Risk Factors Comparison 2024-02-23 to 2023-02-24 Form: 10-K

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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 internationally, including across ~~28~~ **the** U. S. **,** ~~states and three Canadian~~ -- **Canada** ~~Provinces~~ **, and the U. K.** , 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. The **economies of the** United States ~~economy has~~ **, Canada and the United Kingdom have** recently experienced heightened inflationary pressures, impacting the costs of labor, fuel and other costs. Additionally, ~~an~~ **recent** ~~increase~~ **increases** in interest rates **have** ~~could significantly impact~~ **impacted** new and used vehicle sales and vehicle affordability due to the direct relationship between interest rates and monthly loan payments, a critical factor for many vehicle buyers, and the impact interest rates have on customers' borrowing capacity and disposable income. **Consumer demand may be further adversely impacted if interest rates continue to increase or are sustained at current levels.** In an inflationary environment, depending on automotive industry and other economic conditions, we may be unable to raise prices to keep up with the rate of inflation, which would reduce our profit margins. A period of sustained inflationary and interest rate pressures could impact our profitability. Approximately **15. 6 million,** 13. 9 million, **and** 15. 1 ~~million, and 14. 6~~ million new vehicles were sold in the United States in **2023,** 2022, **and** 2021 ~~, and 2020~~ , respectively. Certain industry analysts have predicted that new vehicle sales will be approximately ~~14~~ **15. 7** million for ~~2023~~ **2024** . 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. Natural disasters, adverse weather conditions, and public health emergencies can disrupt our business. Our dealerships are in states and regions in the United States ~~and~~ **,** Canada **, and the U. K.** 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. 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, ~~2022~~ **2023** , we had total reserve amounts associated with these programs of $ ~~67~~ **77** . ~~4~~ **1** million. The occurrence of regional epidemics or a global pandemic such as COVID- 19 may adversely impact our business, results of operations, financial condition and cash flows. The extent to which global pandemics impact our business going forward will depend on factors such as the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity, including the possibility of recession or financial market instability. The automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters, adverse weather events, or public health emergencies 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. Vehicle 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 ~~continued increases in ride-sharing services,~~ advances in electric vehicle production ~~and~~ **,** driverless technology ~~. Ride~~ **, co** - ~~sharing services such as Uber and Lyft provide consumers with mobility options outside of the traditional car~~ ownership and ~~lease alternatives~~ **subscription business models** . Certain manufacturers and ~~states~~ **governments** 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. **In addition, the U. K. government has proposed a ban on the sale of gasoline engines in new cars and new vans that would take effect as early as 2030 and a ban on the sale of gasoline hybrid engines in new cars and new vans as early as 2035.** The overall impact of these options on the automotive industry is uncertain, and may include **costly compliance challenges and** 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 vehicle retailing industry is experiencing significant changes as the expectations and behaviors of customers are shifting, and e- commerce and digital technology have become a more significant part of the sales process. We have made and may continue to make significant investments to drive the development of and support of e- commerce and digital technology capabilities, including the launch of Driveway, our e- commerce home solution, and DFC, our in- house consumer financing business. Changes or additions to our offerings may not attract or engage our customers or prove sufficiently profitable, 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 have and may continue to invest considerable financial resources, personnel, or other resources to pursue strategies that do not ultimately prove effective. A failure to capture the anticipated benefits of such investments could harm our results of operations and financial condition. A decline of affordable and available vehicle financing may adversely affect our vehicle sales. A significant portion of buyers finance their vehicle purchases. The primary finance sources our customers use in connection with the purchase of a new or used vehicle are manufacturer captive finance companies, DFC, and sub- prime lenders. These consumer vehicle financing sources rely to a certain extent on financing markets and sources to provide the capital necessary to support their financing programs. In addition, these financing sources, including DFC, will occasionally change their loan underwriting criteria to alter the risk profile of their loan portfolio. In the event that the cost to customers to finance vehicles becomes more expensive, due to increases in interest rates by the financing sources or their sources of capital, lenders tighten their credit standards, or available vehicle financing declines, consumers may be unable or less willing to purchase vehicles, 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 in 2021 and 2022 ~~have~~ caused a significant constraint in the supply of new cars resulting in reduced volumes and increased gross profit margins on retail vehicle sales. As new vehicle availability **continues to** ~~improves~~ - **improve** , volumes may improve; however, gross profit margins may be impacted. 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 United States and selecting partners to distribute their products. Because the automotive market in the United States 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, ~~2022~~ **2023** , approximately ~~20~~ **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~~ **4** . ~~8~~ **6** billion syndicated credit facility and $ 1. 1 billion CAD Canadian 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, the satisfaction of financial covenants and conditions and 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 the 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, ~~2022~~ **2023** , ~~65~~ **63** % 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 11 – 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 35 % or more of the outstanding shares of our voting stock on a fully diluted basis. We may experience greater credit losses in DFC' s portfolio of auto loan and lease receivables than anticipated. Customers who finance a vehicle purchase or lease a vehicle through a DFC auto loan or lease may be unable to repay the loans based on the original terms and that the fair value of the vehicles used as collateral against the loans 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 estimate an allowance for loan losses based on a variety of assumptions about DFC' s portfolio of auto loan receivables and lease receivables. Although management prepares an estimate it believes appropriate based on 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 we did not estimate 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 DFC 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 DFC 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. We operate dealerships in the United States ~~and~~ **,** Canada **, and the U. K** . While our operations outside of the United States 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; • changes in distribution models** in the foreign countries in which we operate; • compliance with changing laws and regulations; • compliance with United States 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, and exposure to regional or global public health issues, pandemics, or epidemics, such as the outbreak of 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 CarMax, Carvana, ~~Vroom~~ and ~~Shift~~ **Cazoo** . 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 **the** ~~our nationwide network~~ **networks** of service and delivery points **in our geographic markets** . 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~~ **We collect** , ~~regulators~~ **process, share, disclose, transfer, and otherwise use personal information about identifiable individuals including, but not limited to, our customers, employees, partners, and vendors, and so** are ~~proposing~~ **subject to US** and **international** ~~adopting new~~ laws ~~or~~ **and** regulations **, regarding** ~~that could require us to adopt certain cybersecurity and~~ data ~~handling practices. The changing~~ privacy **and security such as the** ~~laws (e. g.~~ California Consumer Privacy Act ~~) create new individual~~ **and the UK General Data Protection Regulation. These laws impose comprehensive data privacy compliance obligations in relation to our processing of personal data, including providing** privacy rights **to the individuals whose** ~~and impose increased obligations on companies handling personal~~ data **we process and introducing requirements to maintain policies, processes, and procedures regarding our data handing practices** . Additionally, our expansion into Canada **and the United Kingdom** subjects us 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 have been and may in the future be subject to cyber- attacks, viruses, malicious software, **ransomware,** break- ins, theft, computer hacking, phishing **, exploitation of system vulnerabilities or misconfigurations** , employee error, or malfeasance or other security breaches or loss of service. 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 Our dealerships and our new vehicle sales model may not be protected if state dealer laws are repealed or weakened, a manufacturer becomes bankrupt or there is a shift to other sales models. 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 United States 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. 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. In addition, state dealer laws restrict the ability of vehicle manufacturers to directly enter the retail market. 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 in our markets, such competition could negatively impact our sales and have a material adverse effect on our business, results of operations, financial condition and cash flows. **Further, changes by manufacturers to their distribution models may impact our operations in the U. K.** Certain 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 Mercedes- Benz in the U. K. and other European regions. **Under an agency model, our dealerships receive a fee for facilitating the sale by the manufacturer of a new vehicle but do not hold the vehicle in inventory. The agency model will reduce reported revenues (as only the fee we receive, and not the price of the vehicle, will be reported as revenue), reduce SG & A expenses, and reduce floorplan interest expense, although the other impacts to our results of operations remain uncertain.** If the agency model or another new model is implemented in the **U. K. or other** countries and regions in which we operate for the sale of electric or other vehicles, it **could negatively affect our revenues, results of operations and financial condition. Our U. K. dealerships are subject to different regulatory frameworks than our U. S. and Canada operations, and changes to these regulatory frameworks could negatively affect our results of operations. The majority of our dealerships in the U. K. operate under franchise agreements with vehicle manufacturers, however, unlike in the United States, the U. K. generally does not have automotive dealership franchise laws and, as a result, our U. K. dealerships operate without these types of specific protections that exist in the United States. In addition, our U. K. dealerships are also subject to U. K. antitrust regulations prohibiting certain restrictions on the sale of new vehicles and spare parts and on the provision of repairs and maintenance. For instance, authorized dealers are generally able to, subject to manufacturer facility requirements, relocate or add additional facilities throughout the European Union, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on cross supplies (including on transfers of dealerships) between existing authorized dealers within the European Union. However, under the EU Motor Vehicle Block Exemption Regulation, which was retained in U. K. law following U. K.' s exit from the European Union on January 31, 2020, certain restrictions on dealerships are permissible in franchise agreements provided certain conditions are met. In October 2022, the Competition and Markets Authority of the U. K. published recommendations to introduce an updated U. K. equivalent broadly similar to the EU Motor Vehicle Block Exemption Regulations, however, changes to these protections or rules** could negatively affect our revenues, results of operations and financial condition. 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 of the ~~United States~~ **geographic regions in which we operate**, and all of the vehicles we sell include parts manufactured outside of the ~~United States~~ **geographic regions in which we operate**. 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 United States 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 United States trade policies, including the United States- 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 vehicle 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~~ **geographic regions** 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 United States 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 **vehicle industry in the** United States ~~and~~ **,** ~~Canadian~~ -- **Canada** ~~vehicle industry~~ **, and the United Kingdom** 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. 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 **1C. Cybersecurity Assessing, identifying, and managing material risks from cybersecurity threats We are committed to maintaining robust cybersecurity practices to safeguard our information assets and ensure the confidentiality, integrity, and availability of our operations. We employ a comprehensive approach to assess, identify, and manage material risks arising from cybersecurity threats. The identification and oversight of material cybersecurity risks is included in continuous Enterprise Risk Management (ERM) Committee and Board of Directors meetings and reporting. We complete regular cybersecurity assessments to identify potential vulnerabilities and threats, analyzing our infrastructure, systems, and data. Assessments are conducted both internally and by third parties and consider internal and external factors, technological changes, regulatory requirements, and emerging cyber threats. Our cybersecurity program adheres to widely recognized standards for managing cybersecurity risk, including the National Institute of Standards and Technology Cybersecurity Framework, Center for Internet Security Controls and UK Cyber Essentials. We use advanced threat detection tools and technologies to identify potential cybersecurity risks. This includes continuous monitoring, intrusion detection systems, and anomaly detection mechanisms, to promptly identify any unusual activities or security breaches. Threat intelligence sharing with industry partners helps ensure we stay informed about the latest cybersecurity threats. We assess cybersecurity risks for their potential impact on our operations, data, and reputation. Risks are prioritized based on their severity and likelihood of occurrence before implementing appropriate controls, safeguards, and mitigation measures to address and manage these risks effectively. We have developed a well- defined and frequently updated information security incident response plan that outlines procedures to be followed in the event of a cybersecurity incident. The plan is periodically drilled with incident response team members and includes robust processes for identification, categorization, escalation and reporting of incidents. Employees are regularly trained on key cybersecurity subjects to ensure awareness. While no company can or will be completely immune from cybersecurity threats, especially as they relate to vendors and government agencies that we rely on, we know of no cybersecurity incident that has or is likely to materially affect us, our business strategy, or our results of operations, or financial condition. Board of Directors Cybersecurity Oversight Our Board of Directors oversees our cybersecurity and data protection strategy and appoints a director to lead the Board' s efforts. Our Board is briefed on our cybersecurity posture, current and future risks and potential incidents or vulnerabilities on a quarterly basis. Board members and executives participate in engagements on cybersecurity, such as simulated cyber incident response and crisis management exercises. Our Board also regularly receives and reviews third- party cybersecurity assessments, which include assessments of our cyber maturity and cyber risk. Management' s Assessment and Response to Material Risks from Cybersecurity Threats Our information security team and its leadership have primary responsibility for assessing and managing cybersecurity risks, within the scope of the overall ERM Committee. Such individuals collectively have over 80 years of prior work experience in various roles involving managing information security, developing cybersecurity strategy, and implementing effective information and cybersecurity programs. Cybersecurity threats are reported to management through robust and documented incident reporting processes. Our ERM Committee is comprised of Information Security, Legal, Treasury and other key executive stakeholders. The committee meets on a quarterly basis or as necessary to assess and respond to enterprise risks, including cybersecurity. The ERM Committee reports updates to the Board of Directors when appropriate and at least on an annual basis. Item** 2. Properties