LITHIA MOTORS INC
Form DEF 14A
March 11, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant [X]

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Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
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LITHIA MOTORS, INC.

(Exact Name of Registrant as Specified In Its Charter)

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Notice of 2016 Annual Meeting of Shareholders

and

Proxy Statement

Friday, April 22, 2016 at 8:30 a.m. Pacific Daylight Time

150 N. Bartlett St., Medford, Oregon 97501

LITHIA MOTORS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On April 22, 2016

To the Shareholders of Lithia Motors, Inc.:

I am pleased to invite you to our 2016 Annual Meeting of Shareholders of Lithia Motors, Inc., which will be held at 150 N. Bartlett St., Medford, Oregon 97501, on Friday, April 22, 2016, at 8:30 a.m., Pacific Daylight Time for the following purposes:

1. To elect seven directors to serve for the ensuing year;

2. To cast an advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K; and

3. To ratify the selection of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2016.

We will also consider and act on such other matters as may properly come before the meeting.

Only holders of record of our common stock at the close of business on February 29, 2016 are entitled to notice of and to vote at the meeting and any adjournment thereof. Further information regarding voting rights and the matters to be voted upon is presented in our proxy statement.

On or about March 11, 2016, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement for our 2016 Annual Meeting of Shareholders and our 2015 Annual Report on Form 10-K. This notice provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail. Our proxy statement and 2015 Annual Report on Form 10-K can be accessed directly at the following Internet address: http://www.proxyvote.com. All you have to do is enter the control number located on your proxy card.

I am excited to continue to lead our organization to new levels of performance and growth. We continue to be recognized for delivering the greatest shareholder return in the retail automotive sector. Despite our success, we remain humble and we maintain the strategies that have helped us earn this success. We encourage our stores to set their own objectives, to anticipate their customers' needs and to innovate to achieve their objectives with increased efficiency.

Our Mission Statement describes who we are as a company:

Driven by our people and preferred by our customers,

we are the leading automotive retailer in each of our markets.

We work to fulfill our mission by:

Serving our Customers – We strive to surpass our customers' expectations by anticipating their preferences, responding to a variety of needs, and performing the basics impeccably and with personalized service.

Growing Our People – We continue to foster a culture that motivates and inspires our employees.

Driving Profitable Growth – We challenge each other through performance expectations focused on customer satisfaction, new and used vehicle market share gain, and service and parts growth.

Thank you for being a shareholder! We will continue to refine our vision for success, communicate information transparently and celebrate accomplishments that make the company greater than the sum of its parts.

If you have any questions regarding this information or the proxy materials, please visit our website at www.lithia.com or contact our investor relations department at (541) 776-6591.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting of Shareholders, we urge you to submit your vote via the Internet, telephone or mail.

We appreciate your continued support of Lithia Motors and look forward to either seeing you at the meeting or receiving your proxy.

Very truly yours,

Bryan DeBoer

President and Chief Executive Officer

March 11, 2016

LITHIA MOTORS, INC.

PROXY STATEMENT

This proxy statement, the accompanying 2015 Annual Report on Form 10-K, the Notice of Annual Meeting and the proxy card are being furnished to the shareholders of Lithia Motors, Inc., an Oregon corporation, by our Board of Directors in connection with its solicitation of proxies for use at our 2016 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held at 150 N. Bartlett St., Medford, Oregon 97501, on Friday, April 22, 2016, at 8:30 a.m. Pacific Daylight Time and any adjournment thereof. On or about March 11, 2016, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access this proxy statement and our 2015 Annual Report on Form 10-K. All references in this proxy statement to “Lithia,” “Lithia Motors,” the “Company,” “we,” “us,” or “our” refer to Lithia Motors, Inc. and its subsidiaries, except where t context otherwise requires or as otherwise indicated.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

What is the purpose of the Annual Meeting?

The Annual Meeting will be held for the following purposes:

1. To elect seven directors to serve for the ensuing year;

2. To cast an advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K; and

3. To ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2016.

Will any other matters be voted on?

We are not aware of any other matters on which you will be asked to vote at the Annual Meeting. If other matters are properly brought before the Annual Meeting, the proxy holders may use their discretion to vote on these matters. Furthermore, if a nominee cannot or will not serve as director, the proxy holders will vote for a substitute nominee selected by our Board of Directors.

Who is entitled to vote at the Annual Meeting?

Only holders of record of our common stock at the close of business on February 29, 2016, the record date, will be entitled to notice of and to vote at the meeting and any adjournment thereof. As of the record date, there were 23,171,399 shares of Class A common stock and 2,542,231 shares of Class B common stock outstanding and entitled to vote. Each share of Class A common stock outstanding is entitled to one vote, and each share of Class B common stock outstanding is entitled to ten votes. Our executive officers and directors hold or control approximately 1.7% (391,625 shares) of the Class A common stock and 100% (2,542,231 shares) of the Class B common stock outstanding representing approximately 53.1% of the votes available to be cast at the Annual Meeting. All shares will vote together as a single voting group on all matters submitted to a vote of the shareholders except as otherwise required by law.

How do I vote?

There are four ways to vote:

by Internet at http://www.proxyvote.com; just enter the control number found on your proxy card (*we encourage you to vote this way as it is the most cost-effective method*);

by toll-free telephone at 1-800-690-6903;

by completing and mailing your proxy card; or

by written ballot at the Annual Meeting.

May I change my vote?

Yes. You may change your vote or revoke your proxy any time before the Annual Meeting by:

entering a new vote by Internet or phone;

returning a later-dated proxy card;

notifying Christopher Holzshu, our Secretary, in writing, at 150 N. Bartlett Street, Medford, Oregon 97501; or

completing a written ballot at the Annual Meeting.

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What vote is required to approve each proposal?

Assuming a quorum is present at the Annual Meeting, the required vote for approval varies depending on the proposal.

Proposal 1: Shareholders will elect the seven director nominees receiving the greatest number of votes. Directors are elected by a plurality of the votes cast and only votes cast in favor of a nominee will be counted. However, if a director nominee receives more "withheld" votes than votes "for," that may result in the director resigning from our Board of Directors (*See Proposal No. 1 for a further description of our Director Resignation Policy*).

Proposal 2: The votes that shareholders cast "for" must exceed the votes shareholders cast "against" to approve the compensation of our named executive officers. This vote is advisory and is not binding on us. However, the Compensation Committee of our Board of Directors, which is responsible for designing and administering our executive compensation program, and our Board of Directors value your opinion and will consider the outcome of the vote in making decisions regarding executive compensation.

Proposal 3: The votes that shareholders cast "for" must exceed the votes that shareholders cast "against" to ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2016.

How is a quorum determined?

For a quorum to exist at the Annual Meeting, there must be represented, in person or by proxy, shares representing a majority of the votes entitled to be cast at the meeting. Proxies that expressly abstain from voting on a particular proposal and broker non-votes will be counted for purposes of determining whether a quorum exists at the Annual Meeting.

How do we count votes?

The proxy holders will vote your shares as you instruct. We will not count abstentions or broker non-votes either "for" or "against" a "non-routine" matter submitted to a vote of shareholders. A broker non-vote occurs when a broker or other holder of record, such as a bank, submits a proxy representing shares that another person beneficially owns, and that person has not given voting instructions to the broker or other nominee. A broker may only vote shares on a non-routine matter if the beneficial owner gives the broker voting instructions. Only the ratification of the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2016 is considered a routine matter on which a broker or nominee that holds shares in its name may vote without instruction from the person that owns the shares beneficially.

How are proxies solicited for the Annual Meeting?

Our Board of Directors is soliciting proxies for the Annual Meeting. All expenses associated with this solicitation will be borne by us. We will reimburse brokers or other nominees for reasonable expenses that they incur in sending these proxy materials to you if a broker or other nominee holds your shares.

How is my proxy voted?

Our Board of Directors has designated Tina Miller, AVP of Accounting and Corporate Controller, and John North, VP of Finance and Chief Accounting Officer, as the proxy holders for the Annual Meeting. All properly executed proxies will be voted (except to the extent that authority to vote has been withheld) as specified by the shareholder. Proxies submitted without specification will be voted:

FOR the director nominees listed in this proxy statement;

FOR the approval of our compensation of the named executive officers disclosed in the Compensation Discussion and Analysis section and accompanying compensation tables contained in this proxy statement; and

FOR the ratification of the appointment of KPMG as our independent registered public accounting firm.

Why did I receive a notice regarding the availability of proxy materials on the Internet instead of a full set of proxy materials?

In accordance with the Securities and Exchange Commission ("SEC") rules, we are furnishing our proxy materials, including this proxy statement and our Annual Report on Form 10-K, to our shareholders primarily via the Internet. On or about March 11, 2016, we mailed to our shareholders a Notice that contains instructions on how to access our proxy materials on the Internet, how to vote at the meeting and how to request printed copies of the proxy materials and Annual Report on Form 10-K. Shareholders may request to receive all future proxy materials in printed form by mail or electronically by email by following the instructions contained in the Notice.

I have previously indicated I want to receive my proxy materials electronically. Will I still receive my materials via email as I have in the past?

Yes. If you have already signed up to receive the materials by email or other electronic transmission, you will continue to receive them in that manner.

DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

Current Directors and Nominees

Thomas R. Becker has been on our Board of Directors since 1997. Mr. Becker is President of North American Senior Living, LLC, a senior housing development, operations and consulting company. In 2010, Mr. Becker retired as Chief Executive Officer of Pacific Retirement Services, Inc., a company that runs both rental- and continuing-care retirement communities. During his tenure as Chief Executive Officer from 1990 until 2010, Pacific Retirement Services, Inc. was the parent corporation for over 30 retirement, senior housing and healthcare facilities in Washington, Oregon, California, Wisconsin and Texas and provided management, operations and development services to retirement communities. Mr. Becker began his career with Rogue Valley Manor in January 1978. Mr. Becker holds a B.S. degree from the University of Oregon and has previously served on other public company boards. As the former Chief Executive Officer of a large organization, Mr. Becker provides experience dealing with multi-state operations, issues associated with managing a large work force, and capital financing challenges. His experience provides us with helpful and relevant guidance in managing a large organization with significant financing needs.

Susan O. Cain joined our Board of Directors in June 2009. Since 2004, Ms. Cain has been a Senior Instructor in Accounting at Southern Oregon University, located in Ashland, Oregon. Ms. Cain holds a B.A. degree in General Science from Oregon State University and a Master of Science in Taxation from Washington School of Law, Washington Institute of Graduate Studies. Ms. Cain joined KPMG LLP in 1978, retiring as a partner in the San Francisco office in December 1999. While with KPMG, she specialized in banking institutions and trust tax services. Ms. Cain is involved with various non-profit and charitable organizations including the Ashland Independent Film Festival and the Oregon Shakespeare Festival. Ms. Cain maintains her CPA license in California. Ms. Cain brings to our Board of Directors a high level of accounting expertise, having practiced public accounting for over 20 years. She serves as the Audit Committee Chair and is an audit committee financial expert as defined under SEC rules.

Bryan B. DeBoer has served as our Chief Executive Officer and President since May 2012. He served as our President and Chief Operating Officer from January 2006 until May 2012, and as a director since May 2008. Mr. DeBoer joined us in 1989. From 1989 until 1996, he worked in our stores in various capacities including Finance Manager, Used Vehicle Manager, General Sales Manager, and General Manager. In 1997, Mr. DeBoer was promoted to Vice President, Mergers and Acquisitions. In March 2000, Mr. DeBoer was promoted to Senior Vice President, Mergers and Acquisitions/Operations, and in August 2003, he was promoted to Executive Vice President, Mergers and Acquisitions/Operations. Mr. DeBoer has a B.S. degree from Southern Oregon University in Business Administration, graduating Summa Cum Laude. Mr. DeBoer also graduated from the National Automobile Dealers Association Dealer Academy in 1990, where he was trained in all operational aspects of auto retailing. Mr. DeBoer's experience and training in the various aspects of the auto retailing business brings to our Board of Directors industry knowledge and a familiarity with our operations.

Sidney B. DeBoer took Lithia Motors public in 1996 and is our Chairman. Mr. DeBoer served as Chairman, Chief Executive Officer and Secretary from 1968 until May 2012. From May 2012 until December 31, 2015, Mr. DeBoer served as Executive Chairman. He is also a member of various automobile industry organizations, including the President’s Club of the National Automobile Dealers Association, the Oregon director of the National Auto Dealers Association, and the Chrysler National Dealer Council. Mr. DeBoer has earned several awards including the Time Magazine Quality Dealer Award, the Sports Illustrated All-Star Dealer Award and multiple Chamber of Commerce Awards. Mr. DeBoer is active with several community and charitable organizations, including the Southern Oregon University Foundation Board, Oregon Community Foundation and the Oregon Shakespeare Festival. Since we were organized as a corporation in 1968, Mr. DeBoer has provided the leadership for our growth, both privately until 1996 and publicly since that time. Mr. DeBoer attended Stanford University and the University of Oregon. Mr. DeBoer brings to the Board of Directors demonstrated leadership skills and industry experience. His unique familiarity with our business and his participation in various industry associations allows him to provide our Board of Directors with insight into our business and the automotive industry.

Shau-wai Lam joined our Board of Directors in April 2015. Prior to becoming a member of the board, he was a consultant to our Company in 2015 and assisted in our integration with DCH Auto Group (USA) Inc. ("DCH"). Immediately prior to our acquisition of DCH, Mr. Lam served as Chairman and Chief Executive Officer of DCH. Mr. Lam joined the predecessor to DCH in 1967 and initially worked in DCH's international trade operations; thereafter, he played an integral role in DCH's expansion into the automobile retailing industry. In 1988, Mr. Lam was appointed President of DCH, where he continued to lead the company's expansion to 27 automobile dealerships in New Jersey, New York and California. In the process, Mr. Lam has become an industry-recognized leader, having served as a member of the Board of Directors of the National Association of Minority Automobile Dealers, as well as a current member of the Board of Trustees of the National Automobile Dealers Charitable Foundation and Chairman of the National Charitable Foundation for Teen Safe Driving. Mr. Lam has earned numerous industry awards including the Wards Auto Dealer Business Magazine Dealer of the Year Award, the Newsweek Magazine Dealer of the Year Finalist Award, the Time Magazine Quality Dealer Award for New Jersey, the National Association of Minority Automobile Dealers' Lifetime Achievement Award, Ernst & Young's Entrepreneur of the Year Award for New Jersey and multiple awards for his civic involvement. Mr. Lam is a graduate of Purdue University with B.S. and M.S. degrees in mathematics; he received the Distinguished Science Alumnus Award from Purdue University. Mr. Lam also has an M.B.A. from New York University. Mr. Lam brings to the Board of Directors demonstrated leadership skills, industry experience in large metropolitan markets and knowledge of DCH's operations.

Kenneth E. Roberts joined our board in 2012 after working as "of counsel" with Lane Powell, PC, a Pacific Northwest law firm. He was a shareholder at Lane Powell through December 31, 2011 but has since had no ownership or voting interest in the firm. Mr. Roberts was a partner with the law firm of Roberts Kaplan LLP (formerly Foster Pepper LLP) from 1987 until the firm joined with Lane Powell in January 2011. Mr. Roberts's private law practice focused on corporate finance, mergers and acquisitions, corporate governance, executive compensation and securities, including representation of public companies, including Lithia, and community banks. Mr. Roberts has ceased actively practicing law. Mr. Roberts is a graduate of Harvard Law School and Oregon State University with a B.S. in Business and Technology. Mr. Roberts enhances our Board of Directors' oversight role with his background in handling legal and corporate governance issues for public companies. Through his representation of rapidly expanding companies and work with clients on mergers and acquisitions, he provides insight into growth and acquisition strategies. In addition, his association with Lithia, dating back to our initial public offering in 1996, provides our Board of Directors with significant historical knowledge regarding our operations and legal issues.

David J. Robino was elected to our board on March 1, 2016 to fill a vacancy created by William Young's retirement from the board. Mr. Robino brings to the Board of Directors extensive executive management and board experience that complements and enhances our existing Board's composition. Over the course of Mr. Robino's career, he gained expertise in corporate communications and marketing services, community relations, law, government affairs, human resources and organizational development, real estate and administrative services, compliance and ethics, international operations, information technology, strategic planning, new business development, and business process reengineering. His career spanned the consumer products (both durable and consumable) and information technology industries. Mr. Robino began his management career at The Maytag Corporation and at Pepsi-Cola. In 1993, he joined AC Nielsen then owned by the Dun & Bradstreet Corp., eventually becoming Senior Vice President of Nielsen International, based in Brussels, Belgium. As such, Mr. Robino coordinated multiple global business functions in this business of 20,000 employees doing business in 98 countries. Mr. Robino went to AT&T in 1995, becoming a Vice President for AT&T Solutions and later AT&T's Business Markets Division. Thereafter, in 1998, Mr. Robino joined Gateway, Inc. as Executive Vice President and Chief Administrative Officer and later Vice-Chairman. Mr. Robino led the organization through the company's cultural transformation. Partnering with its CEO, Mr. Robino moved Gateway from the least admired to the most admired company in its industry. After retiring from Gateway, Mr. Robino served as a member of the board of directors of Memec, Inc., then the world's largest distributor of specialty semiconductors, and Insight Enterprises, Inc., a Fortune 500 global provider of information technology hardware, software and services. He has served as an adjunct instructor at Southern Oregon University since 2012. Mr. Robino has a M.S. in Industrial Relations from Iowa State University and B.A. in Social Studies from Graceland College.

Directors Who Retired in 2016

William J. Young retired from our Board of Directors in 2016 after serving as a director from 1997 to 2008 and 2010 to 2016. He was an Executive Director at J.D. Power and Associates, a global marketing information firm specializing in consumer research for the automotive industry, from 2003 to 2008, and has previously served on other public company boards. From 1994 through July 2000, Mr. Young was the Chairman of the board and President and Chief Executive Officer of Advanced Machine Vision Corporation. Prior to 1994, Mr. Young served with Volkswagen of America in various capacities for approximately 18 years, including as its President and Chief Executive Officer. Mr. Young also has experience as an independent automotive marketing consultant. Mr. Young brought to our Board of Directors the experience of a chief executive officer and previous service on the board and committees of another public company, continuing knowledge of the automotive industry and a wealth of contacts believed helpful to us.

Non-Director Executive Officers

Christopher Holzshu (42) has served as Senior Vice President and Chief Financial Officer since November 2010 and Secretary since April 2012. Mr. Holzshu is responsible for all aspects of accounting, finance and financial planning and analysis; is directly involved in operations; oversees our performance monitoring functions, including setting operational targets for store performance and improvements, and capital deployment decision making; and tracks and manages Company-wide budgets. Prior to his promotion to Chief Financial Officer, Mr. Holzshu served as Vice President, Financial Planning and Analysis since 2008, where he was actively involved in business development, budgeting, forecasting, procurement, payroll and benefits. He joined Lithia in 2003 as Director of Accounting to oversee corporate accounting, and, beginning in 2004, served as Assistant Vice President of Audit and Compliance. Before joining Lithia, Mr. Holzshu worked at KPMG LLP, where he specialized in the automotive manufacturing and retail automotive sectors. Mr. Holzshu is a licensed CPA in Oregon.

Scott Hillier (53) joined Lithia in January 1986. Mr. Hillier has served as Senior Vice President of Operations since August 2008. In this role, he supervises Lithia’s Regional Vice Presidents and is responsible for vehicle sales and finance, service and parts operations, marketing, personnel and human resources. Prior to his current role, Mr. Hillier was Vice President of Human Development from 2003 to 2008, and, prior to that, Vice President of Sales and Finance. Prior to joining the executive management team, Mr. Hillier worked in our stores, performing such roles as Finance Manager, General Sales Manager, General Manager and multi-store General Manager. He brings successful operational experience and training and mentoring techniques. Mr. Hillier graduated from Southern Oregon University with a B.S. in Inter-disciplinary Studies.

George Liang (60) joined DCH in 1988 after being Vice President of BNP Paribas for eleven years, specializing in commercial and syndicated loan financing. Mr. Liang began his DCH career in Freehold, New Jersey, overseeing a Toyota and a Nissan store. In 1993, Mr. Liang was transferred to Oxnard, California as Regional Manager, overseeing six dealerships. In 2001 he assumed responsibility for all of DCH's Los Angeles region dealerships and was instrumental in the company's expansion to Temecula, California in 2004. Mr. Liang was next promoted to Senior Vice President and Chief Operating Officer of DCH's Eastern Region, where he was responsible for the operation of all of DCH's dealerships in New Jersey, New York and Connecticut. In 2010, he became President of DCH Auto Group, where he oversaw all auto operations. After DCH Auto Group merged with Lithia, Mr. Liang became Senior Vice President overseeing DCH's operations. He is a graduate of University of California at Berkeley (B.A.) and University of British Columbia, Canada (M.B.A.), majoring in finance. Mr. Liang is a trustee of the New Jersey Coalition of Automobile Retailers (NJCAR), a board member of the New York State Automobile Dealers Association (NYSADA), and a board member of the National Foundation for Teen Safe Driving. He also served as Advisory Council member of Capital One Auto Finance. He is an active member of the New Jersey Chinese-American Chamber of Commerce and often works with the Chinatown Health Clinic Foundation, which is the charitable foundation of the Charles B. Wang Community Health Center in New York.

John North (38) has served as Vice President of Finance since 2010 and Chief Accounting Officer since 2015. As the principal accounting officer, Mr. North is responsible for accounting, tax, and external financial reporting; manages corporate borrowings including mortgage and credit facilities; serves as the primary investor relations contact for buy- and sell-side analysts; and oversees Lithia's risk management functions. Prior to his promotion to Vice President of Finance, Mr. North served as Assistant Vice President, Accounting since 2008. He joined Lithia in 2002, and, beginning in 2006, served as Director of Accounting. Before joining Lithia, Mr. North worked for real estate and technology companies in the San Francisco area. Mr. North graduated from Santa Clara University with a degree in Finance. He is a licensed CPA in Oregon and a CFA charter holder.

CORPORATE GOVERNANCE

Board Leadership and Structure

2015 Board and Committee Composition

The following table reflects our board Members and their Committee positions in 2015.

Director	Key	Compensation	Audit	Corporate Governance
Thomas R. Becker	LI			
Bryan B. DeBoer				
Sidney B. DeBoer	CB			
Susan O. Cain	I		C	
Shau-Wai Lam				
Kenneth E. Roberts	I			C
William J. Young	I	C		

CB = Chairman of our board   I = Independent Director   LI = Lead Independent Director   C = Committee Chairman

Board of Directors

Our bylaws provide for not less than two and not more than seven directors. Our Board of Directors has the discretion to set the size of our board from time to time. Our Board of Directors has set the number of directors at seven.

There is no requirement that directors attend our annual meeting of shareholders, but directors are encouraged to do so. Our Board of Directors held 18 meetings in 2015. Each incumbent director attended at least 94% of all meetings of the board and of the board committees on which he or she served. All of our incumbent directors attended our 2015 Annual Meeting of Shareholders.

Board Committees

Our board has three standing committees: the Compensation Committee, the Audit Committee, and the Corporate Governance Committee. Each committee member is an independent director under NYSE listing standards, including, with respect to members of the Audit Committee and Compensation Committee, under the enhanced independence standards that apply to members of those committees. Each of our board committees has a charter. A written copy of our committee charters, Corporate Governance Guidelines, Code of Business Conduct and Ethics and Shareholder Communications Policy may be obtained by contacting our Investor Relations Department, Lithia Motors, Inc., 150 N. Bartlett Street, Medford, Oregon 97501. These documents are also available on our website at www.lithia.com under Investor Relations.

The Compensation Committee is responsible for our executive compensation philosophy. Among other responsibilities, it annually reviews the performance of, and determines the base salary and variable and long-term compensation for, our Chief Executive Officer and Chairman. In 2015, the Compensation Committee reviewed and approved a transition agreement with Sidney B. DeBoer, who resigned his position as an executive officer effective December 31, 2015. See "*Certain Relationships and Transactions with Related Persons.*" The Compensation Committee also reviews the compensation for other executive officers and reviews and recommends the compensation for independent board members. The Compensation Committee may delegate any of its responsibilities to a subcommittee, which subcommittee shall consist of at least two members of the Compensation Committee but otherwise may consist of any persons(s) selected by the Compensation Committee. The Compensation Committee has delegated authority to our CEO and CFO to specify the recipients of up to 50,000 restricted stock units ("RSUs") to persons who are employees of Lithia or a subsidiary of Lithia and who are not, at the time the award is granted, directors, officers or stockholders of Lithia required to file statements with the SEC under Section 16 of the Securities Exchange Act of 1934 (both RSUs and the Retirement Plan are described in the *Compensation Discussion and Analysis* below). In addition, the Compensation Committee has delegated authority to our CEO and CFO to make discretionary contributions to employees' accounts of up to $200,000 in the aggregate per calendar year under the Lithia Motors, Inc. Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan. The Compensation Committee also has the authority, in its sole discretion, to select, retain and obtain the advice of a compensation consultant and outside legal counsel as necessary to assist with the execution of its duties and responsibilities. The Compensation Committee administers our employee benefits plans, including our 2013 Amended and Restated Stock Incentive Plan, our 2009 Employee Stock Purchase Plan, our 2013 Discretionary Support Services Variable Compensation Plan and our Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan, and the Compensation Committee certifies and approves payments based on performance measures. The Compensation Committee held 15 meetings in 2015. (See "*Compensation Discussion and Analysis*" below for a discussion of our compensation philosophy and how the Compensation Committee determines the compensation of our executive officers).

The Audit Committee is responsible for selecting and hiring our independent registered public accounting firm and for overseeing our accounting functions, system of internal control established by management and processes to assure compliance with applicable laws, regulations and internal policies. Our Director of Internal Audit reports directly to the chair of the Audit Committee. The Audit Committee held six meetings in 2015. Each committee member is financially literate, as required under NYSE listing standards and the Audit Committee Charter; our board has reviewed the qualifications and experience of the nominees standing for election and has determined that Ms. Cain satisfies the requirements of an "audit committee financial expert" as defined by SEC rules.

The Corporate Governance Committee is responsible for assisting our Board of Directors in identifying qualified individuals to become board members and recommending to our Board of Directors nominees for each annual meeting of the shareholders; determining the composition of our Board of Directors and its committees; developing and implementing a set of effective corporate governance policies and procedures; developing and enforcing a Code of Business Conduct and Ethics; monitoring a process to assess the effectiveness of our Board of Directors, its members and its committees; and ensuring our compliance with NYSE listing standards. The Corporate Governance Committee held five meetings in 2015.

Director Independence

Generally, under NYSE listing standards, a director is not independent if he or she has a direct or indirect material relationship with Lithia or its management. In accordance with its charter, the Corporate Governance Committee annually reviews the independence of all non-employee director nominees and reports its findings to the full Board of Directors, which makes a determination about the independence of each nominee. The Board of Directors and the Corporate Governance Committee review and discuss all transactions and relationships between each director nominee or any member of his or her immediate family and Lithia, its consolidated subsidiaries and affiliates, and management, both in the context of the specific independence standards enumerated in the NYSE listing standards, as well as other business and personal relationships that could compromise the independent judgment of a director. Other than the NYSE listing standards, we do not adhere to categorical standards for determining independence; rather, we review and evaluate the specific facts and circumstances of each transaction and relationship to determine whether the director is independent. As a result of this review, our Board of Directors affirmatively determined that each of Ms. Cain and Messrs. Becker, Roberts, and Robino are independent under NYSE listing standards.

Lead Independent Director and Leadership Structure

Lithia's governance documents provide our board with flexibility to select the leadership structure that is best for the Company. If the chairman of our Board of Directors is not an independent director, our Board of Directors annually selects an independent director to serve as the "Lead Independent Director" responsible for coordinating the activities of the independent directors. If the Chairman of our Board of Directors is an independent director, our Board of Directors may nonetheless select a Lead Independent Director from one of the other independent directors.

Bryan B. DeBoer is our President and Chief Executive Officer, and Sidney B DeBoer is our Chairman of the Board. We believe that the separation of the CEO and Chairman positions is beneficial because it allows our CEO to focus his energy and time on operating the Company while simultaneously allowing our Chairman to exercise his leadership strengths. Because Sidney B. DeBoer is not an independent director, our Board of Directors appointed Thomas Becker as Lead Independent Director, and he has served in that capacity since 2008.

Sidney B. DeBoer, as Manager of Lithia Holding Company, L.L.C. ("Lithia Holding"), has the authority to vote all of the Class B common stock, which has approximately 52.3% of the voting power of our outstanding voting shares. To ensure independent oversight of management and the transparency expected from a public company:

- We maintain a board comprised of a majority of independent directors and the Audit Committee, Compensation Committee and Corporate Governance Committee are composed solely of independent directors;
- At least once each quarter, the independent directors meet privately in executive session. Annually, an independent third party conducts a 360 degree review of our Chief Executive Officer with the other board members and the officers reporting directly to the Chief Executive Officer. The results of that review are shared with the independent directors;
- Each committee chair sets the agenda for his or her committee meeting and all directors are permitted to propose items for consideration by any committee or the full board;
- Each committee is given the right in its charter to retain outside advisors (including legal counsel) in its discretion; and
- We adopted Corporate Governance Guidelines and a Code of Business Conduct and Ethics (each of which is available on our website at www.lithia.com).

We believe board and committee structure, practices and policies, as described above, allow our Board of Directors to provide adequate, independent oversight of management. Shareholders may contact the Lead Independent Director or the independent directors as a group using the procedures described in "*Shareholder and Other Interested Parties Communications*" below.

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Our Board's Risk Oversight Role

Our Board of Directors monitors the risks facing our business by evaluating our risk management processes, including the processes established to monitor how management reports material risks to our Board of Directors and how our executive team manages the various risks that our business faces. Our Board of Directors periodically reviews the potential severity of various risks faced by our Company (including geographic risks and the potential impact of new laws to the business) and the likelihood that they will occur. Our Board of Directors collaborates with management on developing the Company's long range plan and as part of that process helps management ensure that those risks and uncertainties are considered in management's ongoing operations and in creating the Company's long range plan.

Our Board of Directors has delegated responsibility for certain areas of its risk oversight to its standing committees.

The Compensation Committee, together with our Board of Directors, reviews and manages our compensation policies and programs to ensure they do not encourage excessive risk-taking by our executives and employees. The Compensation Committee reviews a summary and assessment of such risks at least annually and in connection with the discussion or review of individual elements of compensation.

The Audit Committee reviews our material financial risk exposures and the process by which management assesses and manages financial risks. The Audit Committee also meets with management to discuss the steps management has taken to assess, monitor and mitigate risks that the Company faces. While our Board of Directors oversees risk management, our management is charged with managing risk through effective internal controls and processes, which facilitates the identification and management of risks, and management regularly discusses risk management with our Board of Directors.

Director Qualifications and Nominations

The Corporate Governance Committee is responsible for identifying and evaluating potential director nominees to fill any vacancies on our Board of Directors. The committee recommends director nominees with backgrounds and qualifications that complement each other and collectively allow our Board of Directors to fulfill its responsibilities.

The Corporate Governance Committee annually reviews the composition of our board and evaluates the qualifications and contributions of the current directors in the context of the desired composition of our board, our operating requirements and the interests of our shareholders. The committee also routinely reviews and interviews candidates for our board of Directors whose background and experience suggest they may be qualified to join our board. The qualifications required of individuals for consideration as a board nominee vary according to the particular areas of expertise sought as a complement to our existing Board of Directors composition at the time of any vacancy. Potential candidates may be suggested from various sources, including management, other board members, shareholders, legal counsel, business leaders and other industry executives and directors. To date, our board has not used an outside director search firm to identify potential director nominees.

The Corporate Governance Committee evaluates the qualifications of potential director nominee candidates, including candidates proposed by shareholders, based on certain criteria which include the individual's skills, experience and other factors in the context of the current composition of our Board of Directors in order to maintain our board's overall diversity, including such factors as business experience, other directorships, business and personal relationships with management, expertise in finance, knowledge of financial reporting and the business of the Company. In this context, diversity encompasses differences of viewpoint, personal and professional experience, education, skill, and other individual qualities and backgrounds, such as gender, race and ethnicity differences. At a minimum, qualified director nominees should have the ability to dedicate sufficient time to board activities, and candidates for a position as an independent director should meet applicable NYSE independence standards and not have any conflicts of interest or material affiliations with us or our executive officers. The Corporate Governance Committee reviews its effectiveness in balancing these criteria when assessing the composition of our board.

We require all of our directors to annually sign an acknowledgment of their confidentiality obligations and obligations under our insider trading policy and other applicable policies to reinforce their commitment to protect our confidential information and our business reputation and to comply with applicable securities laws.

We seek to attract and retain qualified candidates for board membership regardless of the origin of recommendation, and there are no differences in the manner in which the Corporate Governance Committee evaluates nominees for director based on whether the nominee is recommended by a shareholder. The Corporate Governance Committee will consider potential nominees recommended by any record or beneficial shareholder. (See *"Shareholder and Other Interested Parties Communications-Shareholder Director Recommendations"* below).

Code of Business Conduct and Ethics

We adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees, including our principal executive, financial and accounting officers. A complete copy of our Code of Business Conduct and Ethics is available on our website at www.lithia.com. You may request a copy by mail from our Investor Relations Department, Lithia Motors, Inc., 150 N. Bartlett Street, Medford, Oregon 97501. We intend to publicly disclose all amendments to and waivers of the Code of Business Conduct and Ethics on our website.

Board Compensation

Compensation of Directors

Non-Employee Director Compensation. Our directors serve from election at each annual meeting until the following annual meeting or until the director's successor is elected and qualified. The Compensation Committee annually reviews non-employee director compensation and recommends changes to our Board of Directors. If accepted, any recommended change is effective for the ensuing service year. Accordingly, the actual compensation paid to a non-employee director in a calendar year is generally earned under two separate compensation plans. Directors who are employees of the Company are not compensated separately for their service as directors. Executive officers of the Company do not recommend or determine non-employee director compensation.

In 2015 our non-employee directors were Ms. Cain and Messrs. Lam, Becker, Young and Roberts. Mr. Young retired from the board effective March 1, 2016, and the board elected David Robino to fill the vacancy. We pay a significant portion of our non-employee directors' compensation as equity awards. The Compensation Committee believes that paying a portion of the annual compensation in equity provides non-employee directors with a vested interest in our long-term financial success and aligns their interests with those of our shareholders. The compensation structure for our non-employee directors for the 2015-2016 service year is:

- $5,000 monthly cash retainer, plus $2,083 monthly if the director serves on a committee; and
- An award for a number of RSUs, which are settled in shares of our Class A common stock, with a value of $100,000, which increases by an additional $25,000 if the director serves on a committee. The number of RSUs awarded is based on the average closing share price for the 40 trading days prior to the award grant date.

In 2015 we granted RSU awards to our non-employee directors immediately after the annual shareholder meeting, and we expect that practice to continue. The RSU awards vest over one year, with the first 25% vesting on the first business day of the month after each regularly scheduled quarterly meeting of our Board of Directors if the director continues to serve on that day. All equity grants to non-employee directors are subject to our stock ownership policy. (See *"Non-Employee Director Stock Ownership Policy; Hedging and Pledging Restrictions"* below).

Our Board of Directors believes the compensation of our non-employee directors is equitable, and that by paying most of the non-employee directors' compensation as equity awards subject to our stock ownership policy we tie the directors' compensation to shareholder interests. The Compensation Committee periodically engages independent consultants to review the market competitiveness of the compensation paid to the non-employee directors compared to Company peers. In 2012 and 2013, the Compensation Committee hired Rodeghero Consulting Group for this purpose. It did not hire a consultant for this purpose in 2014 or 2015. The Compensation Committee engaged Towers Watson in February 2016 to help it assess non-employee director compensation for the 2016-2017 board service year.

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Non-Employee Director Compensation Table. The following table summarizes compensation paid to non-employee directors during calendar year 2015, which represents the 2015 portion of both the 2014-2015 board term and the 2015-2016 board term:

Name	**Fees Earned or Paid in Cash ($)**	**Stock Awards ($)(1)**	**All Other Compensation ($)(2)**		**Total ($)**
Thomas R. Becker	$76,667	$135,365	$ 5,947		$217,979
Susan O. Cain	76,667	135,365	3,197		215,229
Shau-Wai Lam	60,000	108,271	65,746	(3)	234,017
Kenneth E. Roberts	76,667	135,365	6,453		218,485
William J. Young	76,667	135,365	—		212,032

(1) The amounts set forth in this column reflect the fair value of all awards granted in 2015, including awards that did not vest in 2015. (See Note 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for the valuation techniques and assumptions and other information related to our stock awards).

(2) Amounts paid by us on behalf of our board members for long-term care insurance premiums.

(3) This amount is related to a stock award for Mr. Lam as compensation for his consulting work to the board prior to his election to the board in April of 2015.

The fees reflected in the column “Fees Earned or Paid in Cash” in the above table are the actual fees earned in calendar year 2015. The amounts in the “Stock Awards” column reflect the fair value of awards granted during 2015, even though not fully earned until the completion of the year of service in April 2016.

Equity incentive awards outstanding at December 31, 2015 for each non-employee director were as follows:

Name	**Unvested Stock Awards (#)**
Thomas R. Becker	323
Susan O. Cain	323
Shau-Wai Lam	258

Kenneth E. Roberts	323
William J. Young	323

Deferred Compensation Agreements with Non-Employee Directors. We offer our non-employee directors the opportunity to defer receipt of their compensation by entering into a Deferred Compensation Agreement with the Company. Under this agreement, participants, including the non-employee directors, who elect to defer compensation may defer receipt of all or a portion of their cash compensation and any stock award. In 2015, no director elected to defer cash compensation or stock compensation.

Director Service Agreement with Sidney B. DeBoer. We entered into a Director Service Agreement, effective January 1, 2016, with Sidney B. DeBoer. Under the agreement, we agreed to pay Mr. Sidney B. DeBoer in cash a prorated portion of $210,000 (the cash equivalent of the annual amount paid to non-employee directors for the 2015-2016 service year) until the Board of Directors changes the compensation payable to non-employee members of the Board of Directors. Thereafter, for so long as Mr. Sidney B. DeBoer serves as a member of the Board of Directors, the Company will pay him the same compensation, in the same form (cash or equity), as the Company pays to its non-employee directors (as that amount is established by the Board of Directors from time to time).

Non-Employee Director Stock Ownership Policy; Hedging and Pledging Restrictions

We expect our non-employee directors to acquire and hold sufficient shares of our common stock to meaningfully share the risks and rewards of ownership with our shareholders generally. Accordingly, under our Stock Ownership Policy for Directors, non-employee directors are required to retain the lesser of 900 shares of common stock for each year of service or 5,000 shares; however, shares may be sold to pay taxes with respect to the receipt of such shares.

Our insider trading policy and our stock ownership policy for executive officers and directors specifies that they may not (1) engage in hedging transactions, including through the use of financial instruments such as prepaid variable forwards, equity swaps, collars and exchange funds or (2) hold Company securities in a margin account or otherwise pledge Company securities as collateral for a loan. In the case of pledging transactions, our Board of Directors may grant exceptions to this prohibition when a person wishes to pledge Company securities as collateral for a loan (not including margin debt) and demonstrates the financial capacity to repay the loan without resorting to the pledged securities, or in circumstances our Board of Directors determines to be not detrimental to the Company. In addition, securities pledged as of March 15, 2013 may continue to be pledged under existing or replacement arrangements. Sidney B. DeBoer is a member and the manager of Lithia Holding, which has the sole voting and investment power with respect to all of the Company's Class B common stock; 1,762,231 of the 2,542,231 shares of Class B common stock held by Lithia Holding are pledged by Lithia Holding to secure a loan to Lithia Holding. Ken Roberts has a line of credit that is secured by the securities held in one of his brokerage accounts, including 59,775 shares of Class A common stock of Lithia; no amounts were drawn on this line of credit as of February 29, 2016. Tom Becker has a line of credit that is secured by the securities held in one of his brokerage accounts, including 50,095 shares of Class A common stock of Lithia; no amounts were drawn on this line of credit as of February 29, 2016.

PROPOSAL NO. 1

Election of Directors

Our Board of Directors has nominated each of the following persons for election as a director:

Nominee Name	Age	Has Been a Director Since/(During)
Thomas R. Becker	64	1997
Susan O. Cain	61	2009
Bryan B. DeBoer	49	2008
Sidney B. DeBoer	72	1968
Shau-Wai Lam	74	2015
Kenneth E. Roberts	71	2012
David J. Robino	56	2016

Term

If elected, each nominee will hold office until the next annual meeting or until his or her successor is elected and qualified.

Director Replacement and Resignation Policy/Election by Majority Vote

We have no reason to believe that any of the nominees will be unable or unwilling to serve if elected. However, if any nominee should become unable or unwilling to serve, proxies may be voted for another person nominated by our Board of Directors.

Because our Board of Directors is elected by a plurality of votes, it is possible directors can be elected with less than a majority vote in favor of their election. Our Board of Directors has adopted a Director Resignation Policy to address the possibility that, in an uncontested election of directors, a director could be elected with more “withheld” votes than votes cast “for” the director. A director receiving more “withheld” votes than “for” votes must tender his or her resignation from our Board of Directors within five business days after certification of the election results. Within ninety days after receipt of such resignation, the Corporate Governance Committee will consider the resignation offer and make a recommendation to our Board of Directors whether to accept or reject the offer to resign. Our Board of Directors will disclose its decision on a Form 8-K filed with the SEC. The Corporate Governance Committee will not nominate for election any person who in the previous year's election received more "withheld" votes than votes cast "for" the person. The full Director Resignation Policy is included in our Corporate Governance Guidelines which can be accessed on our website at www.lithia.com.

Biographical Information on our Nominees

Our Board of Directors believes that the combination of the qualifications, skills and experiences of the nominees will contribute to an effective and well-functioning board. Our Board of Directors and the Corporate Governance Committee believe that individually, and as a group, the nominees possess the necessary qualifications to provide for future oversight of our business consistent with their fiduciary duties to shareholders. Included in each director nominee's biography, above, is a description of the experience, skills and attributes of each nominee.

Our Board of Directors unanimously recommends a vote FOR each of the nominees named above.

PROPOSAL NO. 2

Advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K.

We are asking shareholders to approve the following advisory resolution on the executive compensation reported in this proxy statement:

RESOLVED, that the compensation paid to the Company’s named executive officers, as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and related tables, notes and narrative discussion in the Proxy Statement for the Company’s 2016 Annual Meeting of Shareholders, is approved.

The advisory vote, which is required by Section 14A of the Securities Exchange Act, is a vote to approve or disapprove the overall compensation package of our executive officers and not any one specific element of the compensation package or on the compensation received by any one person. We hold our advisory vote annually. The advisory vote is non-binding and does not overrule a decision by the Company, our Board of Directors or the Compensation Committee or create or imply any additional fiduciary duty for our officers or directors. However, the Compensation Committee and board will review and consider the results of the advisory vote when making future decisions about executive compensation.

At our 2015 Annual Meeting of Shareholders, over 99% of the advisory votes cast on the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and related tables, notes and narrative discussion in the Proxy Statement for our 2015 Annual Meeting of Shareholders, were cast “for” that compensation. The Compensation Committee considered this shareholder approval when it determined 2015 compensation. Based on the approval and on our belief that our compensation philosophy, programs and practices in 2014 were effective in promoting our strong financial performance, we did not make material changes to the philosophy, programs or practices in 2015. The increases we made to the amount of compensation that we paid to our executives between 2014 and 2015 reflect our improved financial performance and increased responsibility and experience of our executives.

We urge shareholders to read the detailed information about our compensation philosophy and objectives included in *Compensation Discussion and Analysis* (CD&A), below, which provides context for the Summary Compensation Table beginning on page 29 and related information. As discussed in the CD&A, we believe our compensation programs align the interests of our executives and our shareholders, help us attract and retain experienced executive talent, and focus our executives on performance and achievement of our short-, mid- and long-term strategic goals and objectives. We believe the overall compensation paid in 2015 was appropriate, particularly considering our financial results in 2015.

Our Board of Directors unanimously recommends a vote FOR the advisory resolution to approve the compensation of our named executive officers.

Compensation Discussion and Analysis

Named Executive Officers

This section discusses our compensation programs and the compensation paid in 2015 to our Chief Executive Officer, Chief Financial Officer and next three highest-paid executives (named executive officers, or NEOs). The following table identifies our NEOs, the positions they hold and the year in which they became an employee. Our officers are appointed by our Board of Directors. (See "Directors, Nominees and Executive Officers" for more complete biographical and background information on our NEOs). Sidney B. DeBoer resigned his position as an executive officer effective December 31, 2015.

Name	**Age**	**Current Position(s)**	**With Company Since**
Bryan B. DeBoer	49	President and Chief Executive Officer	1989
Christopher Holzshu	42	Senior Vice President, Chief Financial Officer and Secretary	2003
Sidney B. DeBoer	72	Chairman (Executive Chairman during 2015)	1968
Scott A. Hillier	53	Senior Vice President	1986
George C. Liang	60	Senior Vice President	2014

2015 Performance and Growth

Our Road to Success

In 2015, to achieve our mission of being the leading automotive retailer in each of our markets, we continued to build upon our three cornerstones of success: operational growth, acquisition opportunities and financial discipline.

The table below highlights selected results that were used to determine performance-based compensation in 2015 and compares those to 2014 and 2013 results. Certain of the financial measures differ from measures calculated in accordance with generally accepted accounting principles in the United States ("GAAP"). We reconcile adjusted pre-tax profit and adjusted earnings per share to the most comparable GAAP measures below.

	2015	**2014**	**2013**
Adjusted pre-tax profit (millions)	$302.1 million	$218.9 million	$170.7 million

Adjusted earnings per share	$7.30 (1)	$5.26 (2)	$4.13 (3)
New vehicle unit sales	137,486	91,104	66,857
Rate for manufacturer sales responsibility attainment	108.2 %	107.8 %	110.5 %
Used retail vehicle same store unit sales increase	9.3 %	8.0 %	13.7 %
Service, body and parts same store sales increase	10.3 %	11.3 %	6.8 %
Sales satisfaction index (SSI)	99.9 %	100.5 %	100.4 %
Service Satisfaction index (CSI)	99.3 %	100.1 %	99.6 %

(1) Our reported diluted net income per share was $6.91; adjusted earnings per share excludes a benefit of $0.14 per share for a gain on the sale of a store, offset by non-core charges of $0.08 related to asset impairments and $0.45 related to the transition agreement with our former Executive Chairman.

(2) Our reported diluted net income per share was $5.26; adjusted earnings per share excludes a benefit of $0.13 per share for a gain on the sale of a store, offset by non-core charges of $0.13 per share related to certain reserves and acquisition costs recorded in 2014.

(3) Our reported diluted net income per share was $4.05; adjusted earnings per share excludes a benefit of $0.06 per share for a gain on the sale of land, offset by a non-core charge of $0.14 per share related to certain reserves recorded in 2013.

Our focus on the following areas drove our financial success reflected in the table above:

- increasing revenues in all business lines;
- capturing a greater percentage of overall new vehicle sales in our markets;
- capitalizing on a used vehicle market that is approximately three times larger than the new vehicle market;
- growing our service, body and parts revenues as units in operations increase;
- leveraging our cost structure as revenues increase;
- diversifying our franchise mix through acquisitions;
- integrating acquired stores to achieve targeted returns;
- increasing our return to investors through dividends and strategic share buy backs;
- utilizing prudent cash management, including investing capital to produce accretive returns; and
- increasing leveragability of the balance sheet to prepare for future expansion opportunities

In 2015, we performed well in each of these areas. We continued to see substantial operational growth; compared to 2014, revenue increased 45.9%, same store sales increased 10.6%, and adjusted earnings per share increased 38.8% to $7.30, the highest in our history. We also continued to take advantage of targeted acquisition opportunities to grow our operations; we purchased or opened six new dealerships that will add an estimated $380 million in additional annual revenues. Finally, we positioned ourselves for continued growth through financial discipline, balancing investment with shareholder return; we distributed $20.0 million to shareholders as cash dividends and repurchased $31.5 million of shares under our share buyback program.

Our focused commitment to achieving our mission in 2015 yielded above average industry growth levels, as shown in the below charts calculated using the non-GAAP financial measures as reported by our Tier 1 Peer Group (defined below).

Total Shareholder Return

The following graphs show our 1-year Total Shareholder Return (“TSR”) and 3-year average TSR compared to the average 1-year TSR and 3-year average TSR of our Tier 1 and Tier 2 peer groups over the previous three years. The auto retailer, or Tier 1, peer group consists of: Asbury Automotive Group, AutoNation, Group 1 Automotive, Penske Automotive Group and Sonic Automotive, Inc. The industry, or Tier 2, peer group consists of Advance Auto Parts Inc., Americas Car-Mart, Inc., AutoZone, Inc., CarMax, Inc., Monro Muffler Brake, Inc., O’Reilly Auto Parts and The Pep Boys - Manny, Moe & Jack. Further discussion on the peer groups can be found beginning on page 22. TSR is calculated as the difference between the beginning stock price at January 1 and the ending stock price at December 31 plus dividends paid in the measurement period, divided by the beginning stock price at January 1.

1-Year TSR = (StockPriceend - StockPricebegin + DividendsPaid) / StockPricebegin - 1

3-Year TSR = ((StockPriceend - StockPricebegin + DividendsPaid) / StockPricebegin)^1/3 - 1

Compensation Philosophy and Objectives

The Compensation Committee of our Board of Directors (as used in this *Compensation Discussion and Analysis*, the “Committee”) sets compensation to attract and retain talented individuals, provide incentives to accomplish our business goals and objectives and align the interests of our executives with those of our shareholders. We strive to establish a compensation package that is competitive within our industry and in the locations where we operate. Our compensation philosophy emphasizes pay for performance and a strategic balance of short- and long-term incentives.

Compensation Elements and Emphasis on Performance

We implement our philosophy through five primary compensation elements, each of which serves a distinct purpose.

1. **Base salary** reflects the scope of the executive’s role and baseline performance.
2. **Variable cash performance bonuses** motivate executives to meet the short-term goals. We set performance measures once every six months to account for market changes and other factors.
3. **Performance equity incentives** align executive and shareholder interests and reward long-term success. We award RSUs to executives that have both performance and retention components: RSUs are earned when specified annual performance criteria are met; earned RSUs vest in subsequent years based on continued employment. We also have awarded long-term RSUs to certain executives that vest if specified adjusted earnings per share thresholds are met within specified periods.
4. **Retirement benefits** promote our executives’ financial security and assist with our succession planning.
5. **Other benefits** enhance base pay and promote our executives’ financial security and health.

2015 Compensation

Our 2015 compensation programs and practices did not change materially from 2014. The graphs below show the 2015 proportion of fixed and performance-based pay and the proportion of short- and long-term pay earned by our chief executive officer and by our other NEOs.

Our Process for Determining Compensation

Compensation Committee's Determination of Compensation for CEO. The Committee determines the compensation of our CEO. The Committee meets in executive session, without our CEO or Chairman, to evaluate performance and to set the amount and type of compensation to be paid. In this process, the Committee is assisted by its independent compensation consultant. The Committee also reviews and considers the results of the independent 360-degree review of our CEO that an outside party conducts annually, and the Committee considers all elements of total compensation earned in prior years. Finally, the Committee reviews and considers the results of our most recent advisory vote on the compensation of our NEOs. If the outcome on the advisory vote on executive compensation paid during the previous year is favorable, as it was last year, we believe that conveys shareholder support of the Committee's decisions and existing compensation programs.

Until 2016, the Committee also determined the compensation of our Executive Chairman. Effective December 31, 2015, Mr. Sidney B. DeBoer ceased to be an executive officer of the Company, and the Company ceased paying Mr. Sidney B. DeBoer a base salary and making contributions to his account under the Company's Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan. Mr. Sidney B. DeBoer also ceased to be eligible to participate in performance-based compensation arrangements, including under the Company's 2013 Discretionary Support Services Variable Compensation Plan and under its 2013 Stock Incentive Plan. See "Certain Transactions and Related Person Transactions."

Compensation Committee's Determination for Compensation for Other Senior Executive Officers. For each senior executive officer other than our CEO, our CEO recommends a compensation package to the Committee. The Committee reviews these recommendations in the context of our compensation goals and objectives, our performance and each executive's performance, and the Committee considers input from the Committee's independent compensation consultant. The Committee then determines whether to approve or modify the proposed compensation package.

Additional Compensation Policies

We also have the following compensation policies, which mitigate some of the risks we face from the performance-based compensation that we offer.

Claw-backs. Compensation that we pay based on performance, including annual performance bonuses and equity compensation, is subject to a "claw-back" if we restate our financial statements and if less cash compensation should have been paid or fewer RSUs should have been issued based on the restated measures.

Stock Ownership Policy. After the second calendar year of service, our NEOs are expected to acquire and hold shares of our Class A common stock with a market value equal to at least 5% of their base salary for each year of service as an executive officer (but not greater than 50% of base salary expected). In determining compliance with this guideline, share ownership includes vested RSUs and indirect share ownership but not unexercised stock options. Our stock ownership policy more closely aligns the interests of our NEOs with the interests of our shareholders and exposes our NEOs to downside equity performance risk.

Negative Discretion of the Compensation Committee. The Committee has discretion to reduce cash bonus amounts even if performance levels specified in the award are attained.

Independent Compensation Consultant and Peer Group Comparison

Independent Compensation Consultant. In 2015, in connection with determining 2016 compensation, the Committee engaged a compensation consultant, Towers Watson ("TW"), to prepare a report on the market competitiveness of the compensation paid to our CEO and certain other executives. The Committee did not engage a compensation consultant when setting 2015 compensation. The Committee annually assesses whether its compensation consultants are independent. The Committee has reviewed the independence of TW and determined that TW's work has not raised any conflict of interest and that TW is independent under the Committee's policy.

Peer Group Comparison. In 2015, TW completed an analysis of market compensation (the "TW Study") and compared our executives' compensation to the updated and expanded industry classification peer group found on page 20 of this proxy statement. The Committee considers the compensation and performance of our peer groups when determining appropriate levels of compensation for our NEOs but does not aim to set compensation within a specified percentile of peer group compensation.

Other Compensation-Related Considerations

Risk Assessment. Our Board of Directors and the Committee regularly assess whether our compensation policies and practices and, in particular, our performance-based compensation practices, encourage executives or other employees to take unnecessary or unreasonable risks that could threaten the long-term value of the Company or that are reasonably likely to have a material adverse effect on the Company. Our Board of Directors and the Committee do not believe they do, generally, because:

- We provide an appropriate amount of fixed compensation;
- We base a portion of annual cash bonus amounts on non-financial goals, including customer satisfaction ratings;
- Maximum cash bonuses are capped;
- The primary performance criteria we use are “bottom line” measures, pre-tax profit and adjusted earnings per share, which we believe are less susceptible to manipulation for short-term gain than are “top line” measures;
- The incentive plans in which our executive management participate are based on Company-wide performance measures;
- Our cash variable compensation plan preserves “negative discretion” to permit the Committee to elect not to pay otherwise achieved variable compensation amounts for any reason;
- A meaningful component of compensation is equity grants with extended vesting periods designed to ensure that our executives value and focus on our long-term performance; and
- All of our NEOs have equity positions in Lithia and are subject to our stock ownership policy, which we believe increases their focus on long-term shareholder value.

Certain of the risks associated with performance compensation are mitigated by our claw-back policy and, with respect to equity incentives, by our stock ownership policy and the fact that some performance-based RSUs vest over four years. We also have effective internal controls in place to test, monitor and certify the financial performance that determines the amounts of awards earned by our employees.

With respect to our employees whose compensation plans are based in significant part on store-level profitability or their individual sales performance, we have established Company-wide procedures and protocols and centralized marketing, advertising controls, and accounting and operational controls, backed by internal audit reviews, that are designed to alert us to activities that are illegal or involve unreasonable or excessive risk.

Tax Considerations. The Committee considers the effects of Section 162(m) of the Internal Revenue Code, which, generally, denies publicly held companies a tax deduction for annual compensation in excess of $1 million paid to their chief executive officer or any of their three other most highly compensated corporate officers, other than the chief financial officer, who are employed on the last day of a given year, unless their compensation is based on performance criteria that are established by a compensation committee which is made up of outside directors and approved, as to their material terms, by their shareholders. In setting the Company’s executive compensation, the Committee’s primary goal is to further the best interests of our shareholders. In some cases, the Committee may determine that a compensation program or practice that does not meet the requirements of Section 162(m) nevertheless is in the best interests of our shareholders and, in those cases, the Committee retains the authority to pay compensation even if it is not deductible by the Company.

2015 Executive Compensation by Element

The elements of our executive compensation include: (1) base salary, (2) variable cash performance bonus, (3) performance equity incentives, (4) retirement benefits and (5) other limited perquisites and benefits. Variable cash performance bonus, performance equity compensation and retirement benefits are determined as a percentage of the executive's base compensation. We describe each of these elements below and explain what we paid in 2015 and why.

Name	Base Salary $		Variable Cash Performance Bonus (Max. as % of Base Salary)		Performance Stock Grants (Max. as % of Base Salary)		Long-Term Performance Stock Grants (Max. as % of Base Salary)		Retirement Contribution (as % of Prior Year Base Salary)	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Bryan B. DeBoer	$840,000	$882,000	150 %	Same	150 %	Same	— %	200 %	30 %	Same
Christopher Holzshu	420,000	441,000	100	Same	125	Same	—	150	25	Same
Sidney B. DeBoer	840,000	Same	150	Same	—	Same	—	—	116	Same
Scott A. Hillier	420,000	441,000	100	Same	75	Same	—	100	25	Same
George C. Liang	360,000	Same	NA	100	NA	40	NA	100	NA	25 %

Base Salary. The Committee establishes the base salary for our CEO based on competitive market factors, the CEO's duties and responsibilities, comparison of relative CEO pay within the auto retail and industry peer groups mentioned above, our performance and the relative pay of our senior management team. The base salaries of all other NEOs are approved by the Committee and are based on both financial and non-financial criteria, the executives' respective responsibilities, the relative internal pay equity among the senior executives and current market conditions, including relative pay within the industry. Annual base salary changes commence January 1.

Variable Cash Performance Bonus. Our Variable Cash Performance Bonus Plan compensates an executive for achieving short-term performance goals. Every six months, the Committee, along with senior management, establishes performance targets for awards under the plan. Because the payments under the plan are purely performance-based, prior compensation received under the plan is not taken into consideration when setting new performance targets under the plan. At the end of each six-month period, the Committee reviews our Internal Audit Department's determination of the extent to which targets have been met. That determination is based on GAAP, to the extent applicable, and adjusted for non-operational transactions, disposal activities and related income tax adjustments.

Under the plan, each NEO has a maximum cash bonus potential based on a percentage of base salary ranging from 100% to 150%. The Committee set this range based on its view that the pay we offer to our NEOs for exceptional performance should be at least equal to, and for some NEOs it should be greater than, 100% of each NEO's base salary. We calculate bonus payments by multiplying the executive's maximum bonus level by the executive's salary and the performance criteria achievement level. For example, if an executive's maximum bonus level were 150% and the performance goals attained were 50% of potential, the executive's bonus would equal 75% of the executive's base salary (i.e., base salary * 150% * 50%). Bonuses approved by the Committee are paid in the quarter after the measurement period. Although the performance periods are semi-annual, the maximum compensation potential for any executive is determined on an annual basis.

The Committee may base performance goals on a wide array of Company or business unit performance measures, including measures of revenue, operating income or cash flows, profit or profit margins, and manufacturer sales and services satisfaction scores. While the Committee believes that financial performance should be the most significant determinant of executive compensation, the Committee also takes into account other factors that drive long-term value for shareholders when it establishes performance targets including customer satisfaction, new and used vehicle sales growth and growth in fixed operations.

The tables below show, for the first and second half of 2015, performance objectives, performance targets, actual results, potential percentage achievement and actual percentage achieved for each target. As an additional condition to earning any bonus for Sales Satisfaction scores, Service Satisfaction scores, New Vehicle MSR, Used Vehicle Unit Growth and Fixed Operations Sales Growth, we were required to have achieved pre-tax profits of at least $61 million for the first half of 2015 and $74 million for the second half of 2015. Pre-tax accomplishment levels would have been automatically reduced $500,000 for each full $25 million in Company share repurchases made during the measurement period.

Objective	**2015 Performance Targets**	**Result** 1st Half	**Result** 2nd Half	**Potential Achievement (5)**	**Actual Achievement** 1st Half	**Actual Achievement** 2nd Half
Adjusted Pre-tax Profit - First half of the year (1)	$61.0 million to $122.0 million	$141.5 million		42.5% to 85%	85%	
Adjusted Pre-tax Profit - Second half of the year (1)	$74.0 million to $147.0 million		$160.6 million	42.5% to 85%		85%
Sales Satisfaction (2)	Aggregate score of 100%	100.9%	99.9%	3%	3%	—%
Service Satisfaction (2)	Aggregate score of 100%	99.6%	99.3%	3%	—%	—%