LITHIA MOTORS INC
Form 10-Q
April 26, 2013

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-14733

LITHIA MOTORS, INC.
(Exact name of registrant as specified in its charter)

Oregon	93-0572810
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
150 N. Bartlett Street, Medford, Oregon	97501
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 541-776-6401

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ] (Do not check if a smaller reporting company)   Smaller reporting company [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A common stock without par value	22,977,404
Class B common stock without par value	2,690,027
(Class)	(Outstanding at April 26, 2013)

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

	March 31, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$15,006	$42,839
Accounts receivable, net of allowance for doubtful accounts of $141 and $336	134,109	133,149
Inventories, net	714,121	723,326
Deferred income taxes	3,079	3,832
Other current assets	11,729	17,484
Assets held for sale	12,996	12,579
Total Current Assets	891,040	933,209
Property and equipment, net of accumulated depreciation of $98,328 and $97,883	427,935	425,086
Goodwill	32,047	32,047
Franchise value	62,429	62,429
Deferred income taxes	20,704	17,123
Other non-current assets	25,548	22,808
Total Assets	$1,459,703	$1,492,702
Liabilities and Stockholders' Equity		
Current Liabilities:		
Floor plan notes payable	$15,545	$13,454
Floor plan notes payable: non-trade	567,981	568,130
Current maturities of long-term debt	7,483	8,182
Trade payables	41,339	41,589
Accrued liabilities	87,787	81,602
Liabilities related to assets held for sale	8,662	8,347
Total Current Liabilities	728,797	721,304
Long-term debt, less current maturities	222,249	286,876
Deferred revenue	35,252	33,589
Other long-term liabilities	25,602	22,832
Total Liabilities	1,011,900	1,064,601
Stockholders' Equity:		
Preferred stock - no par value; authorized 15,000 shares; none outstanding	-	-
Class A common stock - no par value; authorized 100,000 shares; issued and outstanding 22,950 and 22,916	263,253	268,801
Class B common stock - no par value; authorized 25,000 shares; issued and outstanding 2,693 and 2,762	335	343
Additional paid-in capital	15,096	12,399
Accumulated other comprehensive loss	(2,109)	(2,615)
Retained earnings	171,228	149,173

Total Stockholders' Equity	447,803	428,101
Total Liabilities and Stockholders' Equity	$1,459,703	$1,492,702

See accompanying notes to consolidated financial statement

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LITHIA MOTORS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2013	2012
Revenues:		
New vehicle	$493,441	$392,946
Used vehicle retail	239,228	190,619
Used vehicle wholesale	39,506	33,357
Finance and insurance	31,663	24,876
Service, body and parts	90,440	83,544
Fleet and other	8,802	12,904
Total revenues	903,080	738,246
Cost of sales:		
New vehicle	458,794	362,694
Used vehicle retail	204,255	162,342
Used vehicle wholesale	38,532	32,960
Service, body and parts	46,661	43,409
Fleet and other	8,400	12,507
Total cost of sales	756,642	613,912
Gross profit	146,438	124,334
Asset impairments	-	115
Selling, general and administrative	101,131	88,439
Depreciation and amortization	4,721	4,138
Operating income	40,586	31,642
Floor plan interest expense	(3,449)	(2,902)
Other interest expense	(2,361)	(2,727)
Other income, net	801	498
Income from continuing operations before income taxes	35,577	26,511
Income tax provision	(13,695)	(9,877)
Income from continuing operations, net of income tax	21,882	16,634
Income from discontinued operations, net of income tax	173	162
Net income	$22,055	$16,796
Basic income per share from continuing operations	$0.85	$0.64
Basic income per share from discontinued operations	0.01	0.01
Basic net income per share	$0.86	$0.65
Shares used in basic per share calculations	25,626	25,986
Diluted income per share from continuing operations	$0.84	$0.63
Diluted income per share from discontinued operations	0.01	-
Diluted net income per share	$0.85	$0.63
Shares used in diluted per share calculations	26,054	26,478

See accompanying notes to consolidated financial statement

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

	Three Months Ended March 31,	
	2013	2012
Net income	$22,055	$16,796
Other comprehensive income, net of tax:		
Gain on cash flow hedges, net of tax expense of $315 and $265	506	426
Comprehensive income	$22,561	$17,222

See accompanying notes to consolidated financial statement

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

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$22,055	$16,796
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Asset impairments	-	115
Depreciation and amortization	4,721	4,138
Depreciation and amortization within discontinued operations	-	61
Stock-based compensation	1,140	576
Gain on disposal of other assets	(19)	(988)
Deferred income taxes	(206)	(870)
Excess tax benefit from share-based payment arrangements	(2,937)	(749)
(Increase) decrease (net of acquisitions and dispositions):		
Trade receivables, net	(960)	(11,633)
Inventories	7,890	(62,113)
Other current assets	5,757	5,292
Other non-current assets	(424)	2,778
Increase (decrease) (net of acquisitions and dispositions):		
Floor plan notes payable	2,257	(3,324)
Trade payables	(410)	1,549
Accrued liabilities	6,188	5,105
Other long-term liabilities and deferred revenue	4,705	2,280
Net cash provided by (used in) operating activities	49,757	(40,987)
Cash flows from investing activities:		
Principal payments received on notes receivable	319	25
Capital expenditures	(6,585)	(8,459)
Proceeds from sales of assets	440	1,009
Payments for life insurance policies	(2,641)	(1,968)
Proceeds from sales of stores	-	2,901
Net cash used in investing activities	(8,467)	(6,492)
Cash flows from financing activities:		
Borrowings on floor plan notes payable: non-trade	953	39,401
Borrowings on lines of credit	118,000	5,000
Repayments on lines of credit	(156,303)	(12,000)
Principal payments on long-term debt, scheduled	(2,003)	(2,028)
Principal payments on long-term debt and capital leases, other	(25,770)	-
Proceeds from issuance of long-term debt	-	8,069
Proceeds from issuance of common stock	966	869
Repurchase of common stock	(7,903)	(2,653)
Excess tax benefit from share-based payment arrangements	2,937	749
Dividends paid	-	(1,814)

Net cash provided by (used in) financing activities	(69,123)	35,593
Decrease in cash and cash equivalents	(27,833)	(11,886)
Cash and cash equivalents at beginning of year	42,839	20,851
Cash and cash equivalents at end of year	$15,006	$8,965
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$5,837	$5,794
Cash paid (refunded) during the period for income taxes, net	(964)	2,122
Supplemental schedule of non-cash activities:		
Floor plan debt paid in connection with store disposals	-	6,712

See accompanying notes to consolidated financial statement

LITHIA MOTORS, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Interim Financial Statements

Basis of Presentation
These condensed Consolidated Financial Statements contain unaudited information as of March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012. The unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America for annual financial statements are not included herein. In management's opinion, these unaudited financial statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the information when read in conjunction with our 2012 audited Consolidated Financial Statements and the related notes thereto. The financial information as of December 31, 2012 is derived from our 2012 Annual Report on Form 10-K. The interim condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in our 2012 Annual Report on Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Reclassifications
Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency and comparability between periods presented.

These reclassifications had no impact on previously reported net income.

Note 2. Accounts Receivable
Accounts receivable consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Contracts in transit	$68,066	$65,597
Trade receivables	27,682	25,885
Vehicle receivables	18,525	21,298
Manufacturer receivables	24,398	25,658
	138,671	138,438
Less: Allowance	(141)	(336)
Less: Long-term portion of trade receivables	(4,421)	(4,953)
Total accounts receivable, net	$134,109	$133,149

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

Note 3. Inventories
The components of inventory consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
New vehicles	$551,820	$563,275
Used vehicles	132,616	130,529

Parts and accessories	29,685	29,522
Total inventories	$714,121	$723,326

Note 4. Goodwill

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

	Goodwill
Balance as of December, 31, 2011, gross	$318,224
Accumulated impairment loss	(299,266)
Balance as of December 31, 2011, net	18,958
Additions through acquisitions	13,710
Goodwill allocated to dispositions	(621)
Balance as of December 31, 2012, net	32,047
Additions through acquisitions	-
Goodwill allocated to dispositions	-
Balance as of March 31, 2013, net	$32,047

Note 5. Commitments and Contingencies

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 or the proceedings described below will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.

Alaska Consumer Protection Act Claims

In December 2006, a suit was filed against us (Jackie Neese, et al vs. Lithia Chrysler Jeep of Anchorage, Inc, et al, Case No. 3AN-06-13341 CI), and in April, 2007, a second case (Jackie Neese, et al vs. Lithia Chrysler Jeep of Anchorage, Inc, et al, Case No. 3AN-06-4815 CI), in the Superior Court for the State of Alaska, Third Judicial District at Anchorage. These suits are now consolidated. In the suits, plaintiffs alleged that we, through our Alaska dealerships, engaged in three practices that purportedly violate Alaska consumer protection laws: (i) charging customers dealer fees and costs (including document preparation fees) not disclosed in the advertised price, (ii) failing to disclose the acquisition, mechanical and accident history of used vehicles or whether the vehicles were originally manufactured for sale in a foreign country, and (iii) engaging in deception, misrepresentation and fraud by providing to customers financing from third parties without disclosing that we receive a fee or discount for placing that loan (a “dealer reserve”). The suit seeks statutory damages of $500 for each violation or three times plaintiff’s actual damages, whichever is greater, and attorney fees and costs. The plaintiffs sought class action certification. Before and during the pendency of these suits, we engaged in settlement discussions with the State of Alaska through its Office of Attorney General with respect to the first two practices enumerated above. As a result of those discussions, we entered into a Consent Judgment subject to court approval and permitted potential class members to “opt-out” of the proposed settlement. Counsel for the plaintiffs attempted to intervene and, after various motions, hearings and an appeal to the state Court of Appeals, the Consent Judgment became final.

Plaintiffs then filed a motion in November 2010 seeking certification of a class (i) for the 339 customers who “opted-out” of the state settlement, (ii) for those customers who did not qualify for recovery under the Consent Judgment but were allegedly eligible for recovery under the plaintiffs’ broader interpretation of the applicable statutes, and (iii) for those customers who arranged their vehicle financing through us, on the basis that the state’s suit against our dealerships did not address the dealer reserve claim. On June 14, 2011, the Trial Court granted plaintiffs’ motion to certify a class without addressing either the merits of the claims or the size of the classes. Discovery in this case is ongoing. We intend to defend the claims vigorously.

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Note 6. Stockholders' Equity

Reclassification From Accumulated Other Comprehensive Income (Loss)
The reclassification from accumulated other comprehensive income is as follows (in thousands):

	Three Months Ended March 31, 2013	Affected Line Item in the Consolidated Statements of Operations
Loss on cash flow hedges	$(307)	Floor plan interest expense
Taxes	117	Income tax provision
Loss on cash flow hedges, net	$(190)	

See Note 9 for more details regarding our derivative contracts.

Share Repurchases
In August 2011, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our Class A common stock. On July 20, 2012, our Board of Directors authorized the repurchase of 1,000,000 additional shares of our Class A common stock. We repurchased 127,900 shares of our Class A common stock during the first quarter of 2013 at an average price of $40.76 per share, for a total of $5.2 million. Through March 31, 2013, we have repurchased 1,273,047 shares and 1,726,953 shares remained available for repurchase. This authority to repurchase shares does not have an expiration date and we may continue to repurchase shares from time to time as conditions warrant.

In addition, 59,721 shares subject to equity awards were repurchased during the first quarter of 2013 at an average price of $45.04, for a total of $2.7 million, related to tax withholdings associated with the exercise of stock options or the vesting of restricted stock units.

Note 7. Deferred Compensation and Long-term Incentive Plan
We offer a deferred compensation and long-term incentive plan (the "LTIP") to provide certain employees the ability to accumulate assets for retirement on a tax deferred basis. We may make discretionary contributions to the LTIP. Discretionary contributions vest between one and seven years based on the employee's age and position. Additionally, a participant may defer a portion of his or her compensation and receive the deferred amount upon certain events, including termination or retirement.

In March 2013, we made a discretionary contribution of $2.0 million to the Plan. Participants will receive a guaranteed return of 5.25% in 2013. We recognized compensation expense related to the Plan of $0.3 million for the three months ended March 31, 2013 and 2012. As of March 31, 2013 and December 31, 2012, the balance due to participants was $4.4 million and $3.6 million, respectively, and was included as a component of other long-term liabilities in the Consolidated Balance Sheets.

Note 8. Fair Value Measurements
Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

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

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

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

Inputs are collected from Bloomberg on the last market day of the period. The same method is used to determine the rate used to discount the future cash flows. The valuation of the interest rate swaps also takes into consideration our own, as well as the counterparty's, risk of non-performance under the contract.

There were no changes to our valuation techniques during the three-month period ended March 31, 2013.

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

Fair Value at March 31, 2013	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative contracts, net	$-	$(3,919)	$-

Fair Value at December 31, 2012	Level 1	Level 2	Level 3
Measured on a recurring basis:			
Derivative contracts, net	$-	$(4,679)	$-

See Note 9 for more details regarding our derivative contracts.

Fair Value Disclosures for Financial Assets and Liabilities
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 short term nature and current market rates of these instruments. We believe the carrying value of our variable rate debt approximates fair value.

We have fixed rate debt and calculate the estimated fair value of our fixed rate debt using a discounted cash flow method. Using estimated current interest rates based on a similar risk profile and duration (Level 2), the fixed cash flows are discounted and summed to compute the fair value of the debt. As of March 31, 2013, this debt had maturity dates between November 2016 and May 2031. A summary of the aggregate carrying values and fair values of our long-term fixed interest rate debt is as follows (in thousands):

	March 31, 2013	December 31, 2012
Carrying value	$132,567	$130,469
Fair value	134,883	134,688

Note 9. Derivative Financial Instruments
We enter into interest rate swaps to fix a portion of our interest expense. We do not enter into derivative instruments for any purpose other than to manage interest rate exposure to fluctuations in the one-month LIBOR benchmark. That

is, we do not engage in interest rate speculation using derivative instruments.

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

At March 31, 2013 and December 31, 2012, the net fair value of all of our agreements totaled a liability of $3.9 million and $4.7 million, respectively, which was recorded on our Consolidated Balance Sheets as a component of accrued liabilities and other long-term liabilities. The estimated amount that we expect to reclassify as earnings within the next twelve months is $1.3 million at March 31, 2013.

As of March 31, 2013, we had outstanding the following interest rate swaps with U.S. Bank Dealer Commercial Services:

- $50 million interest rate swap at a fixed rate of 3.495% per annum, matures April 30, 2013; and
- $25 million interest rate swap at a fixed rate of 5.587% per annum, matures June 15, 2016.

We receive interest on all of the interest rate swaps at the one-month LIBOR rate. The one-month LIBOR rate at March 31, 2013 was 0.20% per annum, as reported in the Wall Street Journal.

At March 31, 2013 and December 31, 2012, the fair value of our derivative instruments was included in our Consolidated Balance Sheets as follows (in thousands):

Balance Sheet Information	Fair Value of Liability Derivatives		
	Location in Balance Sheet		March 31, 2013
Derivatives Designated as Hedging Instruments			
Interest Rate Swap Contracts	Accrued liabilities	$	1,351
	Other long-term liabilities		2,568
		$	3,919

Balance Sheet Information	Fair Value of Liability Derivatives		
	Location in Balance Sheet		December 31, 2012
Derivatives Designated as Hedging Instruments			
Interest Rate Swap Contracts	Accrued liabilities	$	1,839
	Other long-term liabilities		2,840
		$	4,679

The effect of derivative instruments on our Consolidated Statements of Operations for the three-month periods ended March 31, 2013 and 2012 was as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in Accumulated OCI (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended March 31, 2013					
Interest Rate Swap Contracts	$514	Floor plan interest expense	$(307)	Floor plan interest expense	$(594)
Three Months Ended March 31, 2012					
Interest Rate Swap Contracts	$283	Floor plan interest expense	$(408)	Floor plan interest expense	$(654)

See also Note 8.

Note 10. Discontinued Operations

We classify a store as discontinued operations if the location has been sold, we have ceased operations at that location or the store meets the criteria required by U.S. generally accepted accounting standards:

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

We reclassify the store's operations to discontinued operations in our Consolidated Statements of Operations, on a comparable basis for all periods presented, provided we do not expect to have any significant continuing involvement in the store's operations after its disposal.

As of March 31, 2013, one of our stores continues to meet the criteria for classification of its assets and related liabilities as held for sale and its associated operating results are classified as discontinued operations.

Actual flooring interest expense for the store classified as discontinued operations is directly related to the store's new vehicles. Interest expense related to our used vehicle inventory financing and revolving line of credit is allocated based on the working capital level of the store.

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

	Three Months Ended March 31, 2013	2012
Revenue	$8,800	$20,647
Gain from discontinued operations	$284	$257
Income tax expense	(111)	(95)
Income from discontinued operations, net of income tax expense	$173	$162

Assets held for sale included the following (in thousands):

	March 31, 2013	December 31, 2012
Inventories	$9,828	$9,412
Property, plant and equipment	1,103	1,102
Intangible assets	2,065	2,065
	$12,996	$12,579

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

	March 31, 2013	December 31, 2012
Floor plan notes payable	$8,662	$8,347

Note 11. Net Income Per Share of Class A and Class B Common Stock

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

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

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Following is a reconciliation of the income from continuing operations and weighted average shares used for our basic earnings per share ("EPS") and diluted EPS for the three-month periods ended March 31, 2013 and 2012 (in thousands, except per share amounts):

Three Months Ended March 31,	2013		2012	
Basic EPS from Continuing Operations	Class A	Class B	Class A	Class B
Numerator:				
Income from continuing operations applicable to common stockholders	$19,525	$2,357	$14,235	$2,399
Distributed income applicable to common stockholders	-	-	(1,552)	(262)
Basic undistributed income from continuing operations applicable to common stockholders	$19,525	$2,357	$12,683	$