LITHIA MOTORS INC
Form DEF 14A
March 11, 2019
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]
Filed by a Party other than the Registrant [ ]

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[ ] Preliminary Proxy Statement
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Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to §240.14a-12

LITHIA MOTORS, INC.
(Exact Name of Registrant as Specified In Its Charter)

[X] No fee required
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Notice of 2019 Annual Meeting of Shareholders and Proxy Statement

Thursday, April 25, 2019 at 8:30 a.m. Pacific Daylight Time
150 N. Bartlett St., Medford, Oregon 97501

Letter from the Chief Executive Officer

Dear Shareholder,

We are pleased to invite you to attend our 2019 Annual Meeting of Shareholders on April 25 at 8:30am PDT to share our growth strategies and vision on how we will continue to create personal transportation solutions wherever, whenever and however our consumers desire.

Our mission, Growth Powered by People, focuses on our customers and team to create our competitive advantage. We are fortunate to lead such a talented and engaged group of people committed to modernizing automotive retail through innovation and personalized experiences.

We will continue to expand our value-based growth strategy that targets strong franchised stores that have not realized their potential. By unlocking the vertical and horizontal adjacencies created by the scale of our core business we will further activate and grow our nationwide network.

Our entrepreneurial culture inspires leaders to test and tailor solutions to their local markets providing a diverse range of consumer offerings. These solutions are underpinned by world class performance management systems that assist in managing results to drive profits upward.

We're passionate about cars and the relationships we have built with our customers, team members and the communities we serve. We hope you share our enthusiasm during this exciting time in our industry. We have a winning combination of high profitability, a strategic acquisition model, organic growth opportunity, a well-positioned balance sheet and an amazing team. Together these strengths will enable us to capture a significant portion of the U.S. market.

Thank you very much for being a partner and a shareholder in our company.

Bryan DeBoer
President and Chief Executive Officer
Lithia Motors, Inc.

NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS
To Be Held On April 25, 2019

To the Shareholders of Lithia Motors, Inc.:

I am pleased to invite you to the 2019 Annual Meeting of Shareholders of Lithia Motors, Inc., which will be held at 150 N. Bartlett St., Medford, Oregon 97501, on Thursday, April 25, 2019, at 8:30 a.m., Pacific Daylight Time for the following purposes:

- To elect seven directors to serve until the next annual meeting of shareholders;
- To conduct an advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K;
- To approve an amendment to the Company's Bylaws to provide shareholders with a "proxy access" right;
- To approve amendments to the Company's Restated Articles of Incorporation and Bylaws to adopt majority voting for uncontested elections of directors;
- To approve an amendment and restatement of the Company's 2009 Employee Stock Purchase Plan, including an increase in the number of shares available under the plan; and
- To ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2019.

We will also consider and act on other matters that properly come before the meeting.

Only holders of record of our common stock at the close of business on February 28, 2019 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, 2019, 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 2019 Annual Meeting of Shareholders and our 2018 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 2018 Annual Report on Form 10-K can be accessed directly at the following Internet address: http://www.proxyvote.com. Just enter the control number located on your proxy card.

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,

Christopher S. Holzshu, Executive Vice President and Secretary
March 11, 2019

CONTENTS

LITHIA MOTORS, INC.
PROXY STATEMENT

This proxy statement, the accompanying 2018 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, in connection with the solicitation of proxies by the Company for use at our 2019 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held at our principal executive office, 150 N. Bartlett St., Medford, Oregon 97501, on Thursday, April 25, 2019, at 8:30 a.m. Pacific Daylight Time. On or about March 11, 2019, 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 2018 Annual Report on Form 10-K. The 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. All references in this proxy statement to “Lithia,” “Lithia Motors,” the “Company,” “we,” “us,” or “our” refer to Lithia Motors and its subsidiaries, except where the 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: To elect seven directors to serve until the next annual meeting of shareholders; To conduct an advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K; To approve an amendment to the Company’s Bylaws to provide shareholders with a “proxy access” right; To approve amendments to the Company’s Restated Articles of Incorporation and Bylaws to adopt majority voting for uncontested elections of Directors; and To approve an amendment and restatement of the Company's 2009 Employee Stock Purchase Plan, including an increase in the number of shares available under the plan; and To ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2019.
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 28, 2019, 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 22,347,738 shares of Class A common stock and 800,000 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 1.8% (402,000 shares) of the Class A common stock and 100% (800,000 shares) of the Class B common stock outstanding representing approximately 27.7% 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 S. Holzshu, our Secretary, in writing, at 150 N. Bartlett Street, Medford, Oregon 97501; or • completing a written ballot at the Annual Meeting.

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 approve the amendment to the Company’s Bylaws to provide shareholders with a "proxy access" right.

Proposal 4: The affirmative vote of the majority of voting power of the shares of our Class A common stock and Class B Common stock outstanding and entitled to vote at the Annual Meeting, voting together as a single class, is required to approve the amendments to the Company’s Restated Articles of Incorporation and Bylaws to adopt majority voting for uncontested elections of Directors.

Proposal 5: The votes that shareholders cast “for” must exceed the votes that shareholders cast “against” to amend and restate the Company’s 2009 Employee Stock Purchase Plan.

Proposal 6: 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, 2019.

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, 2019 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?	The Company 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?	The Board of Directors has designated Tina Miller, Vice President and Chief Accounting Officer, as the proxy holder 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; • Voted FOR the approval of our compensation of the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K; • Voted FOR the approval of the amendment to the Company's Bylaws to provide shareholders with a "proxy access" right; • Voted FOR the approval of the amendments to the Company's Restated Articles of Incorporation and Bylaws to adopt majority voting for uncontested elections of Directors; • Voted FOR the amendment and restatement of the Company's Employee Stock Purchase Plan; and • Voted 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, 2019, 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

SIDNEY B. DEBOER

Sidney B. DeBoer took Lithia Motors public in 1996 and is the Chairman of the Board. Mr. DeBoer served as Chief Executive Officer and Secretary from 1968 through 2011, and then Executive Chairman through the end of 2015. Mr. DeBoer's pioneering work in the public auto retailer sector and as an automotive dealer has earned him numerous awards and recognition. His charitable work on the Southern Oregon University Foundation Board, Oregon Community Foundation and the Oregon Shakespeare Festival has created a vibrant community for our company's headquarters. Mr. DeBoer attended Stanford University and the University of Oregon. Mr. DeBoer's familiarity with our business, executive leadership knowledge and industry experience make him uniquely qualified to be our Chairman.

BRYAN B. DEBOER

Bryan B. DeBoer has been our Chief Executive Officer and President since 2012 and first became a director in 2008. Prior to becoming CEO, Mr. DeBoer was Senior Vice President of Mergers & Acquisitions/Operations and then Chief Operating Officer driving the growth of Lithia and transforming the company culture to an entrepreneurial and high performance model. Upon joining Lithia in 1989, Mr. DeBoer grew through the store positions of Finance Manager, Used Vehicle Manager, General Sales Manager, General Manager and multi-store General Manager. Mr. DeBoer has a B.S. degree from Southern Oregon University in Business Administration. He also graduated from the National Automobile Dealers Association Dealer Academy. Mr. DeBoer's store experience, passion for mergers and acquisitions and strong manufacturer relationships drive our growth. His enthusiasm for the car business combined with a competitive spirit set the tone for our culture.

SUSAN O. CAIN

Susan O. Cain joined our Board of Directors in 2009. Ms. Cain has been a Senior Instructor in Accounting at Southern Oregon University, located in Ashland, Oregon since 2004 and retired in 2018. Ms. Cain joined KPMG LLP in 1978, retiring as a partner in the San Francisco office in 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. She maintains her CPA license in California and brings to our Board of Directors a high level of accounting expertise. 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. She serves as the Audit Committee Chair and is an audit committee financial expert as defined under SEC rules.

SHAUNA F. MCINTYRE

Shauna F. McIntyre is a nominee for director. Ms. McIntyre serves as the Lead of Google Automotive Services, Geo, at Alphabet, Inc., and brings deep automotive industry experience, including perspective on new and emerging forms of mobility from both a technology and user viewpoint. Prior to joining Google, Ms. McIntyre was Head of U.S. Automotive and New Mobility Practice Group at Egon Zehnder, where she worked with marquee clients and created thought leadership on new mobility models. Ms. McIntyre also served as a Corporate Officer and Vice President of Strategy, Finance and Operations at Achates Power, a Sequoia Capital-backed startup developing the fuel efficient internal combustion engine for trucking applications, as well as Vice President of Global Commercial Vehicle Turbocharger Platforms at Honeywell. Prior to joining Honeywell, Ms. McIntyre held positions at both McKinsey and at Ford Motor Company. Ms. McIntyre holds a B.S. degree from the University of California, Los Angeles, an M.S. degree from University of California, Berkeley, and an M.B.A from Harvard University.

LOUIS P. MIRAMONTES

Louis P. Miramontes joined our Board of Directors in 2018. Mr. Miramontes currently serves as Audit Committee Chair for Rite Aid Corporation and a private company in California. He provides advisory services to a real estate development company. Mr. Miramontes worked at KPMG from 1976 to 2014, where he served as managing partner for the San Francisco office and provided audit services to public and private companies. He has extensive experience in accounting, financial reporting and corporate governance. Mr. Miramontes hold a B.S. degree in Business Administration from California State University, East Bay. He is also an audit committee financial expert as defined under SEC rules.

KENNETH E. ROBERTS

Kenneth E. Roberts joined our board in 2012 after retiring from Lane Powell PC, a Pacific Northwest law 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 2011. His private law practice focused on corporate finance, mergers and acquisitions, corporate governance, executive compensation and securities, having represented many public companies including Lithia Motors since its initial public offering in 1996. Mr. Roberts is a graduate of Harvard Law School and Oregon State University with a B.S. in Business and Technology. Mr. Roberts chairs our Nominating and Governance Committee and lends insightful analysis to our mergers and acquisitions strategies.

DAVID J. ROBINO

David J. Robino joined our board in 2016. He began his management career at The Maytag Corporation and Pepsi-Cola. He joined AC Nielsen in 1989, culminating as Senior Vice President of Nielsen International, based in Brussels, Belgium. After a successful Vice Presidency at AT&T's Business Markets Division, Mr. Robino left to lead Gateway, Inc. as Executive Vice President and Chief Administrative Officer and later Vice Chairman. Upon retiring from Gateway, Mr. Robino served as a member of the board of directors of Memec, Inc., then the world's leading distributor of specialty semiconductors, and Insight Enterprises, Inc., a global provider of information technology capabilities to enterprises. 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. Mr. Robino’s executive management and board experience over the course of his career at many large firms, provides us with expertise across a broad range of subjects.

Non-Director Executive Officers

CHRISTOPHER S. HOLZSHU

Christopher S. Holzshu is our Executive Vice President. Previously, he had been our CFO from 2010 to 2016. As CFO, Mr. Holzshu combined his accounting and financial acumen with his drive to help our stores' operations including the development of our performance management system. He is helping our stores develop stronger teams and stronger performance. Mr. Holzshu joined Lithia in 2003 as Director of Accounting after working on our external audit team at KPMG LLP, where he specialized in automotive manufacturing and retail sectors. Throughout his career with Lithia he has gained a deep understanding of the operations of our stores and a special talent for relating to individuals at all levels of the organization. Mr. Holzshu earned a B.S. in Finance and Accounting from the University of Alaska.

SCOTT A. HILLIER

Scott A. Hillier has been Senior Vice President of Operations since 2008, for which he oversees store leadership. Mr. Hillier joined Lithia in 1986, working in our stores in roles including Finance Manager, General Sales Manager, General Manager and multi-store General Manager. He was an initial leader of our store acquisition efforts. Mr. Hillier quickly developed a reputation for identifying talent and building teams which led to his promotion to Vice President of Human Resources in 2003. In his current role, Mr. Hillier helps foster our value of taking personal ownership for performance while mentoring store leadership including the Lithia Partners Group. Mr. Hillier graduated from Southern Oregon University with a B.S. in Inter-Disciplinary Studies.

GEORGE C. LIANG

George C. Liang has been our Senior Vice President of Operations since DCH combined with Lithia in 2014. He oversees store leadership. Mr. Liang joined DCH in 1988 after working as Vice President of BNP Paribas for 11 years in commercial finance. After working in Toyota and Nissan stores, he assumed responsibility for DCH's West Coast operations in 2001. Mr. Liang successfully added the East Coast to his duties and he became President of DCH Auto Group in 2010. During the combination with Lithia, he right-sized operations and led a cultural change to elevate performance through entrepreneurship. Mr. Liang is very active in various automotive dealer associations, including minority dealer organizations, and has extensive relationships with our manufacturer and finance partners. He is a graduate of University of California at Berkeley (B.A.) and University of British Columbia, Canada (M.B.A.), majoring in finance.

BRYAN OSTERHOUT

Bryan Osterhout is a Senior Vice President leading a substantial group of stores throughout the Northwest U.S. and Alaska. He joined Lithia over 20 years ago as the General Manager of Eugene Chrysler Dodge Jeep Ram. Mr. Osterhout exhibited his entrepreneurial spirit early, borrowing money from his family to start a used car dealership when he was only 21 years old. Now, he inspires that same passion for operational performance and leadership throughout many of our stores. Mr. Osterhout studied economics and marketing for four years at the University of Oregon.

THOMAS M. DOBRY

Tom Dobry is our Senior Vice President and Chief Marketing Officer. He leads our internal marketing team and partners with external agencies that serve our stores. Mr. Dobry first joined Lithia in 2007 and then again in 2013. He took a brief hiatus from Lithia to build a team in Detroit, Michigan guiding Chevrolet's advertising. Before joining Lithia, Mr. Dobry led regional marketing efforts for the Saturn and Dodge brands at Goodby Silverstein & Partners and BBDO advertising agencies, respectively. Mr. Dobry has a B.A. in Advertising from Michigan State University and a M.B.A. from the University of Oregon.

ERIK LEWIS

Erik Lewis is our Senior Vice President and Chief Human Resources Officer. Previously, Erik held HR leadership roles in Apple Leisure Group and Walmart. As CHRO, Mr. Lewis is focused on driving cultural alignment across our stores and instilling Lithia's values in a "Growth, Powered by People" approach to our business. In this effort, he will assist our management teams in taking a proactive approach to talent development and employee rewards. Earlier in Erik's career, he worked as a consultant with Andersen and PwC, where he advised clients in the automotive industry. In his career, Erik has gained a deep understanding of how effective people leadership can drive top line growth and profitability. He has a particular passion for creating a fun, exciting atmosphere in which our top talent can be engaged and retained. Erik has an M.B.A. and a B.A. in Spanish from Brigham Young University.

TINA MILLER

Tina Miller is our Vice President and Chief Accounting Officer, and has recently been appointed our interim Principal Financial Officer. She joined Lithia in 2005 working in Internal Audit and Corporate Accounting before being promoted to Director in 2010. Before Lithia, Tina worked as an auditor at Ernst & Young, one of the Big Four accounting firms. She graduated from Santa Clara University with a B.S. in Accounting and is a licensed CPA in Oregon. Tina's leadership and passion for accounting plays an important role in advancing our company.

CORPORATE GOVERNANCE
Board Leadership and Structure

2018 Board and Committee Composition

The following table reflects our Board members and their committee positions in 2018.

Director	Key	Compensation	Audit	Nominating & Governance
Sidney B. DeBoer	CB			
Thomas R. Becker	LI	P		P
Susan O. Cain	I	P	C	P
Bryan B. DeBoer				
Louis P Miramontes	I	P	P	
Kenneth E. Roberts	I		P	C
David J. Robino	I	C	P	P

CB = Chairman of the Board I = Independent Director LI = Lead Independent Director C = Committee Chairman

Board of Directors

Our Bylaws provide for not fewer than five and not more than nine 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 20 meetings in 2018. Each incumbent director attended at least 80% of all meetings of the Board and of the Board committees on which he or she served. All of our incumbent directors attended our 2018 Annual Meeting of Shareholders.

Board Committees

Our Board has three standing committees: the Compensation Committee, the Audit Committee, and the Nominating and 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. Commencing with our 2018 Annual Meeting, at least one member of each of our Audit Committee and Compensation Committee may not belong to both committees. 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

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. 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 person(s) selected by the Compensation Committee. In December 2018, the Compensation Committee delegated limited authority to our CEO and Executive Vice President to award restricted stock units ("RSUs") to employees of the Company during the course of 2019 based upon employee performance; the maximum aggregate number of shares underlying RSUs that the CEO may award in a calendar year is equal to an aggregate of $1,500,000 divided by the average closing price of one share of the Company's Class A common stock in the 40 trading days before the award date of the RSU. 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. In 2018, the Compensation Committee retained Pay Governance LLC to provide advice and counsel. Pay Governance provided compensation advice to the Committee on our Chief Executive Officer, Chief Financial Officer and next three highest-paid executives. The Compensation Committee monitors our employee benefits plans, including our 2013 Amended and Restated Stock Incentive Plan, our 2009 Employee Stock Purchase Plan, our Performance Bonus 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 8 meetings in 2018. 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

The Audit Committee is responsible for selecting and hiring our independent registered public accounting firm and for overseeing our accounting functions, systems of internal control established by management and processes to assure compliance with applicable laws, regulations and internal policies. The Audit Committee routinely meets in executive session with each of representatives from KPMG, our Chief Financial Officer and our Director of Internal Audit. Our Director of Internal Audit reports directly to the chair of the Audit Committee. The Audit Committee held 5 meetings during 2018. In addition to meeting the independence requirement for audit committee members, each current member of the Audit Committee also meets the financial literacy and experience requirements contained in the corporate governance listing standards of the NYSE. Our Board has reviewed the qualifications and experience of the nominees standing for election and has determined that both Ms. Cain and Mr. Miramontes satisfy the requirements of an "audit committee financial expert" as defined by SEC rules.

THE NOMINATING AND GOVERNANCE COMMITTEE

The Nominating and 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 Nominating and Governance Committee held 5 meetings in 2018.

Director Independence

Our Corporate Governance Guidelines require our board to be composed of a majority of independent directors. 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 Nominating and 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 Nominating and 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 Ms. McIntyre and Messrs. Becker, Miramontes, Roberts and Robino is 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 R. 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 27.7% of the voting power of our outstanding voting shares. To ensure independent oversight of management and the transparency expected from a public company:

- As described below under “Certain Relationships and Transactions with Related Persons,” Sidney B. DeBoer has entered into a Class B Conversion Agreement under which he has agreed to cause all of the remaining shares of Class B common stock to be converted into Class A common stock by December 31, 2025;

- We maintain a Board comprised of a majority of independent directors, and the Audit Committee, Compensation Committee and Nominating and Governance Committee are composed solely of independent directors;
- At least once each quarter, with the Lead Independent Director presiding, 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;
- An independent third party also annually conducts a review of the performance of each director, each Board committee, and the Board as a whole;
- 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 have 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 our 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 Party Communications” below.

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 on the business) and the likelihood that they will occur. Our Board of Directors collaborates with management on developing the Company's annual risk management 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 annual risk management 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 facilitate the identification and management of risks, and management regularly discusses risk management with our Board of Directors.

Director Qualifications and Nominations

The Nominating and 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 Nominating and 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 by various sources, including management, Board members, shareholders, legal counsel, business leaders and other industry executives and directors. In connection with its search for a replacement nominee for Mr. Becker, who is not standing for re-election at the Annual Meeting, the Nominating and Governance Committee engaged the services of Egon Zehender International, Inc. to assist with the search. Ms. McIntyre was recommended as a nominee to serve on the Board by the Nominating and Governance Committee.

The Nominating and Governance Committee evaluates the qualifications of potential director nominee candidates, including candidates proposed by shareholders, based on criteria that include the individual’s skills, experience and other factors in the context of the current composition of our Board of Directors, to maintain our Board’s overall diversity. Among other aspects, the Nominating and Governance Committee evaluates the following factors when evaluating director nominees: business experience, other directorships, business and personal relationships with management, educational background, expertise in

finance, knowledge of financial reporting and the business of the Company, and industry experience. 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. At a minimum, qualified director nominees must have the ability to dedicate sufficient time to Board activities, and candidates for a position as an independent director must meet applicable NYSE independence standards and not have any conflicts of interest with the Company. The Nominating and Governance Committee reviews its effectiveness in balancing these criteria when assessing the composition of our Board.

Beginning with this Annual Meeting, directors will no longer be considered independent if they have been on the Board for 15 or more years, and no person may serve as an Independent director after attaining the age of 79. As a result of this policy, Mr. Becker, who has served on the Board since 1996 and has been on the board for 15 or more years, is not standing for re-election at the Annual Meeting.

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 Nominating and Governance Committee evaluates nominees for director based on whether the nominee is recommended by a shareholder or the Committee itself. The Nominating and Governance Committee will consider potential nominees recommended by any record or beneficial shareholder. See “Shareholder and Other Interested Party 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 any amendment to and any waiver 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. Except for Sidney B. DeBoer, directors who are employees of the Company are not compensated separately for their service as directors. As noted in the Non-Employee Director Compensation Table, for his services as a director, Sidney B. DeBoer receives the same compensation, in the same form, as the Company pays to its non-employee directors. Separately, Sidney B. DeBoer receives payments for his prior services rendered as an employee that are described below under "Certain Relationships and Transactions with Related Persons." on pg 57. Executive officers of the Company do not recommend or determine non-employee director compensation. Our non-employee directors are Ms. Cain and Messrs. Becker, Miramontes, Roberts and Robino.

We pay a majority of our non-employee directors' compensation as equity awards. The Compensation Committee believes that paying a majority 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 2018-2019 service year was:

$85,000 cash plus an additional $15,000 cash to each director who serves as a committee chair, lead independent director or as chairman of the Board. In each case, cash amounts are paid in 12 monthly installments over the service period.

An award for a number of RSUs, which are settled in shares of our Class A common stock, with a value of $140,000. The number of RSUs awarded is based on the average closing share price for the 40 trading days prior to the award grant date.

We currently grant RSU awards to our non-employee directors immediately after the annual shareholder meeting. The RSU awards vest over one year, with 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. The Compensation Committee engaged Pay Governance LLC in 2018 to help it assess non-employee director compensation for the 2018-2019 Board service year and Pay Governance LLC advised that non-employee director compensation is at the median compared to Company Peers.

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Non-Employee Director Compensation Table

Non-Employee Director Compensation Table. The following table summarizes compensation paid to non-employee directors and to Sidney B. DeBoer during calendar year 2018, which represents the 2018 portion of both the 2017-2018 Board term and the 2018-2019 Board term:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	All Other Compensation ($)		Total ($)
Sidney B. DeBoer	100,000	140,095	7,785	(2), (3)	$247,880
Thomas R. Becker	100,000	140,095	7,431	(2)	$247,526
Susan O. Cain	100,000	140,095	4,060	(2)	$244,155
Louis P. Miramontes	56,667	140,095	—		$196,762
Kenneth E. Roberts	100,000	140,095	8,194	(2)	$248,289
David J. Robino	100,000	140,095	—		$240,095

(1) The amounts set forth in this column reflect the grant date fair value of all awards in 2018, including awards that did not vest in 2018. (See Note 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 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) Does not include amounts paid to Mr. DeBoer under the Transition Agreement, which are described under "Certain Relationships and Transactions with Related Persons" on page 57.

The fees reflected in the column "Fees Earned or Paid in Cash" in the above table are the actual fees earned in calendar year 2018. The amounts in the "Stock Awards" column reflect the fair value of awards granted during 2018, even though not fully earned until the completion of the year of service in March 2019.

Equity incentive awards outstanding at December 31, 2018 for each non-employee director were as follows:

Name	Unvested Stock Awards (#)
Sidney B. DeBoer	342
Thomas R. Becker	342
Susan O. Cain	342
Louis P. Miramontes	342
Kenneth E. Roberts	342
David J. Robino	342

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 2018, no director elected to defer cash compensation or stock compensation.

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. Accordingly, under our Stock Ownership Policy for Directors, non-employee directors are required to acquire and retain the net after-tax shares received as compensation until the director's accumulated holdings have a market value equal to at least five times the base compensation paid to the director in the then-current service year. If a director ceases to comply with the policy, the director is expected to retain 50% of the net after-tax shares received upon the settlement of any equity incentive award until the stock ownership minimums are attained. In determining compliance with the policy, share ownership includes RSUs subject to time-vesting and indirect share ownership.

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 addition, securities pledged as of March 15, 2013 may continue to be pledged under existing or replacement arrangements. The number of securities that were pledged prior to such date have decreased over time. 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; all of the 800,000 shares of Class B common stock held by Lithia Holding are pledged by Lithia Holding to secure a loan to Lithia Holding. Kenneth E. 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 28, 2019. Thomas R. 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 28, 2019.

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)	Independent
Sidney B. DeBoer	75	1968	
Susan O. Cain	64	2009	Yes
Bryan B. DeBoer	52	2008	
Shauna F. McIntyre	47		Yes
Louis P. Miramontes	64	2018	Yes
Kenneth E. Roberts	74	2012	Yes
David J. Robino	59	2016	Yes

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

Term	If elected, each nominee will hold office until the next annual meeting or until his or her successor is elected and qualified. 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.
Director Replacement and Resignation Policy/Election by Majority Vote	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 Nominating and 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 Nominating and 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 may be accessed on our website at www.lithia.com. Proposal 4 in this proxy statement would amend the Company’s Restated Articles of Incorporation and Bylaws to require majority voting in uncontested elections of directors. See “Proposal 4: Approval of Amendments to the Restated Articles of Incorporation and Bylaws to Adopt Majority Voting for Uncontested Elections of Directors” for more information. If Proposal 4 is approved by the shareholders, majority voting will be in effect for the 2020 Annual Meeting.
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 Nominating and 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.

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 2019 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. 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. Because we typically determine annual compensation before the advisory vote on the prior year's compensation is cast, however, if we determine to make a change in our practices based on shareholder feedback, there may be a delay in implementing those changes.

At our 2018 Annual Meeting of Shareholders, over 98% 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 2018 Annual Meeting of Shareholders, were cast "for" that compensation. The Compensation Committee considered this shareholder approval when it determined 2019 compensation. Based on the approval and on our belief that our compensation philosophy, programs and practices in 2017 were effective in promoting our strong financial performance, we did not make material changes to the philosophy, programs or practices in 2018. The increases we made to the amount of compensation that we paid to our executives between 2017 and 2018 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 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 2018 was appropriate, particularly considering our financial results in 2018.

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 philosophy and the compensation paid in 2018 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).

Name	Age	Current Position(s)	With Company Since
Bryan B. DeBoer	52	President and Chief Executive Officer	1989
John F. North III	41	Senior Vice President and Chief Financial Officer	2002
Christopher S. Holzshu	45	Executive Vice President	2003
Scott A. Hillier	55	Senior Vice President	1986
George C. Liang	63	Senior Vice President	2014

EXECUTIVE SUMMARY

Compensation Philosophy

Lithia's compensation program is designed to support the Company's vision, mission and values, and aligns incentives and rewards with the execution of our business strategy, as defined in our Annual Operating Plan. Lithia's compensation program is designed to attract and retain high performing employees who drive the Company's long term success. We strive to do this by providing a market competitive base salary and performance based short and long term incentive compensation.

Vision, Mission and Values

Our Vision is to create personal transportation solutions wherever, whenever and however consumers desire and Our Mission, Growth Powered by People focuses us on our customers and team to create our competitive advantage.

Our Mission: Growth Powered by People. We are a growth company and the continued development of our team is critical to our long-term success. Our entrepreneurial culture is the foundation of our business strategy. We support independence and variation in operating models to unleash the potential of all our people. Trust in each other is key to making decisions that will be in the long term best interests of the Company. We strive for high customer retention and strong market share while controlling costs to yield exceptional profit performance.

Our Values guide us in serving our customers, developing our people, reaching our potential and growing our company. Working together, we create a welcoming and highly responsive environment with positive experiences that Earn Customers for Life. We are motivated by the freedom of Taking Personal Ownership for our actions and results. By innovating, remaining humble and challenging ourselves to perform better we Improve Constantly. Our enthusiasm for our customers, communities, cars, each other and our success is the catalysts for Having Fun.

Our Company Strategy

The Company's strategy is to acquire under performing assets and create operational excellence by promoting a high performance culture that enables us to generate substantial cash to fuel acquisition growth. Areas that drive our financial success are:

- innovation;
- 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 and geographic risk through acquisitions;
- integrating acquired stores to achieve targeted returns;
- increasing our return to investors through share price, dividends and strategic share buy backs;
- utilizing prudent cash management, including investing capital to produce accretive returns; and
- managing our balance sheet to prepare for future expansion opportunities and to be prepared for market downturns.

Compensation Committee Responsibilities

The Compensation Committee is responsible for reviewing the compensation philosophy and policies that govern the Company's executive compensation programs. Most importantly, the Compensation Committee is responsible for:

- adopting and guiding processes for the performance and compensation management of the CEO;
- recommending and guiding processes for the performance and compensation management of the executives in positions that could conceivably succeed the CEO, all for the recommendation and approval of the Board of Directors; and
- providing oversight to any other human resources actions impacting the CEO or the executives in positions that could conceivably succeed the CEO.

The Compensation Committee has oversight of the Company's strategic goals and objectives relevant to compensation, the compensation components, performance evaluations, succession planning and related matters of all executive management. The Committee oversees the administration of the Company's stock incentive plans, stock purchase plans, other equity incentive plans, profit sharing plans, and pension plans. The Committee is also responsible for reviewing, discussing and approving the Compensation Discussion and Analysis in the annual proxy statement the Company files with the Securities and Exchange Commission.

Compensation Program Risk Assessment

Our Board of Directors and the Compensation Committee are required to 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. Management believes that our practices adequately manage this risk because:

- our executive compensation plan is benchmarked to an independent compensation survey;
- we limit the amount of fixed compensation in the form of base salary based on data from our market survey;
- the primary criteria we use for performance compensation components are "bottom line" measures such as 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;
- cash bonuses are capped;
-

- the incentive plans for executive management have the flexibility to put weight on Company wide or divisional performance measures;
- our cash bonus plan preserves discretion to permit the Committee to elect not to pay otherwise achieved bonus 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 the Company's long term performance;
- NEOs have equity positions in Lithia and are subject to stock ownership policies, which we believe increases their focus on long term shareholder value; and
- executive compensation is subject to our "claw back" policy.

YEAR IN REVIEW

Business Review

In 2018, we continued to build upon our three cornerstones of success: operational growth, acquisition opportunities and financial discipline. The table below highlights selected results that determined performance based compensation in 2018. Certain of the financial measures differ from measures calculated in accordance with generally accepted accounting principles in the United States (“GAAP”). We reconcile adjusted pretax profit and adjusted earnings per share to the most comparable GAAP measures below.

	2018	2017	2016
Income before income taxes	$337.5M	$347.1M	$283.5M
Adjusted income before income taxes	$328.2M	$344.2M	$308.6M
Diluted net income per share	$10.86	$9.75	$7.72
Adjusted diluted net income per share	$9.98	$8.39	$7.42
Leveraged EBITDA	$298.7M	$328.6M	$276.7M
Liquidity	$458.9M	$515.9M	$356.8M
Debt to adjusted EBITDA	2.3 x	2.0 x	2.2 x
New vehicle unit sales	184,601	167,146	145,772
Rate for manufacturer sales responsibility attainment	106.2 %	109.3 %	110.0 %
Used retail vehicle same store unit sales increase	4.1 %	3.5 %	9.5 %
Service, body, parts same store revenue increase	3.6 %	5.1 %	8.4 %

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

	Year Ended December 31, 2018						
	As reported	Disposal gain on sale of stores	Asset Impairment	Insurance Reserves	Acquisition Expenses	Tax Attribute and Federal Rate Reduction	Adjusted
Income before income taxes	$337.5	$(15.4)	$ 1.3	$ 1.5	$ 3.3	$ —	$328.2
Income tax (provision) benefit	(71.8)	4.0	(0.3)	(0.4)	(0.9)	(14.8)	(84.2)
Net income	265.7	$(11.4)	$ 1.0	$ 1.1	$ 2.4	$ (14.8)	$244.0
Diluted net income per share	$10.86	$(0.47)	$ 0.04	$ 0.05	$ 0.10	$ (0.60)	$9.98
Diluted share count	24.5						

	Year Ended December 31, 2017						
	As reported	Insurance Reserves	Acquisition expense	OEM Settlement	Disposal gain on sale of stores	Tax reform	Adjusted
Income before income taxes	$347.1	$ 5.6	$ 5.7	$ (9.1)	$(5.1)	$—	$344.2
Income tax (provision) benefit	(101.9)	(2.2)	(2.2)	3.4	2.5	(32.9)	(133.3)
Net income	$245.2	$ 3.4	$ 3.5	$ (5.7)	$(2.6)	$(32.9)	$210.9
Diluted net income per share	$9.75	$ 0.14	$ 0.14	$ (0.23)	$(0.10)	$(1.31)	$8.39
Diluted share count	25.1						

	Year Ended December 31, 2016					
	As reported	Disposal gain on sale of stores	Equity-method investment	Legal Reserve	Tax attribute	Adjusted
Income before income taxes	$283.5	$(1.1)	$ 22.3	$ 3.9	$—	$308.6
Income tax (provision) benefit	(86.4)	0.4	(28.6)	(3.2)	(1.3)	(119.1)
Net income	$197.1	$(0.7)	$ (6.3)	$ 0.7	$(1.3)	$189.5
Diluted net income per share	$7.72	$(0.03)	$ (0.25)	$ 0.03	$(0.05)	$7.42
Diluted share count	25.5					

	2018	2017	2016
EBITDA and Adjusted EBITDA			
Net income, as reported	$265.7M	$245.2M	$197.1M
Other interest expense	56.0	34.8	23.2
Income tax expense	71.8	101.9	86.4
Depreciation and amortization	75.4	57.7	49.4
EBITDA	$468.9M	$439.6M	$356.1M
Other adjustments:			
Less: used vehicle line of credit interest expense	(2.9)	(2.7)	(3.7)
Less: (gain) loss on divestitures	(15.4)	(5.1)	(1.1)
Add: equity investment fair value adjustment	—	—	22.3
Add: asset impairment	1.3	—	—
Add: insurance reserve	1.5	5.6	3.9
Add: acquisition expenses	3.3	5.7	—
Less: OEM legal settlements	—	(9.1)	—
Adjusted EBITDA	$456.7M	$434.0M	$377.5M

	2018	2017	2016
Leveraged EBITDA			
Adjusted EBITDA	$456.7M	$434.0M	$377.5M
Less: capital expenditures	(158.0)	(105.4)	(100.8)
Free cash flow	$298.7M	$328.6M	$276.7M

Compensation Performance

The Company feels strongly that it should align performance compensation with objectives that the management team can control. These include objectives such as: pre tax profit, earnings per share, and OEM approvability.

The Company periodically assesses how CEO compensation relates to Total Shareholder Return (TSR) over historical pay periods. However, because TSR reflects many things management cannot control or influence, including interest rates, unemployment, industry sales, fuel prices and political issues, the Company does not believe it is an appropriate target measure for forward looking compensation objectives.

CEO 2017 Pay Alignment

The following chart shows Lithia's CEO's 2017 actual total direct compensation (TDC) and one year TSR ranking for 2017 in relation to members of Lithia's peer group. 2017 actual total direct compensation is the most recent pay information available for the peer group. The 2017 actual TDC is comprised of base salary, actual bonus, and grant date value of equity awards. TSR reflects 1-year TSR from 12/31/16 to 12/31/17. LAD pay is aligned with performance, as TSR is at the 90th percentile, and actual TDC is at the 42nd percentile.

The following chart shows the Company's 3-year TSR in relation to the peer group through December 31, 2018.

Compensation Plan Features

Compensation Governance Provisions
To align management and shareholder interests, and to mitigate any potential incentive for management to take inappropriate risks, the Company has the following policies:

- Stock Ownership Policy: NEOs and Non NEO Vice Presidents are expected to acquire and hold shares of our Class A common stock with a market value equal to a multiple of their base salary, as indicated in the table below, within (7) seven years of service in their position. 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. A Stock Ownership Compliance review is performed quarterly, and a policy reminder is sent to employees on an annual basis.

Position	Multiple of Salary
Chief Executive President	5
Executive Vice President	3
Senior Vice President	2
Vice President	1

- Insider Trading Policy: The policy sent to all employees defines insider trading and certain employees determined to have potential access to insider trader information are blocked from selling during predetermined closed selling periods. In addition, Section 16 employees and Directors are required to notify the Company of any trades.

- Claw-backs: Compensation that we pay based on performance, including annual performance bonuses and equity compensation, is subject to a “claw-back” policy.

- 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.

CEO Pay Ratio
As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of Bryan DeBoer, our Chief Executive Officer (the “CEO”):

We identified the median of the annual total compensation of all our employees using the annualized base salary and expected bonus, as of December 31, 2018, plus any equity awards and long-term incentives granted in 2018 for all individuals, excluding the CEO, who were employed by us during 2018 (total compensation was annualized for employees not employed for the full year). After identifying the median employee, we calculated annual total compensation for such employee using the same methodology we use for our CEO compensation.

For 2018, our last completed fiscal year:

- the annual total compensation of the employee identified at median of our company (other than the CEO), was $40,944;
- and the annual total compensation of the CEO was $7,615,943 (this amount assumes maximum bonus and equity potential vs. the CEO pay disclosed in the Summary Compensation table, which is the actual amount earned);
- for this ratio, both employee compensation (other than our CEO) and CEO compensation were calculated using 2018 paid wages, annualized for full-time and part-time employees who did not work a full year.

Based on this information, for 2018, the ratio of the annual total compensation of Bryan DeBoer, our Chief Executive Officer, to the median of the annual total compensation of all employees was estimated to be 186 to 1.

Peer Groups and Pay Targeting

Peer Selection Methodology, Rationale and Comparison

Lithia benchmarks overall annual compensation for executives at the median of the most current peer group because we believe this group best represents our competition for executive talent. The peer group is reviewed each year by our Independent Compensation Consultants using a defined methodology that identifies companies reasonably similar to Lithia in terms of industry, industry profile, size, and market capitalization to revenue ratio and profit margins. Below is a list of peer groups:

Peer Group Symbol	Peer Group Name
RUSHA	Rush Enterprises, Inc.
KMX	CarMax Inc.
MUSA	Murphy USA Inc
ODP	Office Depot, Inc.
AN	AutoNation, Inc.
ABG	Asbury Automotive Group Inc.
CRMT	America's Car-Mart, Inc.
MNRO	Monro Muffler Brake, Inc.
PAG	Penske Automotive Group, Inc.
GPI	Group 1 Automotive, Inc.
HOG	Harley-Davidson, Inc.
SAH	Sonic Automotive, Inc.
ORLY	O'Reilly Automotive Inc.
AZO	AutoZone, Inc.
AAP	Advance Auto Parts Inc.
DKS	Dick's Sporting Goods Inc.

Pay Targeting Level

It is important to note that in determining executive compensation, the Compensation Committee does not solely rely on comparative data from the 2018 Peer Group. Such comparative data provides helpful market information about our peer companies, but the Compensation Committee does not target any specific positioning or percentile, nor does it use a formulaic approach, in determining executive pay levels. The Compensation Committee also utilizes other resources, including reputable compensation surveys and other available proxy and compensation data. All such comparative peer data and supplemental resources are considered, along with the Company’s pay for performance and internal parity objectives. All applicable information is reviewed and considered in aggregate, and the Compensation Committee does not place any particular weighting on any one factor.

Pay

Pay Mix, Performance Metric, and Goal Setting

After we establish target TDC levels for each executive officer, we allocate TDC between the following components, depending on the individual:

Base Salary	A competitive market salary that sufficiently covers a fixed income component the employee can rely on. The fixed salary is set at a level that provides the ability to attract talent and promotes long-term retention.
Performance Bonus	The bonus compensation plan is tied to quantitative performance objectives set at least annually by management and the Board of Directors. Bonus compensation is intended to reward employee contribution for attaining short term Company level objectives and to promote continued focus on high performance while balancing the Company's long term strategic plan. Bonus objectives are set to support growth in the Company's profitability, maximize our capital deployment strategies, and increase share value. The Company will use short and mid term earnings forecasts, analyst estimates, and strategic planning needs to set the profit objectives each period. We believe using metrics that promote high performance and profitable growth is critical. The Compensation Committee has positive and negative discretion to modify performance based awards. Management provides the Compensation Committee a quarterly review of the Bonus and Equity Attainment Pacing. The Compensation Committee also may award discretionary bonuses when an executive's or employee's performance merits it.
Equity Awards	A compensation tool that leverages Lithia's public company status to offer Equity Award compensation that rewards employees for achieving Company quantitative financial performance objectives set annually by management and the Board of Directors. We believe using metrics that promote high performance and profitable growth is critical. Equity Award compensation ensures retention of key executives by using longer-term vesting periods and helps maximize our return to shareholders. We believe issuing restricted stock units rather than stock options better aligns our executive team with our shareholders because restricted stock units experience the upside as well as the downside of stock price changes. Because Lithia's stock price has been somewhat volatile, the value of stock options can significantly fluctuate. We believe this unnecessarily distracts employees and reduces their incentive to continuously improve the operations of the business whenever market prices dip below the options exercise price. In addition, issuing stock options can subject the company to an accounting expense even if the options are valueless to the grantee. Therefore, using restricted stock units seem to better instill a sense of ownership and employee perceived value.
Other Perquisites and Benefits	Additional other compensation benefits that are industry standard or enhance the competitiveness of compensation for key employees include a vehicle allowance, long term care assistance, long-term disability insurance, and life and accidental death and dismemberment insurance.

Pay Mix Rationale

The Company believes that as an employee moves into higher level positions in the Company, base pay should become a smaller component of overall TDC. Using competitive information as a guide, and after considering current position performance, succession planning and retention needs, the Company allocated pay components for its CEO in 2018 as follows. Approximately 82% of our CEO target TDC mix is performance-based, similar to the peer group.

2018 Peer Group Mix

Tax Implications

The Company considers the effects of Section 162(m) of the Internal Revenue Code, which generally disallows the tax deduction for compensation in excess of $1 million for certain covered individuals. As part of the enactment of the Tax Cuts and Jobs Act and the revisions to Section 162(m), a transitional provision allows for deductions of certain qualifying performance-based compensation with respect to payments made pursuant to a binding written agreement in effect on November 2, 2017. Thus, certain performance-based awards that are payable in the Company's current year that were pursuant to a binding written agreement prior to November 2, 2017 may be subject to the previous Section 162(m) law if applicable requirements are met.

The Committee believes that shareholder interests are best served if its discretion and flexibility in awarding compensation is not restricted, even though some compensation awards may result in non-deductible compensation expenses. Therefore the Committee has approved salaries and other awards for executive officers that were not fully deductible because of Section 162(m) and, in light of the repeal of the performance-based compensation exception to Section 162(m), expects in the future to approve additional compensation that is not deductible for income tax purposes.

2018 Executive Compensation by Element

The elements of our executive compensation include: (1) base salary, (2) performance bonus, (3) performance equity awards, (4) retirement contributions and (5) other perquisites and benefits. 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 2018 and why.

Name	Base Salary $		Performance Bonus		Equity Awards		Retirement Contribution		Other Perquisites & Benefits	
			(Max as % of Base Salary)		(Max as % of Base Salary)		(as % of Prior Year Base Salary)		(as % of Base Salary)	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Bryan B. DeBoer	$1,000,000	$1,020,000	300 %	300 %	250 %	441 %	30 %	n/a	4 %	4 %
John F. North III	$360,000	$420,000	200 %	190 %	139 %	275 %	23 %	n/a	6 %	5 %
Christopher S. Holzshu	$510,000	$600,000	200 %	200 %	196 %	255 %	25 %	n/a	5 %	4 %
Scott A. Hillier	$468,000	$468,000	149 %	160 %	124 %	204 %	25 %	n/a	5 %	5 %
George C. Liang	$384,000	$400,000	148 %							