

LITHIA MOTORS INC
Form 11-K
June 25, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

SEC Registration No. 333-43593

LITHIA MOTORS, INC. SALARY REDUCTION PROFIT SHARING PLAN

LITHIA MOTORS, INC.
360 East Jackson Street
Medford, OR 97501

**LITHIA MOTORS, INC.
SALARY REDUCTION
PROFIT SHARING PLAN**

**INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM S AUDITOR S REPORT
AND
FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**To the Participants and
Plan Administrator of the
Lithia Motors, Inc. Salary
Reduction Profit Sharing Plan**

We have audited the financial statements of the Lithia Motors, Inc. Salary Reduction Profit Sharing Plan (the Plan) as of December 31, 2007 and 2006 and the related statement of changes in net assets available for benefits for the year ended December 31, 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audit included consideration over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007 and 2006, and the changes in net assets available for benefits for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, as listed in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Mohler, Nixon & Williams
MOHLER, NIXON & WILLIAMS
Accountancy Corporation

Campbell, California
June 24, 2008

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**LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

December 31,

2007

2006

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ASSETS

Investments, at fair value		
Registered investment companies	\$ 53,539,492	\$ 49,601,922
Common collective trust	8,970,267	7,203,373
Lithia Motors, Inc. Class A Common Stock	5,047,145	5,958,055
Participant loans	3,911,262	3,136,988
	<hr/>	<hr/>
	71,468,166	65,900,338
Employer's contribution receivable	1,042,725	1,023,084
	<hr/>	<hr/>
	72,510,891	66,923,422
LIABILITIES		
Excess participant contributions payable	(33,195)	(119,463)
	<hr/>	<hr/>
Net assets available for benefits at fair value	72,477,696	66,803,959
Adjustment from fair value to contract value for fully-benefit responsive investment contracts	162,180	218,765
	<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS	\$ 72,639,876	\$ 67,022,724
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LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2007

ADDITIONS TO NET ASSETS ATTRIBUTED TO

Investment income		
Net appreciation in fair value of investments		\$ 1,685,967
Interest and dividends		296,882
Other income		3,207
		<hr/>
		1,986,056
		<hr/>
Contributions		
Employer's		1,042,601
Participants'		12,856,070
Rollovers		922,629
		<hr/>

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	14,821,300
	<hr/>
	16,807,356
	<hr/>
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO	
Benefits paid to participants	10,559,280
Administrative expenses	255,720
Deemed distributed loans	375,204
	<hr/>
	11,190,204
	<hr/>
NET INCREASE IN NET ASSETS	5,617,152
NET ASSETS AVAILABLE FOR BENEFITS	
Beginning of year	67,022,724
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End of year	\$ 72,639,876
	<hr/>

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**LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 DESCRIPTION OF PLAN

The following description of Lithia Motors, Inc. Salary Reduction Profit Sharing Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General The Plan is a defined contribution plan covering all eligible employees of Lithia Motors, Inc. and its subsidiaries (the Company) as defined in plan documents. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) as amended.

Contributions Each year, the Company contributes to the Plan an amount determined annually by the Company's senior management. Participants may contribute, under a salary reduction agreement, the maximum allowed by the Internal Revenue Service under Code Section 402(g). Participants direct the investment of contributions into various investment options offered by the Plan. The Plan currently offers various registered investment companies managed by DWS Scudder as well as shares of Class A Common Stock of the Company.

Participant Accounts Each participant's account is credited with the participant's contribution and an allocation of the Company's contribution and Plan earnings, and is charged with an allocation of administrative expenses. Allocations are based on account balances, as defined. The benefit to which a participant is entitled is the benefit that can be

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provided from the participant's vested account.

Vesting Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after six years of credited service.

Participant Loans Participants may borrow from their fund accounts a minimum of \$500 and a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan transactions are treated as a transfer from the investment fund to the participant loan fund. Loan terms range up to five years or up to thirty years for the purchase of a primary residence. The loans are secured by the vested balance in the participant's account and bear interest at a rate of prime + 1% (from 5.0% to 10.5% as of December 31, 2007) at the time the loan is issued. Principal and interest are paid ratably through semimonthly payroll deductions.

Forfeited Accounts Forfeited non-vested accounts at December 31, 2007 and 2006 totaled \$206,489 and \$172,606, respectively, and are used to reduce future employer contributions. Forfeitures utilized to reduce the employer's contribution for the year ended December 31, 2007 amounted to \$222,671.

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**LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting The financial statements of the Plan are prepared under the accrual method of accounting.

As required by the FSP AAG INV-1, the Statements of Net Assets Available for Benefits presents the fair value of the Plan's investment in a common/collective trust which has underlying assets in investment contracts as well as the adjustment of the underlying fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Use of Estimates The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Valuation and Income Recognition The Plan's investments are stated at fair value. Shares of registered investment companies and shares of Lithia Motors, Inc. are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. Participant loans are valued at cost, which approximates fair value.

Purchases and sales of securities are recorded on the trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect participants' account balances and the amounts reported in the financial statements.

Payment of Benefits Benefits are recorded when paid.

Administrative Expenses Substantially all expenses relating to the Plan are paid by the Plan.

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NOTE 3 PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100% vested in their accounts.

NOTE 4 INCOME TAX STATUS

The Plan obtained its latest determination letter on May 3, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

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**LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 INVESTMENTS

The following presents investments that represent 5% or more of Plan net assets at:

	December 31,	
	2007	2006
Registered investment companies		
BR Health SCI Opport Port Fund - A	\$ 4,028,769	\$ 3,490,755
AM FNDS Europacific Growth Fund	\$ 5,246,411	\$ 4,204,173
Templeton Developing Markets Fund -A	\$ 4,640,547	\$ 3,549,717
DWS S&P 500 Index Fund -S	\$ 4,576,313	\$ 4,856,077
Growth Fund of America -R3	\$ 5,116,757	\$ 4,704,903
DWS Equity Partners Fund -A	\$ 3,603,823	\$ 4,841,173
DWS Dreman High Return Equity Fund -A	\$ 4,197,104	\$ 4,847,116
DWS Stable Value Fund A	\$ 9,132,447	\$ 7,422,138
Lithia Motors, Inc. Common Stock	\$ 4,977,321	\$ 5,916,290
Participant Loans	\$ 3,911,262	\$ 3,136,988

For the year ended December 31, 2007, the Plan's investments, including gains and losses on investments bought and sold, as well as held during the period, appreciated (depreciated) in value as follows:

Registered investment companies	\$ 5,036,617
Common/Collective Trust	307,049
Lithia Motors, Inc. Class A Common Stock	(3,657,699)

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	\$ 1,685,967
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LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
NOTES TO FINANCIAL STATEMENTS

NOTE 6 RECONCILIATION OF FINANCIAL STATEMENTS TO SCHEDULE H OF FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Schedule H of Form 5500:

	December 31,	
	2007	2006
Net assets available for benefits per the financial statements	\$ 72,639,876	\$ 67,022,724
Employer contributions receivable not accrued on Schedule H of Form 5500	(1,042,725)	(1,023,084)
Benefits payable accrued on Schedule H of Form 5500 but not on financial statements	(30,086)	(44,077)
Excess participant contributions payable not accrued on Schedule H of Form 5500	33,195	119,463
	\$ 71,600,260	\$ 66,075,026

The following are reconciliations of employer and employee contributions and distributions per the financial statements for the year ended December 31, 2007 to Schedule H of Form 5500 as the Form 5500 is prepared on a cash basis while the financial statements are prepared on the accrual basis of accounting:

	12/31/2007
Employer contributions per the financial statements	\$ 1,042,601
Plus employer contributions received by the Plan not accrued on Schedule H of Form 5500	1,023,084

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Less employer contributions not received by the Plan and not accrued on Schedule H of Form 5500	(1,042,725)
Employer contributions per Schedule H of Form 5500	\$ 1,022,960

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**LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 RECONCILIATION OF FINANCIAL STATEMENTS TO SCHEDULE H OF FORM 5500
(Continued)**

	12/31/2007
Employee contributions per the financial statements	\$ 12,856,070
Excess participant contributions for 2007	33,195
Excess contribution payable for 2006	(119,463)
Actual excess contributions during 2007 relating to 2006	123,455
Employee contributions per the Schedule H of Form 5500	\$ 12,893,257
	12/31/2007
Total distributions per the financial statements	\$ 10,934,484
Less benefits payable accrued for 2006	(44,077)
Benefits payable accrued on Schedule H of Form 5500 but not on financial statements	30,086
Excess contributions during 2007 relating to 2006	123,455

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Total distributions per the
Schedule H of Form 5500

\$ 11,043,948

NOTE 7 TRANSACTIONS WITH PARTIES-IN-INTEREST AND RELATED PARTIES

Transactions in shares of the Plan Sponsor's common stock qualify as party-in-interest transactions under the provisions of ERISA. During 2007, the Plan made purchases of \$5,118,048 and sales of \$2,371,259 of the Plan Sponsor's common stock.

Certain Plan investments are managed by DWS Scudder, the trustee of the Plan. Any purchases and sales of these funds are performed in the open market at fair value. Such transactions, while considered party-in-interest transactions under ERISA regulations, are permitted under the provisions of the Plan and are specifically exempt from the prohibition of party-in-interest transactions under ERISA.

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NOTE 8 SUBSEQUENT EVENT

The Plan Sponsor's common stock market value per share has decreased approximately 58% since its market value at December 31, 2007. This would result in approximately 4% decline in the Plan's net assets.

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SUPPLEMENTAL SCHEDULE

LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN
SCHEDULE H, LINE 4I SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2007
EIN 93-0572810 PN 003

(a)	(b) Identify of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	Number of Shares	(d) Cost	(e) Current value
*	DWS Stable Value Fund A	Common/Collective Trusts	N/A	N/A	\$ 9,132,447
	Amrcent Inflation -ADJ BDN Fund - ADV	Registered Investment Company	96,484	N/A	1,083,511
	Dreyfus Premier SMCP Val Fund -A	Registered Investment Company	52,044	N/A	893,588
	BR Health SCI Opport Port Fund - A	Registered Investment Company	134,248	N/A	4,028,769
	Allianz RCM Global Tech Fund -A	Registered Investment Company	38,894	N/A	1,966,466
	AM FNDS Europacific Growth Fund	Registered Investment Company	104,802	N/A	5,246,411
	GS High Yield Fund -A	Registered Investment Company	128,865	N/A	981,949
	Templeton Developing Markets Fund -A	Registered Investment Company	152,149	N/A	4,640,547
	GS Mid Cap Value Fund -A	Registered Investment Company	16,595	N/A	586,637
	Allianz CCM Mid Cap Fund	Registered Investment Company	104,859	N/A	2,841,669

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MFS Utilities Fund Class A	Registered Investment Company	123,196	N/A	2,383,833
MFS Total Return Fund -A	Registered Investment Company	182,699	N/A	2,784,327
Alger Smallcap Growth Fund -A	Registered Investment Company	276,083	N/A	2,084,428
* DWS S&P 500 Index Fund -S	Registered Investment Company	234,794	N/A	4,576,313
Growth Fund of America -R3	Registered Investment Company	152,648	N/A	5,116,757
* DWS Moderate Allocation Fund -A	Registered Investment Company	189,476	N/A	2,377,921
* DWS Growth Allocation Fund -A	Registered Investment Company	16,415	N/A	247,212
* DWS Equity Partners Fund -A	Registered Investment Company	144,384	N/A	3,603,823
* DWS Core Fixed Income Fund -A	Registered Investment Company	241,120	N/A	2,582,399
* DWS Global Opportunities Fund -A	Registered Investment Company	23,582	N/A	995,410
* DWS Growth Plus Allocation Fund -A	Registered Investment Company	27,838	N/A	320,417
* DWS Dreman High Return Equity Fund -A	Registered Investment Company	90,221	N/A	4,197,104
* Company Stock Pending Fund	Other Investments	N/A	N/A	69,825
* Lithia Motors, Inc. Common Stock	Common Stock	362,514	N/A	4,977,321
* Participant Loans	Interest Rates (5.0% to 10.5%)	N/A	N/A	3,911,262
				\$ 71,630,346

N/A - Cost is not applicable as these are participant directed investments.

* - Party in interest to the Plan

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SIGNATURE PAGE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 24, 2008

LITHIA MOTORS, INC.
SALARY REDUCTION PROFIT SHARING PLAN TRUST
By: /s/Jeffery B. DeBoer
Jeffrey B. DeBoer, Trustee

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EXHIBIT INDEX

<u>Exhibit</u> 23	<u>Description</u> <u>Consent of Independent Registered Public Accounting Firm</u>
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