares

Our Articles authorize the issuance of 125,000,000 shares of Common Stock. The Common shares that are authorized but unissued provide our Board of Directors with flexibility to effect, among other transactions, financings, acquisitions, stock dividends, stock splits and the granting of equity incentive awards. However, these authorized but unissued shares may also be used by our Board of Directors consistent with its fiduciary duty to deter future attempts to gain control of us.

In addition, our Articles authorize the issuance of "blank check” voting Preferred Stock, which, although intended primarily as a financing tool and not as a defense against takeovers, could potentially be used by management to make uninvited attempts to acquire control more difficult by, for example, diluting the ownership interest or voting power of shareholders, increasing the consideration necessary to effect an acquisition or selling unissued shares to a friendly third party.

Advance Notice Requirements

Our Bylaws provide advance notice procedures for shareholders seeking to bring business before our annual meeting, or to nominate candidates for election as directors. Our Bylaws also specify certain requirements regarding the form and content of a shareholder notice. These provisions may preclude our shareholders from bringing matters before our annual meeting of shareholders or from making nominations for directors at our meetings of shareholders.

Oregon Control Share Act

We are subject to the Oregon Control Share Act, under which a person who acquires voting stock in a transaction which results in such person holding more than 20%, 33 1/3% or 50% of the total voting power of the corporation cannot vote the shares it acquires in the acquisition unless voting rights are accorded to such control shares by (i) the holders of a majority of the outstanding voting shares, excluding the control shares held by such person and shares held by our officers and inside directors, and (ii) the holders of a majority of the outstanding voting shares, including shares held by our officers and inside directors. This vote would be required at the time an acquiring person's holdings exceed 20% of the total voting power of the corporation, and again at the time the acquiring person's holdings exceed 33 1/3% and 50%, respectively. An acquiring person may include persons acting as a group. A transaction in which voting power is acquired solely by receipt of an immediately revocable proxy does not constitute an acquisition covered by the provisions of the OBCA described here. The acquiring person may,

but is not required to, submit to us an "Acquiring Person Statement” setting forth certain information about the acquiring person and its plans with respect to us. The Acquiring Person Statement may also request that we call a special meeting of shareholders to determine whether the control shares will be allowed to retain voting rights. If the acquiring person does not request a special meeting of shareholders, the issue of voting rights of control shares will be considered at the next annual meeting or special meeting of shareholders that is held more than 60 days after the date of the acquisition of control shares. If the acquiring person’s control shares are accorded voting rights and represent a majority or more of all voting power, shareholders who do not vote in favor of the restoration of such voting rights will have the right to receive the appraised "fair value” of their shares, which may not be less than the highest price paid per share by the acquiring person for the control shares.

Oregon Business Combination Act

We are also subject to the Oregon Business Combination Act, which generally provides that in the event a person or entity acquires 15% or more of our voting stock, we and such person or entity, or any affiliated entity, may not engage in the following business combination transactions for a period of three years following the date the person acquired 15% or more of the voting stock:

- a merger or plan of share exchange;
- any sale, lease, mortgage or other disposition of the assets of the corporation where the assets have an aggregate market value equal to 10% or more of the aggregate market value of our assets or outstanding capital stock; and
- transactions that result in the issuance of our capital stock to the shareholder that acquired 15% or more of the voting stock.

These restrictions do not apply if:

- the shareholder that acquired 15% or more of the voting stock, as a result of such acquisition, owns at least 85% of our outstanding voting stock disregarding shares owned by directors who are also officers and certain employee benefit plans;
- our Board of Directors approves the share acquisition or business combination before the shareholder acquired 15% or more of our voting stock; or
- our Board of Directors and the holders of at least two-thirds of our outstanding voting stock, disregarding shares owned by the shareholder that acquired 15% or more of the voting stock, approve the transaction on or subsequent to the date the shareholder acquires 15% or more of our voting stock.

The Oregon Control Share Act and the Oregon Business Combination Act will have the effect of encouraging any potential acquirer to negotiate with our Board of Directors and will also discourage potential acquirers unwilling to comply with the provisions of these laws. An Oregon corporation may provide in its articles of incorporation or bylaws that the laws described above do not apply to its shares. We have not adopted such a provision and do not currently intend to do so. These laws may make us less attractive for takeover, and thus shareholders may not benefit from a rise in the price of our Common Stock that a takeover could cause.

LITHIA MOTORS, INC.
RESTRICTED STOCK UNIT AGREEMENT

This Restricted Stock Unit Agreement ("**Agreement**") is entered into pursuant to the 2013 Amended and Restated Stock Incentive Plan (the "**Plan**") adopted by the Board of Directors and Shareholders of Lithia Motors, Inc., an Oregon corporation (the "**Company**"), as amended from time to time. Unless otherwise defined herein, capitalized terms in this Agreement have the meanings given to them in the Plan. Any inconsistency between this Agreement and the terms and conditions of the Plan will be resolved in favor of the Plan.

"Recipient"

Number of Restricted Stock Units ("RSUs")

"Date of Grant" January 1, [ ]

1. GRANT OF RESTRICTED STOCK UNIT AWARD

1.1 The Grant. The Company hereby awards to Recipient, and Recipient hereby accepts, the RSUs specified above on the terms and conditions set forth i this Agreement and the Plan (the "**Award**"). Each RSU represents the right to receive one share of Common Stock of the Company (a "**Share**") on an applicable Settlement Date, as defined in Section 1.3 of this Agreement, subject to the terms of this Agreement and the Plan.

1.2 Vesting; Clawback. Subject to the continued employment of Recipient with the Company or any Subsidiary, the RSUs (rounded to the nearest whol RSU) shall vest on the dates set forth in the table below (each, a "**Vesting Date**"). The RSUs, the Shares issued upon vesting of the RSUs and any proceec received upon the sale of the Shares are subject to recovery by the Company as specified in Section 1.2(a) and Section 1.5 of this Agreement

Vesting Date	Vesting of Award	Vested RSUs
January 1, [ ]	33%	
January 1, [ ]	33%	
January 1, [ ]	34%	

(a) *Clawback*. The Award is subject to the Company's recoupment ("clawback") policy as in existence from time to time.

1.3 Settlement of RSUs. There is no obligation for the Company to make payments or distributions with respect to RSUs except for the issuance of Share to settle vested RSUs after the applicable Vesting Date. The Company's issuance of one Share for each vested RSU ("**Settlement**") may be subject to such conditions, restrictions and contingencies as the Committee shall determine. Unless receipt of the Shares is validly deferred pursuant to the RSU Deferral Pla effective January 1, 2012, RSUs shall be settled as soon as practicable after the applicable Vesting Date (each date of Settlement, a "**Settlement Date**"), but in no event later than March 15 of the calendar year following the calendar year in which the Vesting Date occurs. Notwithstanding the foregoing, the payment dates set forth in this Section 1.3 have been specified for the purpose of complying with the short-term deferral exception under Section 409A of the Internal Revenue Code of 1986, and to the extent payments are made during the periods permitted under Section 409A (including applicable periods before or after the specifiec payment dates set forth in this Section 1.3), the Company shall be deemed to have satisfied its obligations under the Plan and shall be deemed not to be in breach of its payment obligations hereunder.

1.4 Termination of Recipient's Employment.

(a) *Voluntary or Involuntary Termination*. Except as otherwise provided in this Section 1.4, if Recipient's employment with the Company or any Subsidiary terminates as a result of a voluntary or involuntary termination, all outstanding unvested RSUs shall immediately be forfeited. Recipient shall not be treated as terminating employment if Recipient is on an approved leave of absence.

(b) *Death*. If Recipient's employment with the Company or any Subsidiary terminates as a result of Recipient's death that occurs on or after January 1, [], RSUs shall continue to vest as scheduled in Section 1.2 of this Agreement.

(c) *Disability*. If Recipient becomes Disabled while employed by the Company or a Subsidiary, RSUs shall continue to vest as scheduled in Section 1.2 of this Agreement for so long as Recipient remains Disabled.

(d) *Qualified Retirement*. If Recipient terminates employment due to a Qualified Retirement that occurs at least one year from the Date of Grant, RSUs shall continue to vest as scheduled in Section 1.2 of this Agreement. A "Qualified Retirement" means Recipient voluntarily terminates employment on or after such time as the Recipient's has attained at least fifty-five (55) years of age and Recipient has completed a minimum of 10 years of Service, subject to the determination of the Committee in its sole discretion that Recipient voluntarily terminated employment to retire.

Notwithstanding anything in this Agreement to the contrary, in no event will any Settlement occur prior to the applicable Vesting Date.

1.5 Treatment of Award Upon Breach of Restrictive Covenants or Misconduct.

(a) *Breach of Restrictive Covenants*. The vesting and receipt of benefits under the Award are specifically conditioned on Recipient's compliance with the covenants set forth in Section 5 of this Agreement (the "**Restrictive Covenants**") and any other restrictive covenants, including noncompetition covenants, and/or any other agreements that were signed while employed during vesting period. To the extent allowed by and consistent with applicable law, and in addition to any remedy provided in Section 1.2(a), Section 1.5(b) or Section 5.6 of this Agreement, if at any time that Recipient has materially breached any of the Restrictive Covenants, any unvested or unsettled portion of the Award shall be immediately and automatically canceled without any payment or right of payment of consideration by the Company. The Committee has the sole discretion to determine whether Recipient breached the Restrictive Covenants.

(b) *Misconduct*. If at any time (including after receipt of a request for delivery of vested shares) the Committee reasonably believes that Recipient has committed an act of misconduct as described in this Section 1.5(b), and in addition to any remedy provided in Section 1.2(a), Section 1.5(a) or Section 5.6 of this Agreement, the Committee may suspend Recipient's right to receive delivery of vested shares under the Award pending a determination of whether an act of misconduct has been committed by Recipient. For purposes of this Section 1.5(b), acts of misconduct shall mean (i) an act of embezzlement, fraud, dishonesty, breach of fiduciary duty, breach of Company written polices (including without limitations, those relating to workplace harassment), or violation of securities laws involving the Company, any of its Subsidiaries or any entity or person with whom the Company or any of its Subsidiaries does business, (ii) nonpayment of any obligation to the Company or any Subsidiary, and (iii) any similar conduct that materially and adversely impacts or reflects on the Company. If Recipient is accused of engaging in any such misconduct to which this Section 1.5(b) applies, Recipient shall be provided the opportunity to explain Recipient's conduct in writing within five business days of notice of the misconduct by the Company. Any determination by the Committee as to whether or not Recipient did engage in misconduct within the meaning of this Section 1.5(b) shall be final, conclusive and binding on the all interested parties. If the Committee determines that Recipient engaged in misconduct, any unvested or unsettled portion of the Award shall be immediately canceled without any payment of consideration by the Company. If the Committee determines that Recipient did not engage in misconduct, the Company shall immediately give effect to any request for delivery of vested shares received prior to or during any period of suspension and complete Settlement in accordance with Section 1.3 of this Agreement. The

Company shall not have any liability to Recipient for any loss which Recipient may have sustained as a result of any delay in delivering Shares as a result of any suspension.

2. REPRESENTATIONS AND COVENANTS OF RECIPIENT

2.1 No Representations by or on Behalf of the Company. Recipient is not relying on any representation, warranty or statement made by the Company or any agent, employee or officer, director, shareholder or other controlling person of the Company regarding the RSUs or this Agreement.

2.2 Tax Considerations. The Company has advised Recipient to seek Recipient's own tax and financial advice with regard to the federal and state tax considerations resulting from Recipient's receipt of the Award and Recipient's receipt of the Shares upon Settlement of the vested portion of the Award. Recipient understands that the Company, to the extent required by law, will report to appropriate taxing authorities the payment to Recipient of compensation income upon the Settlement of RSUs under the Award and Recipient shall be solely responsible for the payment of all federal and state taxes resulting from such Settlement.

2.3 Agreement to Enter into Lock-Up Agreement with an Underwriter. Recipient understands and agrees that whenever the Company undertakes a firmly underwritten public offering of its securities, Recipient will, if requested to do so by the managing underwriter in such offering, enter into an agreement not to sell or dispose of any securities of the Company owned or controlled by Recipient, including any of the RSUs or the Shares, provided that such restriction will not extend beyond 12 months from the effective date of the registration statement filed in connection with such offering.

3. GENERAL RESTRICTIONS OF TRANSFERS OF UNVESTED RSUS

3.1 No Transfers of Unvested RSUs. Recipient agrees for himself or herself and his or her executors, administrators and other successors in interest that none of the RSUs, nor any interest therein, may be voluntarily or involuntarily sold, transferred, assigned, donated, pledged, hypothecated or otherwise disposed of, gratuitously or for consideration prior to their vesting in accordance with this Agreement.

3.2 Award Adjustments. The number of RSUs granted under this Award shall, at the discretion of the Committee, be subject to adjustment under the Plan in the event the outstanding shares of Common Stock are hereafter increased, decreased, changed into or exchanged for a different number or kind of shares of Common Stock or for other securities of the Company or of another corporation, by reason of any reorganization, merger, consolidation, reclassification, stock split up, combination of shares of Common Stock, or dividend payable in shares of Common Stock or other securities of the Company. If Recipient receives any additional RSUs pursuant to the Plan, such additional (or other) RSUs shall be deemed granted hereunder and shall be subject to the same restrictions and obligations on the RSUs as originally granted as imposed by this Agreement.

3.3 Invalid Transfers. Any disposition of the RSUs other than in strict compliance with the provisions of this Agreement shall be void.

4. PAYMENT OF TAX WITHHOLDING AMOUNTS. To the extent the Company is responsible for withholding income taxes, upon the vesting of the Award Recipient must pay to the Company or make adequate provision for the payment of all Tax Withholding. If any RSUs are scheduled to vest during a period in which trading is not permitted under the Company's insider trading policy, to satisfy the Tax Withholding requirement, Recipient irrevocably elects to settle the Tax Withholding obligation by the Company withholding a number of Shares otherwise deliverable upon vesting having a market value sufficient to satisfy the statutory minimum tax withholding of Recipient. If the Company later determines that additional Tax Withholding was or has become required beyond any amount paid or provided for by Recipient, Recipient will pay such additional amount to the Company immediately upon demand by the Company. If Recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to Recipient.

5. RESTRICTIVE COVENANTS

5.1 Non-Solicitation of Lithia Employees. Except as may be consented to in writing by the Company, throughout Recipient's employment and during the 24-month period following the date of Recipient's termination of employment by the Company or by Recipient regardless of the reason therefore (the "**Termination Date**"), Recipient will not, directly or indirectly, employ or offer employment to, or assist or be affiliated with any other person in employing, any persons employed by the Company or any Subsidiary in a manager or higher position ("**Managers**"), and will not, either directly or indirectly, solicit, induce, recruit or encourage any Managers to leave their employment, attempt to solicit, induce, recruit or encourage any Managers to leave their employment, or cause or encourage any person to directly or indirectly solicit, induce, recruit or encourage Managers to leave their employment, either for him or herself or for any other person or entity, unless such person has not been employed by the Company or any of its subsidiaries for at least six months.

For purposes of this paragraph, the terms "**solicit, induce, recruit and encourage**" means direct and indirect communications of any kind and nature, directed specifically to an individual for the purpose of causing the person to leave their employment with the Company, but does not include general advertisement or notice of job opportunities within an industry. For purposes of the Agreement, the term "**affiliated with**" includes Recipient's ownership of 3% or more of the equity of any person, lending money to any person, or serving as an executive officer, director, manager or consultant to any person.

5.2 No Disparagement. Recipient shall not take any action or make any statement that disparages the Company, its operation, business, or reputation, or any of its officers or directors, or their reputation, and shall not encourage or induce any third parties to disparage such persons ("**Disparaging Acts**") throughout Recipient's employment and for three years following the Termination Date. "Disparaging Acts" means any statement, communication or publication, oral or written, regardless of whether such statement, communication or publication is true, made about such persons or their reputation, that is vilifying and/or derogatory in nature and that reasonably would be expected to result in a negative perception of such person, or that otherwise may have a material adverse effect on such person or their reputation.

5.3 Disclosure of Confidential Information. During Recipient's employment with the Company, Recipient will have access to and become familiar with certain proprietary and confidential information of the Company and its Subsidiaries not known to the public generally, or by its actual or potential competitors ("**Confidential Information**"). Recipient acknowledges that such information constitutes valuable, special, and unique assets of the Company's business, even though such information may not be of a technical nature and may not be protected under trade secret or related laws.

"Confidential Information" includes any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to research, strategic and marketing plans, product plans, products, services, markets, processes, policies, financial or other business information disclosed to, or discovered by, Recipient either directly or indirectly, during Recipient's employment with the Company. Recipient further understand that Confidential Information does not include any of the foregoing items which has become publicly known and made generally available through no wrongful act or omission of his/her or of others who were under confidentiality obligations as to the item or items involved or improvements or new versions thereof.

Recipient will not, without the prior written approval from an authorized officer of the Company, directly or indirectly (i) reveal, report, publish, disclose or transfer any Confidential Information, other than information that constitutes "trade secrets" under applicable state law ("**Company Trade Secrets**"), to any person, firm, corporation or entity, or (ii) use any Confidential Information for any purpose or for the benefit of any person, firm, corporation or entity. Further, for so long as such information remains Company Trade Secrets under applicable state laws, Recipient shall not, without the prior written approval from an authorized officer of the Company, directly or indirectly (i) reveal, report, publish, disclose or transfer any information that constitutes Company Trade Secrets to any person, firm, corporation or entity, or (ii) use any of the Company Trade Secrets for any purpose or for the benefit of any person, firm, corporation or entity.

Nothing in this Agreement will be construed to prohibit Recipient from filing a charge, complaint, or report with, or otherwise communicating with, providing information to, or cooperating, or participating with any investigation or proceeding by or before the Equal Employment Opportunity Commission, the U.S. Department of Labor, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission, or ar other federal, state or local government agency or commission. Furthermore, in accordance with the Defend Trade Secrets Act of 2016, 18 U.S.C. Sectio 1833(b), Recipient shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

5.4 Creative Work. Recipient agrees that all creative work and work product, including but not limited to all technology, business management tools, processes, software, patents, trademarks, and copyrights developed by Recipient during employment with the Company, regardless of when or where such work or work product was produced, constitutes work made for hire, all rights of which are owned by the Company. Recipient hereby assigns to the Company all rights, title, and interest, whether by way of copyrights, trade secret, trademark, patent, or otherwise, in all such work or work product, regardless of whether the same is subject to protection by patent, trademark, or copyright laws.

5.5 Return of Property. If and when Recipient ceases for any reason to be employed by the Company, Recipient must return to the Company all keys, pass cards, identification cards and any other property of the Company. At the same time, Recipient also must return to the Company all originals and copies (whether in hard copy, electronic or other form) of any documents, drawings, notes, memoranda, designs, devices, diskettes, tapes, manuals, and specifications which constitute proprietary information or material of the Company. The obligations in this paragraph include the return of documents and other materials that may be in Recipient's desk at work, Recipient's car or place of residence, or in any other location under Recipient's control.

5.6 Injunctive Relief. Recipient acknowledges that it may be impossible to measure in money the damages that will accrue to the Company if Recipien fails to observe the Restrictive Covenants; therefore, in addition to any action at law for damages, and in addition to the remedy provided in Section 1.2(c) or Section 1.5 of this Agreement, the Restrictive Covenants may be enforced by an injunction to prohibit the restricted activity or as allowed by law. Recipient hereby waives the claim or defense that an adequate remedy at law is available to the Company. Nothing set forth herein shall prohibit the Company from pursuing all remedies available to it.

5.7 Reasonableness. The Company and Recipient agree that the Restrictive Covenants are reasonable both as to time and as to area. The Company an Recipient additionally agree (i) that the Restrictive Covenants are necessary for the protection of the Company's business and goodwill; (ii) that the Restrictive Covenants are not any greater than are reasonably necessary to secure the Company's business and goodwill; and (iii) that the degree of injury to the public due to the loss of the service and skill of Recipient or the restrictions placed upon Recipient's opportunity to make a living with Recipient's skills upon enforcement of said restraints, does not and will not warrant non-enforcement of said restraints. The Company and Recipient agree that if any portion of the Restrictive Covenants is adjudged unreasonably broad, then the Company and Recipient authorize said court or arbitrator to narrow same so as to make it reasonable, given all relevant circumstances, and to enforce the same. The Company and Recipient agree that if any one provision of this Section 5 is not enforceable, the remaining sections will be enforceable and that in any event, even if a Restrictive Covenant was found to be unenforceable, the termination, cancellation and forfeiture provisions in Section 1.5 will nonetheless be applied as the continuation of an Award for service to the Company is dependent on all of Recipient's agreements in this Section 5.

6. MISCELLANEOUS PROVISIONS

6.1 Amendment and Modification. Except as otherwise provided by the Plan, this Agreement may be amended, modified and supplemented only by written agreement of all of the parties hereto.

6.2 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by Recipient without the prior written consent of the Company.

6.3 Governing Law. To the extent not preempted by federal law, this Agreement and the rights and obligations of the parties hereunder shall be governed by and construed in accordance with the internal laws of the State of Oregon applicable to the construction and enforcement of contracts wholly executed in Oregon by residents of Oregon and wholly performed in Oregon. Any action or proceeding brought by any party hereto shall be brought only in a state or federal court of competent jurisdiction located in the County of Multnomah in the State of Oregon and all parties hereto hereby submit to the in personal jurisdiction of such court for purposes of any such action or procedure.

6.4 Arbitration. The parties agree to submit any dispute arising under this Agreement to final, binding, private arbitration in Portland, Oregon. This includes not only disputes about the meaning or performance of this Agreement, but disputes about its negotiation, drafting, or execution. The dispute will be determined by a single arbitrator in accordance with the then-existing rules of arbitration procedure of Multnomah County, Oregon Circuit Court, except that there shall be no right of de novo review in Circuit Court and the arbitrator may charge his or her standard arbitration fees rather than the fees prescribed in the Multnomah County Circuit Court arbitration procedures. The proceeding will be commenced by the filing of a civil complaint in Multnomah County Circuit Court and a simultaneous request for transfer to arbitration. The parties expressly agree that they may choose an arbitrator who is not on the list provided by the Multnomah County Circuit Court Arbitration Department, but if they are unable to agree upon the single arbitrator within ten days of receipt of the Arbitration Department list, they will ask the Arbitration Department to make the selection for them. The arbitrator will have full authority to determine all issues, including arbitrability; to award any remedy, including permanent injunctive relief; and to determine any request for costs and expenses in accordance with Section 6.5 of this Agreement. The arbitrator's award may be reduced to final judgment in Multnomah County Circuit Court. The complaining party shall bear the arbitration expenses and may seek their recovery if it prevails. Notwithstanding any other provision of this Agreement, an aggrieved party may seek a temporary restraining order or preliminary injunction in Multnomah County Circuit Court to preserve the status quo during the arbitration proceeding.

6.5 Attorney Fees. If any suit, action, or proceeding is instituted in connection with any controversy arising out of this Agreement or the enforcement of any right hereunder, the prevailing party will be entitled to recover, in addition to costs, such sums as the court or arbitrator may adjudge reasonable as attorney fees, including fees on any appeal.

6.6 Headings. The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not constitute a part hereof.

6.7 Entire Agreement. This Agreement and the Plan embody the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein and supersedes all prior written or oral communications or agreements all of which are merged herein. There are no restrictions, promises, warranties, covenants, or undertakings, other than those expressly set forth or referred to herein.

6.8 No Waiver. No waiver of any provision of this Agreement or any rights or obligations of any party hereunder shall be effective, except pursuant to a written instrument signed by the party or parties waiving compliance, and any such waiver shall be effective only in the specific instance and for the specific purpose stated in such writing.

6.9 Severability of Provisions. In the event that any provision hereof is found invalid or unenforceable pursuant to judicial decree or decision, the remainder of this Agreement shall remain valid and enforceable according to its terms.

6.10 Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan and any interpretations, amendments, rules and regulations promulgated

by the Committee from time to time pursuant to the Plan. The Committee shall have the final authority to interpret and construe the Plan and this Agreement and to make any and all determinations under them, and its decision shall be final, binding and conclusive upon Recipient and his or her legal representative in respect to any questions arising under the Plan or this Agreement.

6.11 Notices. All notices or other communications pursuant to this Agreement shall be in writing and shall be deemed duly given if delivered personally or by courier service, or if mailed by certified mail, return receipt requested, prepaid and addressed to the Company executive offices to the attention of the Corporate Secretary, or if to Recipient, to the address maintained by the personnel department, or such other address as such party shall have furnished to the other party in writing.

6.12 Acceptance of Agreement. Unless Recipient notifies the Corporate Secretary in writing within 14 days after the Date of Grant that Recipient does not wish to accept this Agreement, Recipient will be deemed to have accepted this Agreement and will be bound by the terms of this Agreement and the Plan.

6.13 No Right of Employment. Nothing contained in the Plan or this Agreement shall be construed as giving Recipient any right to be retained, in any position, as an employee of the Company or any Subsidiary.

[*Remainder of this page left blank intentionally*.]

Recipient and the Company have executed this Agreement effective as of the Grant Date.

RECIPIENT

____
Signature

Type or Print Name: _________

Social Security Number: _______

COMPANY LITHIA MOTORS, INC.

By: ____
Name: Bryan DeBoer
Title: Chief Executive Officer

*** Please take the time to read and understand this Agreement. If you have any specific questions or do not fully understand any of the provisions, please contact stockinfo@lithia.com in writing.**

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
797 Valley Street LLC	New Jersey	
6200 Centennial Center Holdco, LLC	Nevada	
7150 West Sahara Holdco, LLC	Nevada	
7200 West Sahara Property Holdco II, LLC	Nevada	
Ann Arbor-B, LLC	Michigan	BMW of Ann Arbor The Suburban Collection
Ann Arbor-CC, LLC	Michigan	Suburban Chevrolet Suburban Chevrolet Cadillac Suburban Chevrolet of Ann Arbor Suburban Used Car Outlet Suburban Cadillac of Ann Arbor Suburban Cadillac Suburban Chevrolet Cadillac of Ann Arbor Suburban Chevrolet Cadillac Collision of Ann Arbor Suburban Collision Centers The Suburban Collection
Ann Arbor-CJD, LLC	Michigan	Suburban CDJRF of AA Suburban CDJRF of Ann Arbor Suburban Chrysler Dodge Jeep Ram Fiat of Ann Arbor The Suburban Collection
Ann Arbor-M, LLC	Michigan	Mercedes-Benz of Ann Arbor The Suburban Collection
Austin-H, Inc.	Texas	Howdy Honda
Austin-KI, Inc.	Texas	
Avondale-N, Inc.	Arizona	
Back in Texas Auto Sales, LLC	Texas	TBD
Baierl Auto Parts, LLC	Pennsylvania	
Baierl Automotive Corporation	Pennsylvania	Baierl Acura
Baierl Chevrolet, Inc.	Pennsylvania	Baierl Chevrolet Baierl Chevrolet Cadillac
Baierl Holding, LLC	Pennsylvania	
Bellevue-S, LLC	Washington	Michael's Subaru of Bellevue
Bellevue-T, LLC	Washington	Michael's Toyota of Bellevue
Bend-CDJR, LLC	Oregon	
Bend-N, LLC	Oregon	
Cadillac of Portland Lloyd Center, LLC	Oregon	Cadillac of Portland
Camp Automotive, Inc.	Washington	Camp Chevrolet Camp Cadillac
Carbone Auto Body, LLC	New York	
Centennial-Hy, LLC	Nevada	Centennial Hyundai
Chamblee-H, LLC	Georgia	TBD
Clear Lake-I, Inc.	Texas	Clear Lake Infiniti
Clinton-C, LLC	Michigan	Suburban Chevrolet Suburban Chevrolet of Clinton The Suburban Collection
Coral Springs-A, LLC	Florida	Audi Coral Springs (pending internal approval)
Costa Mesa-CJD, Inc.	California	TBD
Cranberry Automotive, Inc.	Pennsylvania	Baierl Toyota

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Dah Chong Hong CA Trading LLC	Delaware	
Dah Chong Hong Trading Corporation	New Jersey	
Dallas-H, Inc.	Texas	John Eagle Honda of Dallas
Dallas-K, Inc.	Texas	
Dallas-T, Inc.	Texas	Sport City Toyota
Dallas Collision, Inc.	Texas	
Daron Motors LLC	New Jersey	DCH Academy Honda Academy Honda
DCH Bloomfield LLC	New Jersey	DCH Bloomfield BMW DCH Essex BMW Essex BMW BMW of Bloomfield Parkway BMW
DCH (Oxnard) Inc.	California	DCH Honda of Oxnard Honda of Oxnard Supercraft Auto Body & Paint DCH Used Car Superstore
DCH Auto Group (USA) Inc.	Delaware	
DCH CA LLC	California	DCH Acura of Temecula DCH Acura Temecula
DCH Calabasas-A, LLC	California	Audi Calabasas
DCH California Investments LLC	California	
DCH California Motors Inc.	California	DCH Toyota of Oxnard Toyota of Oxnard
DCH Del Norte, Inc.	California	DCH Lexus of Oxnard Lexus of Oxnard DCH Lexus of Santa Barbara Lexus of Santa Barbara
DCH DMS NJ, LLC	New Jersey	
DCH Essex Inc.	New Jersey	DCH Millburn Audi
DCH Financial NJ, LLC	New Jersey	
DCH Freehold LLC	New Jersey	Freehold Toyota DCH Freehold Toyota DCH Freehold Scion
DCH Holdings LLC	Delaware	
DCH Investments Inc. (New Jersey)	New Jersey	
DCH Investments Inc. (New York)	New York	Dah Chong Hong (USA)
DCH Korean Imports LLC	California	DCH Kia of Temecula
DCH Mamaroneck LLC	Delaware	DCH Toyota City
DCH Mission Valley LLC	California	DCH Honda of Mission Valley
DCH Monmouth LLC	New Jersey	BMW of Freehold
DCH Montclair LLC	New Jersey	Montclair Acura DCH Montclair Acura
DCH Motors LLC	New Jersey	Kay Honda DCH Motors DCH Kay Honda
DCH Nanuet LLC	New York	DCH Honda of Nanuet
DCH North America Inc.	Delaware	
DCH NY Motors LLC	Delaware	DCH Wappingers Falls Toyota DCH Wappingers Falls Auto Group
DCH Oxnard 1521 Imports Inc.	California	DCH Audi of Oxnard Audi of Oxnard

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
DCH Riverside-S, Inc.	California	DCH Subaru of Riverside
DCH Simi Valley Inc.	California	
DCH Support Services, LLC	New Jersey	
DCH Temecula Imports LLC	California	DCH Honda of Temecula DCH Honda Temecula
DCH Temecula Motors LLC	California	DCH Chrysler Jeep Dodge of Temecula DCH Chrysler Jeep of Temecula DCH Dodge Temecula
DCH Thousand Oaks-F, Inc.	California	DCH Ford of Thousand Oaks
DCH TL Holdings LLC	Delaware	
DCH TL NY Holdings LLC	Delaware	
DCH Torrance Imports Inc.	California	DCH Toyota of Torrance Torrance Toyota
Driveway Motors, LLC	Delaware	Driveway
Edmonds-T, LLC	Washington	TBD
Farmington Hills Imports, LLC	Michigan	Audi Farmington Hills Porsche Farmington Hills Suburban Imports of FH Suburban Mazda Suburban Mazda of Farmington Hills Suburban Volkswagen Suburban Volkswagen of Farmington Hills
Farmington Hills-CJD, LLC	Michigan	Suburban CDJR of Farmington Hills Suburban CDJR of FH Suburban Chrysler Dodge Jeep Ram of Farmington Hills The Suburban Collection
Farmington Hills-H, LLC	Michigan	Suburban Honda The Suburban Collection
Farmington Hills-N, LLC	Michigan	Suburban Nissan Suburban Nissan of Farmington Hills Suburban Nissan of FH The Suburban Collection
Farmington Hills-T, LLC	Michigan	Suburban Toyota Suburban Toyota of Farmington Hills Suburban Toyota of FH The Suburban Collection
Ferndale Collision, LLC	Michigan	Suburban Collision of Ferndale
Ferndale-BG, LLC	Michigan	Suburban Buick GMC Suburban Buick GMC of Ferndale The Suburban Collection
Ferndale-F, LLC	Michigan	Suburban Ford of Ferndale The Suburban Collection
FH Collision, LLC	Michigan	Suburban Collision Centers Suburban Collision of Farmington Hills The Suburban Collection
Frisco-K, Inc.	Texas	
Lithia Florida Holding, Inc.	Florida	
Florida SS, LLC	Florida	
Fontana-H, Inc.	California	TBD
Freehold Nissan LLC	New Jersey	DCH Freehold Nissan Freehold Nissan
Wesley Chapel-C, LLC (formerly known as Fort Pierce-CJD, LLC)	Florida	Chevrolet of Wesley Chapel

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.
(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Fuse Auto Sales, LLC	Oregon	
Garden City-CJD, LLC	Michigan	Suburban CDJR of Garden City Suburban CDJR of GC Suburban Chrysler Dodge Jeep Ram of Garden City Suburban Chrysler Dodge Jeep Ram Collision of Garden City The Suburban Collection Suburban Collision Centers
Greencars, Inc.	Oregon	
Houston-A, Inc.	Texas	John Eagle Acura
Houston-H, Inc.	Texas	John Eagle Honda of Houston
Houston-I, Inc.	Texas	Southwest Infiniti
Hutchins Eugene Nissan, Inc.	Oregon	Lithia Nissan of Eugene
Hutchins Imported Motors, Inc.	Oregon	Lithia Toyota of Springfield
Jackson-T, LLC	Mississippi	Toyota of Jackson
Katy-H, Inc.	Texas	Honda Cars of Katy
Knoxville-CJD, LLC	Tennessee	Jim Cogdill Chrysler Dodge Jeep Ram
LA Motors Holding, LLC	California	
LAD Advertising, Inc.	Oregon	LAD Advertising LAD Printing The Print Shop at the Commons The Print Shop
LAD Carson-N, LLC	California	Carson Nissan
LAD Mission Viejo-JLR, Inc.	California	Jaguar Land Rover Mission Viejo
LAD Mobu, Inc.	Delaware	
LAD-AU, LLC	California	Audi Downtown LA
LAD-MB, LLC	California	Mercedes-Benz of Downtown LA Downtown LA Motors
LAD-N, LLC	California	Nissan of Downtown LA
LAD-P, LLC	California	Porsche of Downtown LA
LAD-T, LLC	California	Toyota of Downtown LA
LAD-V, LLC	California	Volkswagen of Downtown LA
Las Vegas-G, LLC	Nevada	Genesis of Las Vegas
Las Vegas-Hy, LLC	Nevada	Hyundai of Las Vegas
Latham Ford-F, LLC	New York	Ford of Latham
Lauderdale-A, LLC	Florida	Audi Fort Lauderdale
LBMP, LLC	Oregon	BMW Portland
League City-H, Inc.	Texas	Honda of Clear Lake
LFKF, LLC	Oregon	Lithia Ford of Klamath Falls
LGPAC, Inc.	Oregon	Lithia's Grants Pass Auto Center Xpress Lube
Lithia AcDM, Inc.	Iowa	Acura of Johnston
Lithia Aircraft, Inc.	Oregon	
Lithia Anchorage-C, LLC	Alaska	Chevrolet of Wasilla
Lithia Anchorage-H, LLC	Alaska	Lithia Kia of Anchorage
Lithia Armory Garage, LLC	Delaware	Armory Chrysler Dodge Jeep Ram Fiat of Albany
Lithia Auction & Recon, LLC	Delaware	Auction & Recon

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.
(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia Auto Services, Inc.	Oregon	Lithia Body & Paint Assured Dealer Services
Lithia BA Holding, Inc.	Delaware	
Lithia Baierl-S, LLC	Pennsylvania	Baierl Subaru
Lithia BNM, Inc. (non-operating)	Oregon	
Lithia Bryan Texas, Inc.	Texas	Lithia Chrysler Jeep Dodge of Bryan College Station
Lithia Buffalo-A, LLC	Delaware	Ray Laks Acura of Buffalo
Lithia CCTF, Inc.	Idaho	Chevrolet of Twin Falls
Lithia CDH, Inc.	Montana	Lithia Chrysler Jeep Dodge of Helena
Lithia CIMR, Inc.	California	Lithia Chevrolet of Redding
Lithia CJDO, Inc.	Texas	All American Chrysler Jeep Dodge of Odessa
Lithia CJDSA, Inc.	Texas	All American Chrysler Dodge Jeep Fiat of San Angelo All American Autoplex
Lithia CJDSF, Inc.	New Mexico	Lithia Chrysler Dodge Jeep Fiat of Santa Fe
Lithia CM, Inc.	Texas	All American Chevrolet of Midland
Lithia CO, Inc.	Texas	All American Chevrolet of Odessa All American Collision
Lithia Community Development Company, Inc.	Oregon	
Lithia Crater Lake-F, Inc.	Delaware	Crater Lake Ford Lincoln
Lithia Crater Lake-M, Inc.	Delaware	Crater Lake Mazda
Lithia CSA, Inc.	Texas	All American Chevrolet of San Angelo
Lithia DE, Inc.	Oregon	Lithia Chrysler Dodge Jeep Ram Fiat of Eugene
Lithia Des Moines-VW, LLC	Iowa	Lithia Volkswagen of Des Moines
Lithia DM, Inc.	Oregon	Lithia Chrysler, Jeep, Dodge Lithia Dodge Xpress Lube
Lithia DMID, Inc.	Texas	All American Dodge of Midland All American Chrysler Jeep Dodge of Midland
Lithia Dodge of Tri-Cities, Inc.	Washington	Lithia Dodge of Tri-Cities Lithia Chrysler Jeep Dodge of Tri-Cities
Lithia Eatontown-F, LLC	New Jersey	DCH Ford of Eatontown
Lithia Financial Corporation (previously Lithia Leasing, Inc. and Lithia Credit, Inc.)	Oregon	Lithia Leasing
Lithia FLCC, LLC	Texas	Access Ford Lincoln of Corpus Christy
Lithia FMF, Inc.	California	Lithia Ford of Fresno Lithia Ford Lincoln of Fresno
Lithia Ford of Boise, Inc.	Idaho	Lithia Ford Lincoln of Boise Lithia Ford of Boise Auto Credit of Idaho Lithia Body & Paint of Boise
Lithia Fresno, Inc.	California	Lithia Subaru of Fresno Fresno Mitsubishi
Lithia Hamilton-H, LLC	New Jersey	DCH Hamilton Honda
Lithia Hazleton-H, LLC	Pennsylvania	
Lithia HDM, Inc.	Iowa	Honda of Ames
Lithia HGF, Inc.	Montana	Honda of Great Falls

SUBSIDIARIES OF LITHIA MOTORS, INC.
(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia HMID, Inc.	Texas	Hyundai of Odessa
Lithia HPI, Inc. (non-operating)	Oregon	
Lithia Idaho Falls-F, Inc.	Delaware	Lithia Ford of Idaho Falls Lithia Body and Paint of Idaho Falls
Lithia Imports of Anchorage, Inc.	Alaska	Lithia Anchorage Auto Body Lithia-Hyundai of Anchorage
Lithia JEF, Inc.	California	Lithia Hyundai of Fresno Genesis of Fresno
Lithia Klamath, Inc.	Oregon	Lithia Chrysler Jeep Dodge of Klamath Falls Lithia Toyota of Klamath Falls Lithia Klamath Falls Auto Center Lithia Body and Paint of Klamath Falls
Lithia Klamath-T, Inc.	Oregon	Lithia Toyota of Klamath Falls
Lithia LBGGF, Inc.	Montana	
Lithia LHGF, Inc.	Montana	
Lithia LSGF, Inc.	Montana	Lithia Subaru of Great Falls
Lithia MBDM, Inc.	Iowa	Mercedes Benz of Des Moines European Motorcars Des Moines
Lithia McMurray-C, LLC	Pennsylvania	
Lithia Medford HON, Inc.	Oregon	Lithia Honda
Lithia Michigan Holding, Inc.	Michigan	
Lithia Middletown-L, LLC	New York	DCH Prestige Lexus of Middletown Lexus of Orange County
Lithia MMF, Inc.	California	
Lithia Monroeville-A, LLC	Pennsylvania	
Lithia Monroeville-C, LLC	Pennsylvania	
Lithia Monroeville-F, LLC	Pennsylvania	Ford of Monroeville
Lithia Moon-S, LLC	Pennsylvania	Subaru of Moon Township
Lithia Moon-V, LLC	Pennsylvania	Volkswagen of Moon Township
Lithia Morgantown-CJD, LLC	West Virginia	Chrysler Dodge Jeep Ram Fiat of Morgantown
Lithia Morgantown-F, LLC	West Virginia	Ford Lincoln of Morgantown
Lithia Morgantown-S, LLC	West Virginia	Subaru of Morgantown
Lithia Motors Support Services, Inc.	Oregon	Lithia's LAD Travel Service
Lithia MTLM, Inc.	Oregon	Lithia Toyota Lithia's Pre-Owned Outlet
Lithia NA, Inc.	Alaska	BMW of Anchorage MINI of Anchorage
Lithia NC, Inc.	California	Nissan of Clovis
Lithia ND Acquisition Corp. #1	North Dakota	Lithia Ford Lincoln of Grand Forks
Lithia ND Acquisition Corp. #3	North Dakota	Lithia Chrysler Jeep Dodge of Grand Forks
Lithia ND Acquisition Corp. #4	North Dakota	Lithia Toyota of Grand Forks
Lithia NDM, Inc.	Iowa	Lithia Nissan of Ames
Lithia NF, Inc.	California	Lithia Nissan of Fresno
Lithia Northeast Real Estate, LLC	New Jersey	
Lithia Northwest Real Estate, LLC	Oregon	
Lithia NSA, Inc.	Texas	Honda of San Angelo All American Autoplex
Los Angeles-M, Inc.	California	Keyes European
Lithia of Abilene, LLC	Texas	Honda of Abilene

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia of Anchorage, Inc.	Alaska	Lithia Chrysler Dodge Jeep Ram Fiat of Anchorage Lithia Value Autos
Lithia of Bend #1, LLC	Oregon	Bend Honda
Lithia of Bend #2, LLC	Oregon	Chevrolet Cadillac of Bend Lithia Body & Paint of Bend
Lithia of Bennington - 1, LLC	Vermont	Bennington Ford
Lithia of Bennington - 2, LLC	Vermont	Bennington Hyundai
Lithia of Bennington - 3, LLC	Vermont	Bennington Honda
Lithia of Bennington - 4, LLC	Vermont	Bennington Toyota
Lithia of Billings II LLC	Montana	Lithia Toyota of Billings
Lithia of Billings, Inc.	Montana	Lithia Chrysler Jeep Dodge of Billings
Lithia of Casper, LLC	Wyoming	Greiner Ford Lincoln of Casper
Lithia of Clear Lake, LLC	Texas	
Lithia of Corpus Christi, Inc.	Texas	Lithia Dodge of Corpus Christi Lithia Chrysler Jeep Dodge of Corpus Christi
Lithia of Des Moines, Inc.	Iowa	BMW of Des Moines European Motorcars Des Moines Lithia Body and Paint of Des Moines
Lithia of Eureka, Inc.	California	Lithia Chrysler Dodge Jeep Ram Fiat of Eureka
Lithia of Fairbanks, Inc.	Alaska	Chevrolet Buick GMC of Fairbanks
Lithia of Great Falls, Inc.	Montana	Lithia Chrysler Jeep Dodge of Great Falls
Lithia of Helena, Inc.	Montana	Chevrolet of Helena Chevrolet of Helena
Lithia of Honolulu-A, Inc.	Hawaii	Acura of Honolulu
Lithia of Honolulu-BGMCC, LLC	Hawaii	Honolulu Cadillac Honolulu Buick GMC Honolulu Buick GMC Cadillac
Lithia of Honolulu-F, LLC	Delaware	Honolulu Ford
Lithia of Honolulu-V, LLC	Hawaii	Honolulu Volkswagen
Lithia of Killeen, LLC	Texas	All American Chevrolet of Killeen
Lithia of Lodi, Inc.	California	Lodi Toyota
Lithia of Maui-H, LLC	Hawaii	Island Honda
Lithia of Missoula II, LLC	Montana	Lithia Toyota of Missoula
Lithia of Missoula III, Inc.	Montana	Lithia Ford of Missoula
Lithia of Missoula, Inc.	Montana	Lithia Chrysler Jeep Dodge of Missoula Lithia Auto Center of Missoula
Lithia of Pocatello, Inc.	Idaho	Lithia Hyundai of Pocatello Lithia Chrysler Jeep Dodge of Pocatello Lithia Dodge Trucks of Pocatello
Lithia of Portland I, LLC	Oregon	Lithia Chrysler Dodge Jeep Ram of Portland
Lithia of Portland, LLC	Oregon	Buick GMC of Beaverton
Lithia of Robstown, LLC	Delaware	Chrysler Dodge Jeep Ram of Calallen
Lithia of Roseburg, Inc.	Oregon	Lithia Chrysler Jeep Dodge of Roseburg Lithia Roseburg Auto Center
Lithia of Santa Rosa, Inc.	California	Lithia Chrysler Dodge Jeep Ram Fiat of Santa Rosa
Lithia of Seattle, Inc.	Washington	BMW Seattle
Lithia of South Central AK, Inc.	Alaska	Chevrolet of South Anchorage

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia of Spokane II, Inc.	Washington	Lithia Chrysler Dodge Jeep Ram of Spokane
Lithia of Spokane, Inc.	Washington	
Lithia of Stockton, Inc.	California	Nissan of Stockton Kia of Stockton
Lithia of Stockton-V, Inc.	California	Volkswagen of Stockton
Lithia of TF, Inc.	Idaho	Lithia Chrysler Jeep Dodge of Twin Falls
Lithia of Troy, LLC	New York	Carbone Subaru
Lithia of Utica - 1, LLC	New York	BMW of Utica
Lithia of Utica - 2, LLC	New York	Don's Ford
Lithia of Utica - 3, LLC	New York	Don's Subaru
Lithia of Utica - 4, LLC	Delaware	Carbone Buick GMC Cadillac of Utica Carbone Cadillac of Utica
Lithia of Walnut Creek, Inc.	California	Diablo Subaru of Walnut Creek
Lithia of Wasilla, LLC	Alaska	Lithia Chrysler Jeep Dodge Ram of Wasilla
Lithia of Yorkville - 1, LLC	New York	Carbone Chevrolet Buick Cadillac GMC Carbone Chevrolet of Yorkville
Lithia of Yorkville - 2, LLC	New York	Carbone Chrysler Dodge Jeep Ram
Lithia of Yorkville - 3, LLC	New York	Carbone Honda
Lithia of Yorkville - 4, LLC	New York	Carbone Hyundai
Lithia of Yorkville - 5, LLC	New York	Carbone Nissan
Lithia Orchard Park-H, LLC	Delaware	Ray Laks Honda of Orchard Park Ray Laks Honda
Lithia Paramus-M, LLC	New Jersey	Prestige Mercedes-Benz of Paramus DCH Prestige Mercedes-Benz of Paramus Mercedes-Benz of Paramus
Lithia Pittsburgh-S, LLC	Pennsylvania	Subaru of South Hills
Lithia Ramsey-B, LLC	New Jersey	Prestige BMW of Ramsey DCH Prestige BMW of Ramsey BMW of Ramsey
Lithia Ramsey-L, LLC	New Jersey	Prestige Lexus of Ramsey DCH Prestige Lexus of Ramsey
Lithia Ramsey-M, LLC	New Jersey	Prestige MINI of Ramsey DCH Prestige MINI of Ramsey MINI of Ramsey Prestige MINI of Dutchess County DCH Prestige MINI of Dutchess County MINI of Wappingers Falls
Lithia Ramsey-T, LLC	New Jersey	Prestige Toyota of Ramsey DCH Prestige Toyota of Ramsey
Lithia Real Estate, Inc.	Oregon	
Lithia Reno-CJ, LLC	Nevada	Lithia Chrysler Jeep of Reno
Lithia Reno-VW, LLC	Nevada	Lithia Volkswagen of Reno
Lithia Reno Sub-HYUN, Inc.	Nevada	Lithia Body & Paint
Lithia Rose-FT, Inc.	Oregon	Lithia Ford Lincoln of Roseburg Assured Dealer Services of Roseburg
Lithia Salmir, Inc.	Nevada	Lithia Hyundai of Reno
Lithia Sea P, Inc.	California	Porsche Monterey
Lithia Seaside, Inc.	California	BMW of Monterey
Lithia SOC, Inc.	Oregon	Lithia Subaru of Oregon City
Lithia Spokane-B, LLC	Washington	BMW of Spokane

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia Spokane-S, LLC	Washington	Subaru of Spokane
Lithia SSP, LLC	Oregon	
Lithia TA, Inc.	Texas	Lithia Toyota of Abilene
Lithia Tennessee Holding, Inc.	Tennessee	
Lithia TO, Inc.	Texas	Lithia Toyota of Odessa
Lithia TR, Inc.	California	Lithia Toyota of Redding
Lithia Uniontown-C, LLC	Pennsylvania	
Lithia VA Real Estate, LLC	Virginia	
Lithia VAuDM, Inc.	Iowa	Audi Des Moines
Lithia VF, Inc.	California	
Lithia Virginia Holding, Inc.	Virginia	
Lithia Wexford-H, LLC	Pennsylvania	Baierl Honda
LLL Sales Co LLC	California	DCH Gardena Honda Gardena Honda Gardena Honda, a DCH Company All-Savers Auto Sales & Leasing
LMBB, LLC	Oregon	Mercedes-Benz of Beaverton
LMBP, LLC	Delaware	Mercedes-Benz of Portland Smart Center of Portland
LMOP, LLC	Oregon	MINI of Portland
LSTAR, LLC	Oregon	
Wesley Chapel-M, LLC (formerly known as Margate-CJD, LLC)	Florida	Mazda of Wesley Chapel
Medford Insurance, LLC	Oregon	
Mesquite-K, Inc.	Texas	TBD
Mesquite-M, Inc.	Texas	
Milford DCH, Inc.	Massachusetts	
Mission Hills-H, Inc.	California	Keyes Hyundai of Mission Hills
Mobile-S, LLC	Alabama	TBD
Northland Ford Inc.	Pennsylvania	Baierl Ford
Novi-I, LLC	Michigan	Suburban Infiniti Suburban Infiniti of Novi The Suburban Collection
Orlando-JLR, LLC	Florida	
Wesley Chapel-Hy, LLC (formerly known as Palm Beach-CJD, LLC)	Florida	Hyundai of Wesley Chapel
PA Real Estate, LLC	Pennsylvania	
PA Support Services, LLC	Pennsylvania	
Paramus Collision, LLC	New Jersey	Prestige Auto Body Prestige Collision Center
Paramus World Motors LLC	New Jersey	DCH Paramus Honda Paramus Honda Crown Leasing
Personalized Marketing, LLC	Oregon	
Philadelphia-F, LLC	Pennsylvania	TBD
Phoenix-T, Inc.	Arizona	Bell Road Toyota Driveway Bell Road Toyota Bell Road Certified Collision Center

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.

(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Plymouth-C, LLC	Michigan	Suburban Cadillac Suburban Cadillac Collision of Plymouth Suburban Cadillac of Plymouth Suburban Collision Centers The Suburban Collection
Ramsey HoldingCo, Inc.	Iowa	
Redwood-Hy, LLC	Nevada	ABC Hyundai
RFA Holdings, LLC	Oregon	
Rock Business Services, Inc.	California	
Rockwall-H, Inc.	Texas	Honda Cars of Rockwall
Rockwall-K, Inc.	Texas	TBD
Roseville-C, Inc.	California	John L. Sullivan Chevrolet
Roseville-K, Inc.	California	John L. Sullivan's Roseville Kia
Roseville-T, Inc.	California	Roseville Toyota
Round Rock-K, Inc.	Texas	
Sacramento-L, Inc.	California	Lexus of Roseville Lexus of Sacramento
Salem-B, LLC	Oregon	BMW of Salem
Salem-H, LLC	Oregon	Honda of Salem
Salem-V, LLC	Oregon	Volkswagen of Salem
Sanford-CJD, LLC	Florida	Chrysler Dodge Jeep Ram of Seminole County
San Francisco-B, Inc.	California	BMW of San Francisco
SCFC Business Services LLC	Delaware	
Sharlene Realty LLC	New Jersey	DCH Brunswick Toyota Brunswick Toyota DCH Collision Center
Sherman Oaks-A, Inc.	California	Keyes Audi
Sherman Oaks-Ac, Inc.	California	Acura of Sherman Oaks
Sherman Oaks-B, Inc.	California	BMW of Sherman Oaks
Shift Portland, LLC	Oregon	
Driveway Finance Corporation (formerly known as Southern Cascades Finance Corporation	Oregon	
Southwest Realty Holdings Holdco, LLC	Nevada	
Sterling Heights-F, LLC	Michigan	Quick Lane Tire and Auto Center of Sterling Heights Suburban Collision Centers Suburban Ford of Sterling Heights Suburban Used Car Outlet The Suburban Collection
Sterling-BM, LLC	Virginia	BMW of Sterling MINI of Sterling
Sterling-RLM, LLC	Virginia	Rolls Royce Motor Cars Sterling Lamborghini Sterling McLaren Sterling
Suburban Auto Agency, LLC	Michigan	
New Port Richey-H, LLC (formerly known as Tamarac-CJD, LLC)	Florida	Hyundai of New Port Richey
New Port Richey-V, LLC	Florida	Volkswagen of New Port Richey

SUBSIDIARIES OF LITHIA MOTORS, INC.
(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Tampa-F, LLC	Florida	Elder Ford of Tampa
Tampa-H, LLC	Florida	Tampa Honda
Thousand Oaks-S, Inc.	California	DCH Subaru of Thousand Oaks
TN Real Estate, LLC	Tennessee	
Troy Collision, LLC	Michigan	Suburban Collision Centers Suburban Collision of Troy The Suburban Collection
Troy Exotics, LLC	Michigan	Aston Martin Detroit Aston Martin Troy Bentley Troy Bugatti Troy Lamborghini Troy Maserati of Troy Maserati Troy McLaren Troy Rolls-Royce Motor Cars of Michigan Suburban Exotics The Suburban Collection
Troy-A, LLC	Michigan	
Troy-F, LLC	Michigan	Elder Ford
Troy-BG, LLC	Michigan	Suburban Buick GMC Suburban Buick GMC of Troy The Suburban Collection
Troy-C, LLC	Michigan	Suburban Cadillac Suburban Cadillac of Troy The Suburban Collection
Troy-CJD, LLC	Michigan	Suburban CDJR of Troy Suburban Chrysler Dodge Jeep Ram of Troy The Suburban Collection
Troy-H, LLC	Michigan	Hyundai of Troy Suburban Hyundai of Troy Suburban Hyundai The Suburban Collection
Troy-I, LLC	Michigan	Suburban Infiniti Suburban Infiniti of Troy The Suburban Collection
Troy-JLR, LLC	Michigan	Jaguar Land Rover Troy Jaguar Troy Land Rover Troy The Suburban Collection
Troy-N, LLC	Michigan	Suburban Nissan Suburban Nissan of Troy The Suburban Collection
Troy-S, LLC	Michigan	Suburban Subaru Suburban Subaru of Troy The Suburban Collection
Troy-T, LLC	Michigan	Suburban Toyota Suburban Toyota of Troy The Suburban Collection
Troy-V, LLC	Michigan	Suburban Volvo Cars The Suburban Collection
Troy-VW, LLC	Michigan	Suburban Nissan Suburban Volkswagen Suburban Volkswagen of Troy The Suburban Collection
Troy-M, LLC	Michigan	Suburban Mazda of Troy

EXHIBIT 21

SUBSIDIARIES OF LITHIA MOTORS, INC.
(as of December 31, 2021)

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Tustin Motors Inc.	California	DCH Tustin Acura Tustin Acura
Union-H, LLC	New Jersey	
Urbandale-S, LLC	Iowa	Ramsey Subaru of Des Moines Ramsey Mazda
Valencia-A, Inc.	California	Audi Valencia
Van Nuys-C, Inc.	California	Keyes Chevrolet
Van Nuys-H, Inc.	California	Keyes Hyundai of Van Nuys
Van Nuys-L, Inc.	California	Keyes Lexus Keyes Lexus of Valencia
Van Nuys-T, Inc.	California	Keyes Toyota
Washington-F, LLC	Michigan	Elder Ford of Romeo
Waterford-F, LLC	Michigan	Suburban Collision Centers Suburban Ford of Waterford Suburban Ford Collision Centers of Waterford The Suburban Collection
Wesley Chapel-H, LLC	Florida	
Wesley Chapel-T, LLC	Florida	
Yuba City-CJD, Inc.	California	John L. Sullivan Chrysler Dodge Jeep RAM
Zelienople Real Estate, L.L.C.	Pennsylvania	
Zelienople Real Estate I, L.P.	Pennsylvania	

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Lithia Motors, Inc.:

We consent to the incorporation by reference in the registration statement(s) (No. 333-190192, 333-43593, 333-69169, 333-156410, 333-39092, 333-61802, 333-106686, 333-116839, 333-116840, 333-135350, 333-161590, 333-168737, 333-231255) and Form S-3ASR (No. 333-239969) on Form 10-K of our report(s) dated February 18, 2022, with respect to the consolidated financial statements of Lithia Motors, Inc, and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Portland, Oregon
February 18, 2022

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Bryan B. DeBoer, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2022

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

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Tina Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2022

By: /s/ Tina Miller
Tina Miller
Chief Financial Officer, Senior Vice President, and Principal Accounting Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)
OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan B. DeBoer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 18, 2022

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

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Miller, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: February 18, 2022

By: /s/ Tina Miller
Tina Miller
Chief Financial Officer, Senior Vice President, and Principal Accounting Officer