LITHIA MOTORS INC
Form DEF 14A
March 10, 2017

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

[ ] Soliciting Material Pursuant to §240.14a-12

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.:
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Notice of 2017 Annual Meeting of Shareholders

and

Proxy Statement

Wednesday, April 19, 2017 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 2017 Annual Meeting of Shareholders and to share our plans to deliver excellence and high performance in the auto retail industry.

Our competitive advantage is our people, and I consider myself fortunate to lead a humble team that is focused on capturing the opportunities available to us. Together we're driving to be the preferred auto retailer in every market that we serve. We achieve this by anticipating our customers' needs and developing our people, which creates significant returns.

Our continued growth will be generated by capturing the unrealized opportunities in our existing stores and by acquiring dominant franchises that are currently underperforming. Our people-based culture, combined with world class performance management systems, enables store leaders to evaluate their opportunities and adjust strategies as needed. This is a cost-effective way to manage our operations, allows entrepreneurship to flourish and achieves exceptionally high returns.

Societal shifts, consumer behaviors, and technological developments are likely to impact our industry throughout the next decade. Our de-centralized model uniquely positions us to meet these challenges and to be nimble in the years ahead. In fact, for the second year in a row we were recognized as one of the two top five-year investments among the Fortune 500.

We're passionate about cars and challenging each other to continuously improve. We hope you share our enthusiasm for this exciting time in our industry. We have a winning combination of high profitability, attractive acquisition targets and the capital to make it happen. Our team and culture are ready to take full advantage of these opportunities.

Thank you very much for being a partner and a shareholder in our company, Bryan DeBoer

President and Chief Executive Officer

Lithia Motors, Inc.

LITHIA MOTORS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On April 19, 2017

To the Shareholders of Lithia Motors, Inc.:

I am pleased to invite you to the 2017 Annual Meeting of Shareholders of Lithia Motors, Inc., which will be held at 150 N. Bartlett St., Medford, Oregon 97501, on Wednesday, April 19, 2017, at 8:30 a.m., Pacific Daylight Time for the following purposes:

1. To elect six directors to serve until the next annual meeting of shareholders;

2. To approve the Performance Bonus Plan, as amended;

3. To approve the performance criteria under the 2013 Amended and Restated Stock Incentive Plan;

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

5. To conduct an advisory vote on the frequency of the advisory vote on the compensation of our named executive officers; and

6. To ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2017.

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, 2017 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 10, 2017, 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 2017 Annual Meeting of Shareholders and our 2016 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 2016 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.

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, *Secretary*

March 10, 2017

LITHIA MOTORS, INC.

PROXY STATEMENT

This proxy statement, the accompanying 2016 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 2017 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 Wednesday, April 19, 2017, at 8:30 a.m. Pacific Daylight Time. On or about March 10, 2017, 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 2016 Annual Report on Form 10-K. The Notice provided instructions on how to vote online or by telephone and included 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:

1. To elect six directors to serve until the next annual meeting of shareholders;

2. To approve the Performance Bonus Plan, as amended;

3. To re-approve the performance criteria under 2013 Amended and Restated Stock Incentive Plan;

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

5. To conduct an advisory vote on the frequency of the advisory vote on the compensation of our named executive officers;

6. To ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2017.

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, 2017, 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 23,911,176 shares of Class A common stock and 1,262,231 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 3.0% (716,158 shares) of the Class A common stock and 100% (1,262,231 shares) of the Class B common stock outstanding representing approximately 36.5% 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 six 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 2013 Amended and Restated Stock Incentive Plan.

- **Proposal 3:** The votes that shareholders cast "for" must exceed the votes shareholders cast "against" to approve the Performance Bonus Plan.

- **Proposal 4:** 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 5:** The frequency of the advisory vote on compensation of our named executive officers receiving the greatest number of votes - every one year, every two years or every three years - will be the frequency that shareholders approve. Because this vote is advisory only, it will not be binding on us or on our Board of Directors. However, the Board of Directors will review the voting results and take them into consideration when making future decisions regarding the frequency of the advisory vote on executive compensation.

- **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, 2017.

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, 2017 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?

Our Board of Directors has designated each of John North, Chief Financial Officer, and Tina Miller, Director of Accounting and Corporate Controller, 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 our Cash Bonus Plan, as amended;
- Voted **FOR** the re-approval of the performance criteria under our 2013 Amended and Restated Stock Incentive Plan;
- Voted **FOR** the approval of our compensation of the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K;

- **NOT VOTED** for determining the frequency of the advisory vote on the compensation of our named executive officers; 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 10, 2017, 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 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. He continues his involvement with 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'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.

Thomas R. Becker is President of North American Senior Living, LLC, a senior housing development, operations and consulting company. He joined our board in 1997. Mr. Becker led Pacific Retirement Services, as Chief Executive Officer for 20 years, retiring in 2010. As the former CEO of a large organization, he contributes his experience with multi-state operations, management of a large work force, and capital financing. Mr. Becker earned a B.S. degree from the University of Oregon and has previously served on other public company boards.

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. 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 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.

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 COO 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.

Kenneth E. Roberts joined our Board in 2012 after working as "of counsel" with 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 January 2011. HIs private law practice focused on corporate finance, mergers and acquisitions, corporate governance, executive compensation and securities, representing public companies, and community banks. 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 Corporate Governance committee and lends insightful analysis to our mergers and acquisitions strategies.

David J. Robino joined our Board in 2016. He has served as an adjunct instructor at Southern Oregon University since 2012. He began his management career at the Maytag Corporation and Pepsi-Cola. He joined AC Nielsen in 1993, culminating as Senior Vice President of Nielsen International, based in Brussels, Belgium. After a successful Vice-Presidency at AT&T Solutions, 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. specialty semiconductors, and Insight Enterprises, Inc. 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 (43) recently transitioned to a new role as Executive Vice President and Chief Human Resources Officer. He had been our Chief Financial Officer since 2010 and Secretary since 2012. 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. His leadership was invaluable during our right-sizing in the midst of the recession. In his new role, 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 Accounting from the University of Alaska and is a licensed CPA.

Scott A. Hillier (54) Senior Vice President of Operations since 2008, oversees Lithia 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, Scott 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 (61) Senior Vice President of Operations since DCH combined with Lithia in 2014, oversees DCH 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.

John F. North III (39) recently transitioned to Senior Vice President and Chief Financial Officer. He had been Vice President of Finance since 2010 and Chief Accounting Officer since 2015. Mr. North joined Lithia in 2002 and throughout his tenure he has rigorously applied continuous improvement to accounting, tax, and external reporting. In his new role, Mr. North assumes broader responsibilities for corporate finance and investor relations while overseeing Lithia's risk management functions. Before joining Lithia, he 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 charterholder.

CORPORATE GOVERNANCE

Board Leadership and Structure

2016 Board and Committee Composition

The following table reflects our Board members and their committee positions in 2016.

Director	Key	Compensation	Audit	Corporate Governance
Sidney B. DeBoer	CB			
Thomas R. Becker	LI			
Susan O. Cain	I		C	
Bryan B. DeBoer				
Shau-Wai Lam(1)				
Kenneth E. Roberts	I			C
David J. Robino	I	C		

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

(1) Mr. Shau-Wai Lam, who is currently a member of the Board, will not stand for re-election at the Annual Meeting. Mr. Lam has decided not to stand for re-election in order to focus on other interests. See “Certain Relationships and Transactions with Related Persons.”

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 six.

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 2016. 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 2016

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. Commencing with our 2017 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 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 persons(s) selected by the Compensation Committee. In November 2016, the Compensation Committee delegated limited authority to our CEO to award restricted stock units ("RSUs") to new hires or persons who have received a promotion in the year to persons, excluding any person who is required to file statements with the SEC under Section 16 of the Securities Exchange Act of 1934; 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 previously 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 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 14 meetings in 2016. 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. The Committee routinely meets in executive session with each of representatives from KPMG, our Chief Financial Officer and our Director of Internal Audit, and our Director of Internal Audit reports directly to the chair of the Audit Committee. The Audit Committee held seven meetings during 2016. 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 seven meetings in 2016.

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 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 approximately 34.5% 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;
- 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 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.

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 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 Corporate 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 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 or the Committee itself. 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. Except for Sidney B. DeBoer, directors who are employees of the Company are not compensated separately for their service as directors. See "*Director Services Agreement with Sidney B. DeBoer*," below. Executive officers of the Company do not recommend or determine non-employee director compensation.

Our non-employee directors are Ms. Cain and Messrs. Becker, Roberts and Robino. Mr. Lam was also a non-employee director for the 2016-2017 service year; he is not standing for re-election in 2017.

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 2016-2017 service year was:

- $60,000 cash plus an additional $25,000 cash each director that 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 $100,000, which increases by an additional $40,000 if the director serves as a committee chair, lead independent director or as chairman of the Board. 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 Willis Towers Watson in February 2016 to help it assess non-employee director compensation for the 2016-2017 Board service year.

Non-Employee Director Compensation Table. The following table summarizes compensation paid to non-employee directors and to Sidney B. DeBoer during calendar year 2016, which represents the 2016 portion of both the 2015-2016 Board term and the 2016-2017 Board term:

Name	**Fees Earned or Paid in Cash ($)**	**Stock Awards ($)(1)**	**All Other Compensation ($)(2)**	**Total ($)**
Sidney B. DeBoer	$121,464 (3)	$128,046	$ 1,176,096 (4)	$1,425,606
Thomas R. Becker	85,000	128,046	5,947	218,993
Susan O. Cain	85,000	128,046	3,197	216,243
Shau-wai Lam	59,293	91,496	—	150,789
Kenneth E. Roberts	85,000	128,046	6,453	219,499
David J. Robino (5)	70,833	128,046	—	198,879
William J. Young (5)	14,167	—	—	14,167

(1) The amounts set forth in this column reflect the grant date fair value of all awards in 2016, including awards that did not vest in 2016. (See Note 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 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) Under his Director Services Agreement, Mr. DeBoer was paid cash in lieu of a stock award for his service on the Board from January 1, 2016 until the annual meeting of shareholders held in 2016, when he began to receive the same compensation for service as a director as our non-employee directors.

(4) This amount is related to payments made under Mr. DeBoer's transition agreement, including insurance benefits and car allowances.

(5) Mr. Young retired from the Board on March 1, 2016 and Mr. Robino was elected to the Board on March 1, 2016. Their respective compensation reflects their service on the Board for a partial year.

The fees reflected in the column “Fees Earned or Paid in Cash” in the above table are the actual fees earned in calendar year 2016. The amounts in the “Stock Awards” column reflect the fair value of awards granted during 2016, even though not fully earned until the completion of the year of service in April 2017.

Equity incentive awards outstanding at December 31, 2016 for each non-employee director were as follows:

Name	**Unvested Stock Awards (#)**

Sidney B. DeBoer	391
Thomas R. Becker	391
Susan O. Cain	391
Shau-wai Lam	279
Kenneth E. Roberts	391
David J. Robino	391
William J. Young	—

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 2016, 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 paid Mr. Sidney B. DeBoer in cash a prorated portion of $210,000 (the cash equivalent of the annual amount paid in cash and stock to non-employee directors for the 2015-2016 service year). Beginning with the 2016-2017 service year, the Company began paying him (and will continue paying him for so long as he remains a member of the Board) the same compensation, in the same form, as the Company pays to its non-employee directors.

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 but not unexercised stock options.

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 its anti-pledging policy 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. 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 1,262,231 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, 2017. 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, 2017.

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	73	1968	
Thomas R. Becker	65	1997	Yes
Susan O. Cain	62	2009	Yes
Bryan B. DeBoer	50	2008	
Kenneth E. Roberts	72	2012	Yes
David J. Robino	57	2016	Yes

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

Performance Bonus Plan

The Compensation Committee recommended, and the Board of Directors adopted, changes to the Company's Discretionary Support Services Variable Performance Compensation Plan (the "Performance Bonus Plan") as follows:

1. Rename the plan the Performance Bonus Plan.
2. Alter the maximum award under the plan to read as follows: "Maximum Bonus. The cash bonus that may be paid or accrued for any Participant under the Plan in any calendar year with respect to performance of the Company in any fiscal year shall not exceed $5,000,000. The Committee and the Board of Directors of the Company retain discretion to reduce the amount of the attained bonus amounts for any reason."
3. Include additional performance measures.

Previously, the Performance Bonus Plan allowed a maximum grant of up to 150% of an employee's base salary of up to $1,000,000. We believe fixing the maximum as a dollar amount gives us more flexibility to set appropriate compensation levels for our executives, including some for whom we may want to weight contingent performance bonuses at a level higher than 150% of base salary. The Compensation Committee of our Board authorized maximum cash bonuses that our named executive officers may earn, as a percentage of base salary, in 2017 as follows (see "*Compensation Discussion and Analysis-2017 Compensation)*:

	Target	Maximum
Bryan B. DeBoer	150%	300%
Christopher S. Holzshu	100%	200%
George C. Liang	100%	200%
Scott A. Hillier	100%	200%
John F. North III	75 %	150%

With respect to Mr. DeBoer, any portion of the performance bonus authorized to be paid to him above the target level is conditioned on shareholder approval. Mr. DeBoer's 2017 base salary is $1,000,000 and therefore $1,500,000 of his potential performance bonus is subject to shareholder approval. For other named executive officers for whom the maximum award as a percentage of base salary exceeds the 150% limit in the Performance Bonus Plan before amendment, amounts paid to them in excess of 150% of their base pay, combined with all other compensation not considered "performance-based," would not exceed the deductibility limits under Section 162(m) in 2017 and therefore the Compensation Committee did not condition their receipt of those amounts on shareholder approval. If the Performance Bonus Plan is not approved, we will continue to make awards under the Performance Bonus Plan as it existed before amendment.

In addition, to ensure performance-based awards remain excluded from deduction limitations contained in Section 162(m) of the Internal Revenue Code of 1986 and related regulations, and because our Compensation Committee has the authority to select shareholder-approved performance criteria each year, shareholders must approve the performance-criteria under the Performance Bonus Plan at least once every five years. The performance criteria under the Performance Bonus Plan were last approved by shareholders in 2013. Shareholder approval of the plan constitutes re-approval of the performance criteria, which means we will not need to seek re-approval of the performance criteria until 2022. When we ask shareholders to re-approve permissible performance goals, we consider whether to refine the goals or add new goals; generally, we believe our Compensation Committee should have a broad array of potential measures so that it has the flexibility to provide targeted incentives to achieve specific individual or Company-wide goals. Subject to shareholder approval, we have added or modified performance goals as follows: manufacturer approvability criteria; return on equity or return on investments; free cash flows; or any performance measure before the effect of asset impairment, gains and losses on the sale of real estate or stores, reserves (including for real estate leases, company-owned service contracts and legal matters), legal settlements, equity investments and related taxes.

Certain provisions of the Performance Bonus Plan are described below. The complete text of the Performance Bonus Plan is attached to this proxy statement as Annex A.

Summary of the Performance Bonus Plan

Purpose: The plan qualifies compensation paid as performance-based compensation that is excluded from the deductibility limits of Section 162(m) of the Internal Revenue Code of 1986 and related regulations.

Administration. The Compensation Committee, which is comprised solely of independent Board members, is responsible for administering the Compensation Plan.

Participants. Each of our named executive officers and other employees designated by the Compensation Committee are eligible to participate in the Performance Bonus Plan. Approximately 62 participants are in the class.

Performance Goals. The Compensation Committee makes performance awards by the earlier of 90 days after the beginning of a performance period or before 25% of the performance period has expired. The Compensation Committee may select from shareholder-approved performance goals with respect to the Company, any business unit of the Company, and may make awards relative to any designated comparison group of companies: (i) revenue, (ii) net margin, (iii) operating income, (iv) operating cash flow, (v) net income before interest, taxes, depreciation and amortization, (vi) net income before interest and taxes, (vii) net income before income taxes, (viii) net income, (ix) new or used vehicle unit or revenue growth rate (based on same-store growth rate), (x) fixed department revenue growth rate (based on same-store revenue growth rate), (xi) sales or service satisfaction scores (percent of same stores equaling or exceeding specified manufacturers' criteria), (xii) sales responsibility performance (percent of same stores at or above market sales rate thresholds set by specified manufacturers), (xiii) manufacturer approvability criteria, (xiv) financing and insurance revenue or revenue per vehicle, (xv) service, body and parts revenue or revenue per vehicle, (xvi) basic or diluted net income per share, (xvii) basic or diluted net income per share from continuing operations, (xviii) basic or diluted net income per share minus per share dividends and other shareholder distributions, (xix) basic or diluted net income per share from continuing operations minus per share dividends and other shareholder distributions, (xx) basic or diluted net income per share from continuing operations as adjusted to eliminate the effects of asset impairment, gains and losses on the sale of real estate or stores, equity investments and related taxes, (xxi) return on equity or return on investment, (xxii) free cash flows, or (xxiii) any of the foregoing before the effect of acquisitions, divestitures, accounting or tax changes, asset impairment, gains and losses on the sale of real estate or stores, reserves (including for real estate leases, company-owned service contracts and legal matters), legal settlements, equity investments, related taxes, and restructuring and special charges (determined according to criteria established by the Compensation Committee).

Computation of Bonus. The Compensation Committee certifies the attainment of the performance goals for each performance period and the calculation of the bonus amounts.

Maximum Bonus. The maximum bonus that may be paid or accrued for any participant under the plan in any calendar may not exceed $5,000,000. The Committee and the Board of Directors of the Company retain discretion to reduce the amount of the attained bonus amounts for any reason.

Clawback. Recipients of a cash bonus under the plan must reimburse the Company for any performance-based compensation awarded or paid where: (a) the payment was predicated upon achieving financial results that were later the subject of a restatement of the Company's financial statements and (b) a lower payment would have been made to the recipient based upon the restated financial results. In each case, the Company will, to the extent practicable, seek to recover from the recipient the amount by which the recipient's award or payment for the relevant period exceeded the lower payment that would have been made based on the restated financial results.

Federal Tax Consequences. For federal income tax purposes, Section 162(m) of the Internal Revenue Code generally prohibits us from deducting employee compensation that otherwise would be deductible to the extent such compensation exceeds $1.0 million for any "covered" employees in any fiscal year. Compensation that is performance-based, as defined in Section 162(m), is not subject to the deductibility limitations if such benefit plan satisfies certain criteria.

Compensation paid under a compensation plan will not be subject to the deduction limit if:

- it is payable on account of the attainment of pre-established objective performance goals set forth within the plan;
- the Compensation Committee, which is comprised solely of independent directors, approves the maximum individual awards on or near the beginning of each performance period;
- the plan, which sets forth the material terms of the compensation and performance goals, is disclosed to and approved by shareholders before payment; and
- the Compensation Committee certifies that the performance goal has been satisfied before payment.

The Compensation Plan contains provisions for each of the above requirements and is intended to qualify as a performance-based plan under Section 162(m). It is believed that all goals can be objectively determined.

Vote Required

The affirmative vote of a majority of the votes cast at the meeting and entitled to vote on this matter is necessary to approve the Performance Bonus Plan.

The Board of Directors has approved the adoption of the Performance Bonus

Plan, as amended, and unanimously recommends a vote FOR this proposal.

PROPOSAL NO. 3

Performance Criteria Under the

2013 Amended and Restated Stock Incentive Plan

The Compensation Committee recommended, and the Board of Directors adopted, changes to the Company's 2013 Amended and Restated Stock Incentive Plan (the "Stock Incentive Plan") as follows:

To include additional measures to match the measures in the new Performance Bonus Plan. These measures ensure performance-based awards remain excluded from deduction limitations contained in Section 162(m) of the Internal Revenue Code of 1986 and related regulations.

There are no other changes proposed to the Stock Incentive Plan.

Because our Compensation Committee has the authority to select shareholder-approved performance criteria each year, shareholders must approve the performance criteria under the Stock Incentive Plan at least once every five years. If not approved this year, we would have to seek re-approval of the performance criteria under the Stock Incentive Plan next year. As we describe in Proposal No. 2, we periodically consider whether to refine or add performance goals to ensure our Compensation Committee has a broad choice of tools to achieve desired outcomes. Subject to shareholder approval, we have conformed the performance measures in our Stock Incentive Plan to the measures in our Bonus Plan, which adds or modifies performance goals as follows: manufacturer approvability criteria; return on equity or return on investments; free cash flows; or any performance measure before the effect of asset impairment, gains and losses on the sale of real estate or stores, reserves (including for real estate leases, company-owned service contracts and legal matters), legal settlements, equity investments and related taxes.

2013 Amended and Restated Stock Incentive Plan

We maintain our existing equity plan, the Stock Incentive Plan, for the benefit of our employees, directors and others who provide services to us. The Board of Directors believes the issuance of equity grants provides appropriate long-term incentives and is a critical part of a competitive compensation package for employees. In February 2017, the Compensation Committee and the Board of Directors approved modifying the performance goals under the Stock Incentive Plan and submitting them to shareholders for approval.

Description of the Stock Incentive Plan

The following summary of the Stock Incentive Plan is qualified in its entirety by reference to the terms of the Stock Incentive Plan. A copy of the Stock Incentive Plan is attached to this proxy statement as Annex B.

Eligibility. All employees, officers and directors of the Company and its subsidiaries are eligible to participate in the Stock Incentive Plan. Also eligible are others who contribute to the long-term financial success of the Company. The number of employees who hold outstanding awards under the plan is approximately 190.

Shares Reserved. A total of 3,800,000 shares of Class A Common Stock have previously been approved for issuance under the Stock Incentive Plan.

Administration. The Stock Incentive Plan is administered by the Compensation Committee, which designates from time to time the individuals to whom awards are made, the type and amounts of awards and other terms and conditions of any awards. Subject to the provisions of the Stock Incentive Plan, the Compensation Committee may adopt and amend rules and regulations relating to the administration of the Stock Incentive Plan.

Duration and Amendment of the Stock Incentive Plan. The Stock Incentive Plan will continue until all shares available for issuance under the Stock Incentive Plan have been issued and all restrictions on such shares have lapsed. The Board of Directors may suspend or terminate the Stock Incentive Plan at any time. The Board of Directors may amend the Stock Incentive Plan at any time in any respects, except that shareholder approval is required to increase the number of shares reserved for issuance under the Stock Incentive Plan.

Restricted Share Awards; RSUs. The Stock Incentive Plan authorizes the Compensation Committee to grant stock awards, including restricted share awards and RSUs, in such amounts, for such consideration (including services), subject to any restrictions and on such terms as the Compensation Committee may determine.

Stock Options. The Stock Incentive Plan authorizes the Compensation Committee to grant options and determine the persons to whom options are granted, the option price, the number of shares subject to each option, the period of each option, the times at which options may be exercised and whether the option is an Incentive Stock Option ("ISO"), as defined in Section 422 of the Code, or an option other than an ISO (a "Non-Statutory Stock Option"). The option price cannot be less than the fair market value of the Class A Common Stock on the date of grant. If an optionee of an ISO at the time of grant owns stock possessing more than 10% of the combined voting power of the Company, the option price may not be less than 110% of the fair market value of the Class A Common Stock on the date of grant. The aggregate fair market value, on the date of the grant, of the stock for which ISOs are exercisable for the first time by an employee during any calendar year may not exceed $100,000. No monetary consideration is paid to the Company upon the granting of options. Options granted under the Stock Incentive Plan generally continue in effect for the period fixed by the Compensation Committee, except that ISOs are not exercisable after the expiration of ten years from the date of grant or five years in the case of 10% shareholders. Options are exercisable in accordance with the terms of an option agreement entered into at the time of grant and, except as otherwise determined by the Compensation Committee with respect to a Non-Statutory Stock Option, are nontransferable except on death of a holder. Options may be exercised only while an optionee is employed by or in the service of the Company or a subsidiary or within a specified period following termination of employment or service. The purchase price for each share purchased pursuant to exercise of options must be paid in cash or, with the consent of the Compensation Committee, in whole or in part in shares of Class A Common Stock. With the consent of the Committee, an optionee may request the Company to withhold shares from the exercise to cover required tax withholding or to apply the shares to be received on exercise of a portion of an option to satisfy the exercise price for additional portions of the option. Upon the exercise of an option, the number of shares subject to the option and the number of shares available for issuance under the Stock Incentive Plan will be reduced by the number of shares issued upon exercise of the option. Option shares that are not purchased prior to the expiration, termination or cancellation of the related option will become available for future awards under the Stock Incentive Plan.

Stock Appreciation Rights. Stock appreciation rights ("SARs") may be granted under the Stock Incentive Plan. SARs may, but need not, be granted in connection with an option grant. A SAR gives the holder the right to payment from the Company of an amount equal in value to the excess of fair market value on the date of exercise of a share of Class A Common Stock of the Company over its fair market value on the date of grant, or if granted in connection with an option, the option price per share under the option to which the SAR relates. A SAR is exercisable only at the time or times established by the Compensation Committee. If a SAR is granted in connection with an option it is exercisable only to the extent and on the same conditions that the related option is exercisable. Payment by the Company upon exercise of a SAR may be made in Class A Common Stock of the Company valued at its fair market value, in cash, or partly in stock and partly in cash, as determined by the Compensation Committee. With the consent of the Compensation Committee, a participant may request the Company to withhold shares from the exercise to cover required tax withholding. Upon the exercise of a stock-based SAR, the number of shares available for issuance under the Stock Incentive Plan will be reduced by the number of shares issued upon exercise of the SAR. If a SAR is not exercised prior to the expiration, termination or cancellation of the SAR, the unissued shares subject to the SAR will become available for future awards under the Stock Incentive Plan. Cash payments for SARs will not reduce the number of shares available for awards under the Stock Incentive Plan.

Performance-Based Awards. The Compensation Committee may grant performance-based awards. All or part of the awards will be earned if performance goals established by the Compensation Committee for the period covered by the award are met and the recipient satisfies any other restrictions established by the Compensation Committee. For awards intended to qualify as performance-based awards under Section 162(m) of the Code, the performance goals may be based on one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any subsidiary, division or other unit of the Company, and which may be relative to any designated comparison group of companies: (i) revenue, (ii) net margin, (iii) operating income, (iv) operating cash flow, (v) net income before interest, taxes, depreciation and amortization, (vi) net income before interest and taxes, (vii) net income before income taxes, (viii) net income, (ix) new or used vehicle unit or revenue growth rate (based on same-store growth rate), (x) fixed department revenue growth rate (based on same-store revenue growth rate), (xi) sales or service satisfaction scores (percent of same stores equaling or exceeding specified manufacturers' criteria), (xii) sales responsibility performance (percent of same stores at or above market sales rate thresholds set by specified manufacturers), (xiii) manufacturer approvability criteria, (xiv) financing and insurance revenue or revenue per vehicle, (xv) service, body and parts revenue or revenue per vehicle, (xvi) basic or diluted net income per share, (xvii) basic or diluted net income per share from continuing operations, (xviii) basic or diluted net income per share minus per share dividends and other shareholder distributions, (xix) basic or diluted net income per share from continuing operations minus per share dividends and other shareholder distributions, (xix) basic or diluted net income per share from continuing operations as adjusted to eliminate the effects of asset impairment, gains and losses on the sale of real estate or stores, equity investments and related taxes, (xx) return on equity or return on investment, (xxii) free cash flows, or (xxiii) any of the foregoing before the effect of acquisitions, divestitures, accounting or tax changes, asset impairment, gains and losses on the sale of real estate or stores, reserves (including for real estate leases, company-owned service contracts and legal matters), legal settlements, equity investments, related taxes, and restructuring and special charges (determined according to criteria established by the Compensation Committee).

For performance based awards not intended to qualify under Section 162(m) of the Code, any performance criteria selected by the Compensation Committee may be used.

Maximum Limits on Awards. No participant may be granted awards under the Stock Incentive Plan in any calendar year that provide for the issuance, in the aggregate, of more than 200,000 shares of Class A Common Stock. No non-management director may be granted awards under the Stock Incentive Plan in any calendar year that provide for the issuance, in the aggregate, of more than 10,000 shares of Class A Common Stock.

Repricing Prohibition. The Stock Incentive Plan provides that, unless shareholder approval is obtained, no stock option may be (1) amended to reduce the exercise price or (2) canceled in exchange for cash or another award at a time when the exercise price of the option exceeds the fair market value of the Class A Common Stock.

Changes in Capital Structure. The Stock Incentive Plan provides that if the outstanding Class A Common Stock of the Company is increased, decreased, changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any certain changes in the capital structure, appropriate adjustment will be made by the Compensation Committee in the number and kind of shares available for awards under the Stock Incentive Plan. In addition, the Compensation Committee will make appropriate adjustments in outstanding options and SARs. In the event of dissolution of the Company or certain mergers, consolidations or plans of exchange affecting the Company, all outstanding Stock Options and SARs that were awarded pursuant to will terminate effective as of the effective date of such transaction, unless and only to the extent that the terms and conditions of the transaction expressly provide either for the continuation of such Stock Options and SARs or the issuance of substitute awards under a plan of the acquiring or surviving entity. The terms and conditions of the transaction may provide for the assumption of outstanding performance-based awards, restricted stock and RSUs that have not fully vested by the surviving corporation. Agreements that evidence awards may, in the sole discretion of the Compensation Committee, provide for the acceleration of vesting of the awards, either in whole or in part. In addition, the Compensation Committee shall have the power to accelerate the vesting of any awards in its sole discretion in connection with any such transactions.

Claw-back Provisions. Awards are subjected to a “claw-back” in the event a restatement of our financial performance would result in a failure to achieve the performance objective set for the vesting of any such award.

Stock Incentive Plan Benefits. Information regarding performance-based RSUs granted in 2016 to the NEOs is set forth in “Grants of Plan-Based Awards in 2016” below. Information regarding RSUs granted in 2016 to nonemployee directors is set forth in “Compensation of Directors” above. RSUs for a total of 46,865 shares were granted in 2016 to all executive officers as a group. RSUs for a total of 97,287 shares were granted in 2016 to employees who are not executive officers.

Tax Consequences. Certain options authorized to be granted under the Stock Incentive Plan are intended to qualify as ISOs for federal income tax purposes. Under federal income tax law currently in effect, the optionee will recognize no regular income upon grant or exercise of the ISO. The amount by which the market value of shares issued upon exercise of an ISO exceeds the exercise price, however, is included in the optionee’s alternative minimum taxable income and may, under certain conditions, be taxed under the alternative minimum tax. If an employee exercises an ISO and does not dispose of any of the option shares within two years following the date of grant and within one year following the date of exercise, then any gain realized upon subsequent disposition of the shares will be treated as income from the sale or exchange of a capital asset. If an employee disposes of shares acquired upon exercise of an ISO before the expiration of either the one-year holding period or the two-year waiting period, any amount realized will be taxable as ordinary compensation income in the year of such disqualifying disposition to the extent that the lesser of the fair market value of the shares on the exercise date or the fair market value of the shares on the date of disposition exceeds the exercise price. The Company will not be allowed any deduction for federal income tax purposes at either the time of the grant or exercise of an ISO. Upon any disqualifying disposition by an employee, the Company will generally be entitled to a deduction to the extent the employee realized ordinary income.

Certain options authorized to be granted under the Stock Incentive Plan will be treated as Non-Statutory Stock Options for federal income tax purposes. Under federal income tax law presently in effect, no income is generally realized by the grantee of a Non-Statutory Stock Option until the option is exercised. At the time of exercise of a Non-Statutory Stock Option, the optionee will realize ordinary compensation income, and the Company will generally be entitled to a deduction, in the amount by which the market value of the shares subject to the option at the time of exercise exceeds the exercise price. The Company is required to withhold on the income amount. Upon the sale of shares acquired upon exercise of a Non-Statutory Stock Option, the excess of the amount realized from the sale over the market value of the shares on the date of exercise will be taxable.

An employee who receives stock in connection with the performance of services will generally realize taxable income at the time of receipt unless the shares are not substantially vested for purposes of Section 83 of the Code and no Section 83(b) election is made. If the shares are not vested at the time of receipt, the employee will realize taxable income in each year in which a portion of the shares substantially vest, unless the employee elects under Section 83(b) of the Code within 30 days after the original transfer. The Company generally will be entitled to a tax deduction in the amount includable as income by the employee at the same time or times as the employee recognizes income with respect to the shares. The Company is required to withhold on the income amount.

On exercise of a SAR, the amount realized by the holder will, for federal tax purposes, be taxed as ordinary income, and the Company will generally be allowed to take a deduction for such amount. The SAR holder is subject to withholding on such income.

Section 162(m) of the Code limits to $1,000,000 per person the amount that the Company may deduct for compensation paid to any of its NEOs (other than the chief financial officer) in any year. Under IRS regulations, compensation received through the exercise of an option or SAR will not be subject to the $1,000,000 limit if the option or SAR and the plan pursuant to which it is granted meet certain requirements. One requirement is shareholder approval at least once every five years of a per-participant limit on the number of shares as to which options and SARs may be granted. Approval of this proposal will constitute approval of the per-participant limit under the Stock Incentive Plan. Other requirements are that the option or SAR be granted by a committee of at least two outside directors and that the exercise price of the option or SAR be not less than fair market value of the Common Stock on the date of grant. Accordingly, the Company believes that if this proposal is approved by shareholders, compensation received on exercise of options and SARs granted under the Stock Incentive Plan in compliance with all of the above requirements will be exempt from the $1,000,000 deduction limit.

Under IRS regulations, compensation received through a performance-based award will not be subject to the $1,000,000 limit under Section 162(m) of the Code if the performance-based award and the Stock Incentive Plan meet certain requirements. One of these requirements is shareholder approval at least once every five years of the performance criteria upon which award payouts are based and the maximum amount payable under awards, both of which are set forth in the Stock Incentive Plan. Approval of this proposal will constitute approval of the performance criteria and the limit on the maximum amount of awards that may be granted to any participant in a calendar year. Other requirements are that objective performance goals and the amounts payable upon achievement of the goals be established by a committee of at least two outside directors and that no discretion be retained to increase the amount payable under the awards. The Company believes that, if this proposal is approved by the shareholders, compensation received on vesting of performance-based awards granted under the Stock Incentive Plan in compliance with all of the above requirements will not be subject to the $1,000,000 deduction limit.

Equity Compensation Plan Information

The following table summarizes equity securities authorized for issuance as of December 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of Securities to be issued upon vesting of restricted stock units (c) (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (d) (2)
Equity compensation plans approved by shareholders	—	—	298,984	1,860,156
Equity compensation plans not approved by shareholders	—	—	—	—
Total	—	—	298,984	1,860,156

(1) There is no exercise price associated with our restricted stock units. The total weighted average exercise price is shown with respect to options only.

(2) Includes 1,487,405 shares available pursuant to our Stock Incentive Plan and 372,751 shares available pursuant to our Employee Stock Purchase Plan.

The Board of Directors recommends a vote in favor of Approval of the Performance Criteria under the

2013 Amended and Restated Stock Incentive Plan.

PROPOSAL NO. 4

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 2017 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 2016 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 2016 Annual Meeting of Shareholders, were cast "for" that compensation. The Compensation Committee considered this shareholder approval when it determined 2017 compensation. Based on the approval and on our belief that our compensation philosophy, programs and practices in 2015 were effective in promoting our strong financial performance, we did not make material changes to the philosophy, programs or practices in 2016. The increases we made to the amount of compensation that we paid to our executives between 2015 and 2016 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 39 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 2016 was appropriate, particularly considering our financial results in 2016.

Our Board of Directors unanimously recommends a vote FOR the advisory resolution

to approve the compensation of our named executive officers.

PROPOSAL NO. 5

Advisory vote on the frequency of advisory shareholder voting

on the compensation of our named executive officers.

Shareholders have the opportunity, once every six years, to advise the Board of Directors, in a non-binding vote, whether we should conduct an advisory vote on executive compensation of our named executive officers every one, two or three years. The last vote was held at the annual meeting of shareholders in 2011.

Our compensation strategies relate both to short-term and longer-term business outcomes, and we believe that compensation is best considered over a period of years. Nonetheless, we make compensation decisions annually and believe that an annual advisory vote on executive compensation may provide useful feedback on our compensation programs. The Board of Directors has determined that holding an advisory vote on executive compensation every year is the most appropriate policy for us at this time, and recommends that shareholders vote for future advisory votes on executive compensation to occur each year.

Shareholders may specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. The Board of Directors and the Compensation Committee recommends a vote in favor of “one year” with respect to the frequency to conduct future advisory votes on executive compensation.

Shareholders are not voting to approve or disapprove the Board’s recommendation. Although non-binding, the Board of Directors and the Compensation Committee will take into account the outcome of the vote when deciding how often we conduct an advisory shareholder vote on our executive compensation. Notwithstanding the Board’s recommendation and the outcome of the shareholder vote, the Board of Directors may, in the future, decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with shareholders and the adoption of material changes to compensation programs.

The Board of Directors recommends a vote in favor of “one year” with respect to the

frequency to conduct future advisory votes on executive compensation.

Compensation Discussion and Analysis

Named Executive Officers

This section discusses our compensation programs and the compensation paid in 2016 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 elected 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	50	President and Chief Executive Officer	1989
Christopher S. Holzshu (1)	43	Executive Vice President	2003
Scott A. Hillier	54	Senior Vice President	1986
George C. Liang	61	Senior Vice President	2014
John F. North III (2)	39	Chief Financial Officer	2002

1. In 2016, Mr. Holzshu was Senior Vice President and Chief Financial Officer. Mr. Holzshu became Executive Vice President and Chief Human Resources Officer on January 1, 2017.
2. In 2016, Mr. North was Vice President of Finance and Chief Accounting Officer. Mr. North became Senior Vice President and Chief Financial Officer on January 1, 2017.

Executive Summary

Compensation Philosophy

Lithia’s compensation program supports the Company’s mission, vision and values and aligns incentives with the execution of our business strategy and rewards performance at graduated levels. 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 (e.g. bonus, equity, retirement and other benefits).

Mission, Vision and Values

Our Mission: **Driven by our people and preferred by our customers, we are the leading automotive retailer in each of our markets**. 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 Vision: **to be the highest performing automotive retailer relies on everyone's full engagement.** We foster a high-achievement culture and recognize we are successful when all employees are engaged to achieve common goals. For this reason, our compensation goals weight broad measures such as earnings per share that capture every employee's contribution.

Our Values **guide us in developing our people, serving our customers, and growing our Company.** Working together, we create a welcoming environment to ensure positive experiences that Earn Customers for Life. We take Personal Ownership for our results. By remaining humble when we succeed and confident when we face challenges, we find new possibilities. Our desire to Improve Constantly spurs innovation, personal motivation and high performance. Having Fun accelerates our enthusiasm for customers, cars, each other, and our Company.

Our Road to Success

To achieve our mission of being the leading automotive retailer in each of our markets, we focus on the growth and increasing revenues in all business lines:

- capturing a greater percentage of overall new market 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 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.

YEAR IN REVIEW

In 2016, 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 2016. 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, adjusted earnings per share and free cash flow to the most comparable GAAP measures on page 30.

	2016	**2015**	**2014**
Pre-tax profit, as reported	$283.5 M	$262.7 M	$210.5 M
Adjusted pre-tax profit	$307.5 M	$302.1 M	$218.9 M
Diluted earnings per share from continuing operations, as reported	7.72	6.91	5.14
Adjusted earnings per share from continuing operations	7.72	7.30	5.26
Free cash flow	$144.1 M	$101.9 M	$128.0 M

Liquidity	$356.8 M	$337.7 M	$209.7 M
Leverage ratio	2.1	1.8	2.6
New vehicle unit sales	145,772	137,486	91,104
Rate for manufacturer sales responsibility attainment	110.0 %	108.2 %	107.8 %
Used retail vehicle same store unit sales increase	9.5 %	9.3 %	8.0 %
Service, body and parts same store sales increase	8.6 %	10.3 %	11.3 %
Sales satisfaction index (SSI)	99.8 %	99.9 %	100.5 %
Service satisfaction index (CSI)	99.4 %	99.3 %	100.1 %

Our store personnel focus on opportunities in service and used vehicles. We have been actively pursuing acquisitions and added stores with an aggregate of over $1 billion in additional annual revenues in 2016. Overall revenue exceeded $8.6 billion in 2016, an increase of 10.3% over 2015, and we had record adjusted earnings per share of $7.72. Finally, balancing investment with shareholder return, we distributed approximately $24 million to shareholders as cash dividends based on 2016 results and repurchased approximately $110 million of stock under our share repurchase program.

Compensation Committee Processes

The Compensation Committee reviews the compensation philosophy and policies that govern the Company's executive compensation programs, with particular focus on the compensation of our CEO and other executive officers. The Compensation Committee:

- adopts and guides processes for the performance and compensation management of the CEO;
- recommends and guides 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
- oversees any other human resources actions impacting the CEO or the executives in positions that could conceivably succeed the CEO.

The Compensation Committee oversees 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 administers the Company's stock incentive plans, stock purchase plans, other equity incentive plans, profit sharing plans, and pension plans.

Compensation Program Risk Assessment

Our Board of Directors and the Compensation Committee are required to assess whether our compensation policies and practices, including 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 provide competitive fixed compensation in the form of base salary based on our market survey;
- the primary criteria we use for performance compensation components are based on "bottom line" measures such as pre-tax profit and 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 put weight on Company-wide or divisional performance measures;
- our cash bonus plan preserves discretion to permit the Compensation 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 “claw-back” upon a financial restatement.

Compensation Performance:

The Company aligns performance compensation with objectives that the management team can control. These include objectives such as pre-tax profit, earnings per share, and manufacturer approvability for open points and acquisitions, which are typically based on financial performance and manufacturer-set performance benchmarks including new vehicle sales, service retention and customer satisfaction metrics.

The Company periodically assesses how CEO compensation relates to Total Shareholder Return ("TSR") over historical pay periods. However, because TSR reflects both earnings per share and outside market pressures (e.g. interest rates, unemployment, national sales, gas prices and political issues), the Company believes forward-looking earnings per share targets are more appropriate metrics for assessing CEO compensation.

The following shows Lithia's CEO total direct compensation and one-year TSR ranking in relation to members of Lithia's two peer groups in 2015, which is the most recent information available. Lithia's CEO compensation is on the mid-range of the peer groups while Lithia's TSR Performance is the highest.

2015 CEO Pay Alignment

The following charts shows the Company's TSR in relation to all peers within the Institutional Shareholder Services ("ISS") and Auto Retailer & Industry peer groups for the one and three year periods ending December 31, 2016. For the past several years, the Company has been in the top ten percent in TSR annual growth compared to its peer groups. In 2016, however, the Company is closer to the middle range in TSR performance, but we believe that market volatility and short-term expectations in 2015 created a short-term performance adjustment.

2016 TSR Performance as of December 31, 2016

GAAP Reconciliation Tables

Reconciliation of Adjusted Pre-tax Profit	As of December 31, 2016	2015	2014
Income from continuing operations before income taxes, as reported	$283,523	$262,704	$210,495
Income from discontinued operations before income taxes	—	—	5,277
Non-operating transactions:			
Disposal gains	(1,087)	(5,919)	(5,744)
Asset impairments	—	3,603	—
Reserve adjustments	3,936	—	3,931
Equity investment impairment	22,254	23,451	3,013
Transition agreement	—	18,296	—
Acquisition costs	—	—	1,865
Gain on real estate disposals	(1,101)	(8)	29
Adjusted Pre-tax Profit	$307,525	$302,127	$218,866

Reconciliation of Adjusted Diluted Net Income per Share	As of December 31, 2016	2015	2014
Diluted net income per share, continuing operations as reported	$7.72	$6.91	$5.14
Diluted net income per share, discontinued operations as reported	—	—	0.12
Non-operating transactions:			
Disposal gains	(0.03)	(0.14)	(0.13)
Asset impairments	—	0.08	—
Reserve adjustments	0.03	—	0.09
Transition agreement	—	0.45	—
Acquisition costs	—	—	0.04
Diluted net income per share, adjusted	$7.72	$7.30	$5.26

Reconciliation of Free Cash Flow	As of December 31, 2016	2015	2014
Net cash provided by operating activities	$86,516	$74,539	$30,967
Add: Net borrowings on floor plan notes payable: non-trade	252,893	136,201	440,341
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(94,550)	(25,642)	(257,363)
Less: Capital expenditures	(100,761)	(83,244)	(85,983)
Total free cash flow	$144,098	$101,854	$127,962

Liquidity	As of December 31, 2016	2015	2014
Cash and cash equivalents	$50,282	$45,008	$29,898
Available credit on the credit facilities	138,090	134,120	70,391
Total current available funds	188,372	179,128	100,289
Estimated funds from un-financed real estate	168,383	158,605	109,434
Total estimated available funds	$356,755	$337,733	$209,723

Leverage Ratio	As of December 31, 2016	2015	2014
Total debt, excluding flooring interest	$790,881	$643,186	$640,978
Net income from continuing operations, as reported	$197,058	$182,999	$135,540
Add: Income tax provision	86,465	79,705	74,955
Add: Other interest expense	23,207	19,491	10,742
Add: Depreciation and amortization	49,369	41,600	26,363
Add: Non-operating adjustments from table above	24,002	39,423	3,094
EBITDA, excluding flooring interest	$380,101	$363,218	$250,694
Total debt / EBITDA	2.1	1.8	2.6

PEER GROUPS AND PAY TARGETING

Peer Selection Methodology, Rationale and Comparison

We generally benchmark overall annual compensation for executives at the mean of the most recent ISS Peer Group because we believe this group best represents our competition for executive talent. The ISS Peer Group is determined each year by ISS using a defined methodology that identifies companies reasonably similar to Lithia in terms of industry profile, size, and market capitalization. ISS's methodology draws peers from a subject company's Global Industry Classification Standard ("GICS") group and from GICS groups represented in the Company's peer group, while maintaining the approximate proportions of these industries in the final peer group where possible. We also compare compensation practices to our peers in the auto retail and auto-related sector to help us identify and consider sector-specific compensation trends and practices.

REMUNERATION

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. We believe that as an employee moves into higher level positions in the Company, base pay should become a smaller component of overall TDC. We use competitive information as a guide, and consider current position performance, succession planning and retention needs, before we allocate total direct compensation.

- **Base Salary (short-term):** 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. Annual base salary changes typically commence January 1.

- **Bonus (short-term)**: The bonus compensation plan is tied to quantitative performance objectives, and is set at least annually by management and the Board of Directors to support growth in the Company's profitability, maximize our capital deployment strategies, and increase share value. The Compensation Committee, along with senior management, establishes performance targets and performance periods for awards, and it 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. Although the Compensation Committee believes that financial performance should be the most significant determinant of executive compensation, the Committee may also take 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. We use short and mid-term earnings forecasts, analyst estimates, and strategic planning needs to set the profit objectives each period. We believe using earnings per share and other measures that promote high performance and profitable growth is critical. Because the payments under the plan are purely performance-based, prior compensation received under the plan is not typically taken into consideration when setting new performance targets under the plan. At the end of each performance period, the Compensation 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 is typically adjusted for non-operational transactions, disposal activities and related income tax adjustments. Bonus compensation is intended to reward employee contribution for attaining short-term objectives and to promote continued focus on high performance. The Compensation Committee has negative discretion to reduce performance-based awards. The Compensation Committee also may award discretionary bonuses when an executive's or employee's performance merits it. Bonuses approved by the Compensation Committee are typically paid in the quarter after the measurement period.

- **Stock-Based Compensation (long-term):** We leverage our public company status to offer stock-based compensation that rewards employees for achieving Company quantitative financial performance objectives set annually by management and our Compensation Committee. Additional non-financial performance criteria may be added to enhance or reduce the award based on attainment of predetermined objectives. We use stock-based compensation to retain key executives and other employees by subjecting awards to multi-year vesting period.

  We typically award restricted stock units ("RSUs"), rather than stock options, because RSUs motivate performance of the employee and give value as compensation regardless of the trading value of the stock at a given point in time. Because Lithia's stock price has been volatile, the value of stock options can fluctuate wildly over a short period. We believe this unnecessarily distracts employees and reduces their incentive to continuously improve the operations of the business whenever market prices dip below the option exercise price.

  For senior management, we award performance- and time-vesting RSUs. Typically, performance is based on annual financial performance measures and the portion of the RSU that is earned based on performance is subject to time-vesting over a multi-year period. For the past several years, we have used annual adjusted earnings per share as the measure of performance because it is a useful measure of our overall profitability and is strongly correlated to changes in our stock price, and we have determined the appropriate target levels based on external analyst guidance and our own internal forecasts. RSUs are "earned" at graduated levels of performance. In determining attainment levels, we adjust earnings per share to exclude non-operating transactions or disposal activities such as asset impairment and disposal gain; gains or losses on the sale of real estate or stores; gains or losses on equity investment; and related income tax adjustments. We make these adjustments because they result in a better measure of our operational performance and create a figure that is more useful for analyzing trends and making comparisons between periods. We typically determine RSU award values as a percentage of an executive's base salary, after reviewing peer data, the executive's performance and other factors.

- **Supplemental Executive Retirement Plan (long-term):** We maintain a non-qualified deferred compensation plan, the Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan ("Retirement Plan"), for our management group, including our NEOs. We believe the plan provides a cost-effective retirement program to provide key employees secure funds for retirement at age 62-65, and helps us recruit and retain key personnel and aids in our succession planning. The Compensation Committee typically makes discretionary contributions to the plan, after consulting with management, for the benefit of any participant, and it decides whether to do so and sets the amount of any contribution based on our operating performance for the prior year, the executive's base salary and other factors, including transition planning. The Retirement Plan helps with executive retention because discretionary contributions vest over seven years. Amounts in the discretionary contribution account fully vest upon a change in control, as defined in the plan, and upon the participant's death or disability.

  Vesting accelerates to 70% at age 62 and to 100% at age 65. Individual contributions discontinue after age 61. Eligible employees may elect annually to defer up to 50% of their base salary and 100% of their performance bonus under the Retirement Plan. The minimum deferral amount for any deferral period is $5,000. The Compensation Committee may change these minimums and maximums from time to time upon written notice. A participant is 100% vested in amounts the participant elects to defer. Balances in the plan for all participants are credited on a monthly basis with an earnings rate determined by the Compensation Committee annually. Generally, the balance in a participant's discretionary contributions account will be paid out over a 10-year period after separation from service. Generally, deferral contributions will be paid after separation from service and in the form as elected in the participant's election relating to the applicable deferral period. We use corporate-owned life insurance to fund our obligations, excluding any participant-elected deferred income, under the Retirement Plan.

- **Other 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.

Tax Implications

The Company 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 made up of outside directors and approved, as to their material terms, by their shareholders. The Company may pay compensation that is not deductible under Section 162(m) if it believes non-deductible compensation better achieves its goals.

Additional Compensation Policies

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

Claw-backs. Compensation that we pay based on performance, including amounts paid to our NEO’s, 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. Our NEOs are expected to acquire and hold, within five years after becoming an NEO, shares of our Class A common stock with a market value equal to at least five times their base salary; other officers, at the Vice President level or above, are expected to acquire and hold, within five years of becoming a Vice President or above, shares of our Class A common stock with a market value equal to at least two times their base salary. If an officer ceases to comply with the policy, either because the person’s salary is increased or the value of our shares decreases, that person 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 only to time-vesting 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 and other officers to downside equity performance risk.

Negative Discretion of the Compensation Committee. The Compensation 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, our Compensation Committee engaged compensation consultant Willis Towers Watson to prepare a report on the market competitiveness of the compensation paid to our CEO and certain other executives. The Compensation Committee annually assesses whether its compensation consultants are independent. The Committee has reviewed the independence of Willis Towers Watson and determined that its work has not raised any conflict of interest and that Willis Towers Watson is independent under the Compensation Committee's policy.

Peer Groups and Benchmark Data. In 2016 the Compensation Committee reviewed ISS's peer group as well as the Auto Retailer and Industry peer groups set forth below. The Auto Retailer and Industry Peer groups are referred to as the P1 Peer Groups below.

ISS Peers		Auto Retailer Peers	Industry Peers
Advanced Auto Parts, Inc.	Group 1 Automotive, Inc.	Asbury Automotive Group, Inc.	Advanced Auto Parts, Inc.
Asbury Automotive Group, Inc.	O'Reilly Automotive, Inc.	AutoNation, Inc.	America's Car-Mart, Inc.
AutoZone, Inc.	Penske Automotive Group, Inc.	Group 1 Automotive, Inc.	AutoZone, Inc.
Barnes & Noble, Inc.	Rent-A-Center, Inc.	Penske Automotive Group, Inc.	CarMax, Inc.
Cabela's Incorporated	Signet Jewelers Limited	Sonic Automotive, Inc.	Monro Muffler Brake, Inc.
CarMax, Inc.	Sonic Automotive, Inc.		O'Reilly Automotive, Inc.
Dick's Sporting Goods, Inc.	Tractor Supply Company		Pep Boys - Manny, Moe & Jack
Foot Locker, Inc.	TravelCenters of America LLC		
GameStop Corp.	Williams-Sonoma, Inc.		

2016 Executive Compensation by Element

The elements of our executive compensation include: (1) base salary, (2) performance bonus, (3) performance equity incentives, (4) retirement benefits and (5) other limited 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 2016 and why.

Name	Base Salary $		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)	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Bryan B. DeBoer	$882,000	$950,000	150 %	Same	150 %	Same	200 %	100 %	30 %	Same
Christopher S. Holzshu	441,000	485,100	100	Same	125	Same	150	80	25	Same
Scott A. Hillier	441,000	463,050	100	Same	75	Same	100	50	25	Same
George C. Liang	360,000	378,000	100	Same	40	Same	100	50	20	Same
John F. North III		302,500		75		100		50		15

Remunerative Mix. The Company allocated pay components for its CEO in 2016 as follows.

Base Salary. The Compensation Committee established the 2016 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 Compensation 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.

Performance Bonus. In 2016, our performance bonus plan compensated executives for achieving six-month performance goals. Each NEO had a maximum cash bonus potential based on a percentage of base salary ranging from 75% to 150%. The Compensation 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, the NEO's base salary. We calculated 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%). Although the performance periods in 2016 were semi-annual, the maximum compensation potential for any executive was determined on an annual basis.

The tables below show, for the first and second half of 2016, 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 $75 million for the first half of 2016 and $86 million for the second half of 2016. 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	2016 Performance Targets	Result 1st Half	Result 2nd Half	Potential Achievement	Actual Achievement 1st Half	Actual Achievement 2nd Half
Adjusted Pre-tax Profit - First half of the year (1)	$75.0 million to $148.0 million	$148.2 million		42.5% to 85%	85%	
Adjusted Pre-tax Profit - Second half of the year (1)	$86.0 million to $172.0 million		$159.3 million	42.5% to 85%		78%
Sales Satisfaction (2)	Aggregate score of 100%	100.1%	99.8%	3%	3%	—%
Service Satisfaction (2)	Aggregate score of 100%	99.6%	99.4%	3%	—%	—%
New Vehicle MSR (3)	Aggregate score of 110% or higher	111.1%	110.0%	3%	3%	3%
	Aggregate score of 105% to 109.9%			2%		
	Aggregate score of 100% to 104.9%			1%		
Used Vehicle Unit Growth (4)	6% or higher	9.8%	9.2%	3%	3%	3%
(Same Store units sales over prior year)	4.0% to 5.9%			2%		
	2.0% to 3.9%			1%		
Fixed Operations Sales Growth (4)	8% or higher	8.8%	8.3%	3%	3%	3%
(Same Store sales over prior year)	6.0% to 7.9%			2%		
	4% to 5.9%			1%		
	Total			100%	97%	87%

(1) Adjusted pre-tax profit is consolidated income from operations and discontinued operations before income taxes, excluding non-operating transactions or disposal activities such as real estate or store sale gains (losses); impairments; reserves for real estate leases; certain legal awards or settlements; and income tax adjustments. Achievement is measured after the deduction of Retirement Plan expenses and any performance bonus to be paid. The table below reconciles adjusted pre-tax profit to consolidated income from continuing and discontinued operations, in each case before taxes, as reported in our quarterly report on Form 10-Q for the period ended June 30, 2016 and in our Annual Report on Form 10-K for the year ended December 31, 2016. Second half 2016 amounts were calculated by subtracting reported amounts for the first half of 2016 from reported amounts for the full year.

	First Half	Second Half	2016

	$ in thousands		
Income from continuing operations before income taxes, as reported	$137,324	$146,199	$283,523
Non-operating transactions:			
Disposal Gains	(1,087)	—	(1,087)
Asset Impairments	—	—	—
Reserve Adjustments.	1,906	2,030	3,936
Equity Investment impairment	11,127	11,127	22,254
Gain on Real Estate disposals	(1,074)	(27)	(1,101)
Adjusted Pre-tax Profit	$148,196	$159,329	$307,525

(2) Determined by the average of the scores received from each manufacturer (with 100% being an average performing store) for each store owned for at least 12 months and included in the CSI/SSI Comparative Analysis Summary in the Lithia Store Rankings following the end of the measurement period.

(3) Determined by the average of the scores received from each manufacturer (weighted based upon total units sold by each store) providing comparable market sales efficiency data on stores owned for at least 12 months, and as reported in Lithia's MSR/Sales Efficiency Trend Report following the end of the measurement period.

(4) Determined using same-store year-over-year operating results. Same-store only includes results from store operations where full months of operations occur in both periods.

(5) If the highest threshold were attained for all objectives in each half-year measurement period, the maximum amount of the performance bonus compensation payable in 2016 to our CEO and the other four NEOs would have been $2,978,025 (for individual potential performance compensation, see the "Grants of Plan-Based Awards Table for 2016" in this proxy statement). This maximum amount is approximately $206,775 more than the maximum amount possible in 2015.

Each NEO's performance bonus was based on the attainment described above except for Scott Hillier and George C. Liang. Mr. Hillier's performance bonus was based on the attainment of performance targets related to the performance of the Lithia operations group only. Mr. Liang's performance bonus was based on the attainment of performance targets related to the performance of the DCH operations group only. These performance targets were based on Adjusted Pre-tax Profit, Sales Satisfaction scores, Service Satisfaction scores and the achievement of certain manufacturer approvability requirements for open points and acquisitions. The first and second half attainment related to these performance targets was 84% for Lithia and 91% for DCH.

Equity-Based Compensation. In 2016, we awarded an aggregate of 24,199 performance and time-vesting RSUs to NEOs, and 22,666 long-term performance-vesting RSUs to NEOs. The performance and time-vesting RSUs vest 25% on each anniversary of the award date, so that awards are fully vested on the fourth anniversary of the award date. The long-term performance-vesting RSUs vest when the compensation committee certifies that the performance condition has been attained. The Compensation Committee determined the number of RSUs awarded to NEOs and other key employees after considering peer comparisons, the percentage of total compensation and targets based on adjusted earnings per share for 2016.

The portion of each award that is earned based on performance is subject to time-vesting over a four year period.

Each 2016 performance and time-vesting RSU awarded to our NEOs was contingent on us meeting specified adjusted earnings per share thresholds for 2016, adjusted as described above. The thresholds were determined based on a percentage of the high end of external guidance from analysts who cover Lithia's stock as follows.

High End of Guidance	**EPS Threshold**	**% of RSUs Earned**
105.0 %	$7.72 (highest)	100.0%
102.5	7.53	95.0
100.0	7.35	90.0
97.5	7.17	85.0
95.0	6.98	80.0
Profitable	0.01	50.0
	$ 0.00 or negative	0%

For 2016, our adjusted EPS was $7.72, which resulted in 100% of the 2016 performance and time-vesting RSUs becoming earned. The reconciliation of this measure to the most comparable GAAP measure is set forth below (dollars in thousands, except per share amounts):

	Year Ended December 31, 2016			
	As reported	Disposal Gain	Reserves	Adjusted
Diluted net income per share	$7.72	$ (0.03)	$ 0.03	$ 7.72
Diluted share count	25,521			

Long-Term Performance RSUs based on Earnings Per Share Milestones. The Compensation Committee issued long-term performance awards to increase the mix of short and long-term performance awards. For certain key employees, including each NEO, the Compensation Committee awarded in 2015 performance-based RSUs that vest when the Company first attains annual adjusted earnings per share of $8.00. These awards range from 50% to 100% of 2016 base compensation (Bryan B. DeBoer - 100%; Christopher S. Holzshu - 75%; Scott A. Hillier - 50%; George C. Liang - 50%; John F. North III - 50%). RSUs awarded at the $8.00 target are forfeited if not earned within three years of the date of the award.

In 2016, the Compensation Committee awarded certain key employees, including each NEO, performance-based RSUs that vest when the Company first attains annual adjusted earnings per share of $9.00. These awards range from 50% to 100% of 2015 base compensation (Bryan B. DeBoer - 100%; Christopher S. Holzshu - 80%; Scott A. Hillier - 50%; George C. Liang - 50%; John F. North III - 50%). RSUs awarded at the $9.00 target are forfeited if not earned within three years of the date of the award.

Retirement Plan. The Compensation Committee set the earnings rate under our Retirement Plan for 2016 at 5.25%. For 2016, the Committee approved a contribution under the Retirement Plan for our CEO, Bryan B. DeBoer, of 30% of his base salary, or $285,000. The percentage contribution for our CEO was unchanged from 2015. The contributions for our NEOs, other than our CEO, approved by the Compensation Committee totaled $358,013 for 2016 (individual contributions for NEOs are reflected in the table headed “Non-Qualified Deferred Compensation for 2016” below). Our 2016 contributions for our NEOs will vest over seven years and our 2015 contribution for our former Executive Chairman vested on January 1, 2016. Effective December 31, 2015, Sidney B. DeBoer ceased to be an executive officer and is no longer eligible to receive retirement contributions. See “*Certain Relationships and Transactions with Related Persons.*”

Other Perquisites and Benefits**.** In 2016, we provide our NEOs an auto allowance and we paid long-term care insurance premiums on their behalf. Our NEOs are generally eligible to participate in benefit programs available to all full-time employees, including health and disability insurance, and our 401(k) plan. However, because of limitations contained in the Internal Revenue Code applicable to principal shareholders and their family members, Bryan B. DeBoer is not eligible to participate in our 2009 Employee Stock Purchase Plan.

Summary Compensation Table for 2016

The following table provides certain summary information concerning compensation awarded to, earned by or paid to our NEOs for the fiscal years ended December 31, 2016, 2015 and 2014.

Name and Principal Position	Year	Salary	Stock Awards(2)	Non-Equity Incentive Plan Compensation	Change in Pension Value & Nonqualified Deferred Compensation Earnings(3)	All Other Compensation(4)	Total
Bryan B. DeBoer	2016	$950,000	$1,837,701	$ 1,311,000	$ 46,566	$ 331,129	$4,476,396
President and Chief	2015	882,000	2,910,129	1,250,235	25,811	309,517	5,377,692
Executive Officer	2014	840,000	749,377	1,222,200	17,056	278,804	3,107,437
Christopher S. Holzshu	2016	485,100	764,660	446,293	15,150	145,591	1,856,794
Executive Vice President[1]	2015	441,000	1,134,389	416,745	9,731	128,549	2,130,414
	2014	420,000	312,251	407,400	6,610	123,624	1,269,885
Scott A. Hillier	2016	463,050	447,909	419,060	15,541	139,120	1,484,680
Senior Vice President	2015	441,000	727,661	416,745	10,153	133,145	1,728,704
of Operations	2014	420,000	187,375	407,400	6,989	122,985	1,144,749
George C. Liang	2016	378,000	290,029	347,760	8,142	115,954	1,139,885
Senior Vice President of DCH Operations	2015	361,523	495,843	342,900	1,998	86,817	1,289,081
John F. North III[1] Chief Financial Officer	2016	302,500	335,849	208,725	5,487	57,681	910,242

(1) Effective January 1, 2017, Mr. Holzshu became Executive Vice President and Chief Human Resources Officer and Mr. North became Senior Vice President and Chief Financial Officer. In 2016, Mr. Holzshu was Senior Vice President and Chief Financial Officer, and Mr. North was Vice President of Finance and Chief Accounting Officer.

(2) These amounts reflect the grant date fair value for awards granted under the 2013 Amended and Restated Stock Incentive Plan during each respective year. For each type of RSU award, the attainment levels used in the calculation of the grant date fair value was based on the probable outcomes at the time of grant. For a more detailed discussion of the assumptions used to determine the grant date fair values and other related information, see Notes 1 and 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. The table below outlines the details of these grants, including the attainment levels used to calculate the grant date fair value.

Name	Year	Performance and Time Vesting RSUs: Grant Date Fair Value Attainment Level	Performance and Time Vesting RSUs: Maximum Attainment Level	Performance and Time Vesting RSUs: Grant Date Fair Value	Long-Term Performance RSUs: Grant Date Fair Value Attainment Level	Long-Term Performance RSUs: Maximum Attainment Level	Long-Term Performance RSUs: Grant Date Fair Value	Total Grant Date Fair Value	Total Grant Date Maximum Value
Bryan B. DeBoer	2016	90%	100 %	$814,299	100%	100 %	$1,023,402	$1,837,701	$1,928,179
	2015	75%	100 %	1,031,818	100%	100 %	1,878,311	2,910,129	3,254,068
	2014	60%	100 %	749,377	—	—	—	749,377	1,248,961
Christopher S. Holzshu	2016	90%	100 %	346,549	100%	100 %	418,111	764,660	803,166
	2015	75%	100 %	429,919	100%	100 %	704,470	1,134,389	1,277,695
	2014	60%	100 %	312,251	—	—	—	312,251	520,418
Scott A. Hillier	2016	90%	100 %	198,458	100%	100 %	249,451	447,909	469,960
	2015	75%	100 %	258,001	100%	100 %	469,660	727,661	813,661
	2014	60%	100 %	187,375	—	—	—	187,375	312,291
George C. Liang	2016	90%	100 %	86,420	100%	100 %	203,609	290,029	299,631
	2015	75%	100 %	112,332	100%	100 %	383,511	495,843	533,287
John F. North III	2016	90%	100 %	172,907	100%	100 %	162,942	335,849	355,060

(3) These amounts are the above-market interest earned in the applicable year on contributions to our Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan.

(4) All Other Compensation in 2016 consisted of the following:

Name	Auto Allowance	401(k) Match	Insurance Premiums[(a)]	Contributions to Long-Term Incentive Plan	Other[(b)]	Total
Bryan B. DeBoer	$ 36,000	$1,150	$ 4,333	$ 285,000	$ 4,646	$331,129
Christopher S. Holzshu	14,500	1,150	3,582	121,275	5,083	145,591
Scott A. Hillier	14,500	1,150	4,682	115,763	3,025	139,120
George C. Liang	16,214	1,150	6,451	75,600	16,538	115,954
John F. North III	7,500	1,150	3,656	45,375	—	57,681

(a) Insurance premiums include amounts paid by us on behalf of the executive for short-term disability insurance, long-term disability insurance and life insurance policies.

(b) Amounts shown are for fair market values of a Company-sponsored trip in 2016. Included in the amount for Mr. Liang, is an amount for paid leave of $14,538.

Grants of Plan-Based Awards Table for 2016

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (# of shares of Class A Common Stock)[(3)]			
Name	Grant Date[(1)]	Compensation Committee Action Date	Threshold ($)	Target ($)[(2)]	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Grant Date Fair Value of Stock and Option Awards ($)[(4)]
Bryan B. DeBoer	1/1/2016	11/24/2015	$302,812	$712,500	$712,500	—	—	—	$ —
	2/4/2016	11/24/2015				6,087	10,957	12,174	814,299
	2/25/2016	2/25/2016				11,274	11,274	11,274	1,023,402
	7/1/2016	05/19/2016	302,812	712,500	712,500				
Christopher S. Holzshu	1/1/2016	11/24/2015	103,084	242,550	242,550				
	2/4/2016	11/24/2015				2,591	4,663	5,181	346,549
	2/25/2016	02/25/2016				4,606	4,606	4,606	418,111
	7/1/2016	05/19/2016	103,084	242,550	242,550				

Scott A. Hillier	1/1/2016	11/24/2015	$98,398	$231,525	$231,525				
	2/4/2016	11/24/2015				1,484	2,670	2,967	198,458
	2/25/2016	02/25/2016				2,748	2,748	2,748	249,451
	7/1/2016	05/19/2016	98,398	231,525	231,525				
George C. Liang	1/1/2016	11/24/2015	70,875	189,000	189,000				
	2/4/2016	11/24/2015				646	1,163	1,292	86,420
	2/25/2016	02/25/2016				2,243	2,243	2,243	203,609
	7/1/2016	05/19/2016	70,875	189,000	189,000				
John F. North III	1/1/2016	11/24/2015	48,211	113,438	113,438				
	2/4/2016	11/24/2015				1,293	2,327	2,585	172,907
	2/25/2016	02/25/2016				1,795	1,795	1,795	162,942
	7/1/2016	05/19/2016	48,211	113,438	113,438				

(1) The grant date for the Non-Equity Incentive Plan awards reflects the starting period for each half of the 2016 Performance Bonus Plan. The Compensation Committee establishes the performance criteria and applicable achievement percentages. (See the discussion under "Performance Bonus" above).

(2) See paragraph below for discussion related to Target amounts.

(3) Performance and time-vesting RSU award, which includes a performance condition and a continuing service condition.

(4) These amounts reflect the grant date fair value for awards granted under the 2013 Amended and Restated Stock Incentive Plan. The attainment level used to calculate the grant date fair value for the performance and time-vesting grants was 95% based on the probable outcome at the time of grant. For a more detailed discussion of the assumptions used to determine the grant date fair value and other related information, see Notes 1 and 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

The Non-Equity Incentive Plan Awards in the Grants of Plan-Based Awards Table for 2016 reflect awards under the Cash Bonus Performance Plan. The Performance Bonus Plan is structured such that the total amount earned each period is tied directly to our performance for the period. To see the performance criteria used in 2016 and for additional discussion about the Performance Bonus Plan, see *"Compensation Discussion and Analysis* - 2016 *Executive Compensation by Element- Performance Bonus"* above. The performance bonus potential for each NEO is a percentage of base salary ranging from 100% to 150% (depending on position) with the maximum amount being earned if all criteria elements are satisfied at the highest level. Therefore, there is no "target" amount for 2016.

The Equity Incentive Plan Awards in the Grants of Plan-Based Awards Table for 2016 were awarded under our Stock Incentive Plan and are subject to forfeiture depending on whether we achieve specified performance criteria. (See *"Compensation Discussion and Analysis - 2016 Executive Compensation by Element - Equity Based Compensation"* for the performance criteria used in 2016).

Outstanding Equity Awards at Year End 2016

The following table sets forth the outstanding equity awards held by our NEOs as of December 31, 2016:

Name	**Grant Date**	**Number of Shares or Units of Stock That Have Not Vested (#)[1]**		**Market Value of Shares or Units of Stock That Have Not Vested ($)[2]**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[3]**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[2]**
Bryan B. DeBoer	2/1/2013	7,392	(4)	$715,767		$ —
	1/1/2014	9,190	(5)	889,868		
	1/5/2015	12,558	(6)	1,215,991		

	11/24/2015				7,762	(7)	751,594
	2/4/2016	12,174	(8)	1,178,808			
	2/25/2016				11,274	(9)	1,091,661
Christopher S. Holzshu	2/1/2013	2,927	(4)	283,421			
	1/1/2014	3,829	(5)	370,762			
	1/5/2015	5,232	(6)	506,615			
	11/24/2015				2,911	(7)	281,872
	2/4/2016	5,181	(8)	501,676			
	2/25/2016				4,606	(9)	445,999
Scott A. Hillier	2/1/2013	1,830	(4)	177,199			
	1/1/2014	2,298	(5)	222,515			
	1/5/2015	3,140	(6)	304,046			
	11/24/2015				1,941	(7)	187,947
	2/4/2016	2,967	(8)	287,295			
	2/25/2016				2,748	(9)	266,089
George C. Liang	1/5/2015	1,367	(6)	132,367			
	11/24/2015			—	1,585	(7)	
	2/4/2016	1,292	(8)	125,104			
	2/25/2016				2,243	(9)	217,190
John F. North III	2/1/2013	1,053	(4)	101,962			
	1/1/2014	1,488	(5)	144,083			
	1/5/2015	2,219	(6)	214,866			
	11/24/2015				1,211	(7)	117,261
	2/4/2016	2,585	(8)	250,306			
	2/25/2016				1,795	-9	173,810

(1) All shares are related to restricted stock units subject to time-vesting restrictions

(2) Assumes a stock price of $96.83, the closing price of our common stock on December 30, 2016

(3) All shares are related to restricted stock units subject to performance conditions and time-vesting restrictions.

(4) Vests 100% on February 1, 2017

(5) Vests 50% on January 1st of each year 2017 and 2018.

(6) Vests 33.3%% on January 1st of each year 2017, 2018 and 2019.

(7) Vests in February of the year following the fiscal year in which the Company's adjusted earnings per share meets or exceeds $8.00.

(8) Vests 25% on February 25, 2017 and vests 25% on January 1st of each year 2018, 2019 and 2020

(9) Vests in February of the year following the fiscal year in which the Company's adjusted earnings per share meets or exceeds $9.00.

Stock Vested for 2016

The following table summarizes shares acquired on vesting of RSUs during 2016 for each NEO:

Name	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
Bryan B. DeBoer	74,448	$6,686,299
Christopher S. Holzshu	29,560	2,667,000
Scott A. Hillier	19,894	1,793,095
George C. Liang	2,735	238,054
John F. North III	11,194	1,006,938

(1) Equals the value of the shares acquired based on the closing price of our common stock on the vesting date.

Nonqualified Deferred Compensation for 2016

The table below reflects the contributions, earnings, withdrawals and distributions during 2016 and the account balances as of December 31, 2016 for each NEO under our Non-Qualified Deferred Compensation and Long-Term Incentive Plan.

Name	Executive Contributions in Last FY	Registrant Contributions in Last FY(1)	Aggregate Earnings in Last FY(2)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE(3)
Bryan B. DeBoer	$ 399,489	$ 285,000	$ 94,796	$ —	$2,073,979
Christopher S. Holzshu	—	121,275	31,193	—	611,161
Scott A. Hillier	—	115,763	31,997	—	626,929
George C. Liang	226,995	75,600	16,615	—	474,398

John F. North III	—	45,375	11,297	—	221,359

(1) These amounts are reported in All Other Compensation in the Summary Compensation Table above for the last completed fiscal year.

(2) A portion of these amounts is related to above-market earnings on compensation that is deferred and is reported in Change in Pension Value and Nonqualified Deferred Compensation Earnings in the Summary Compensation Table above. These amounts include $46,566 for Bryan B. DeBoer, $15,150 for Christopher S. Holzshu, $15,541 for Scott A. Hillier, $8,142 for George C. Liang and $5,487 for John F. North III.

(3) The amounts related to Executive Contributions, Registrant Contributions and above-market earnings on compensation that is deferred was reported as compensation in the Summary Compensation Table in prior years. These amounts include $1,405,896 for Bryan B. DeBoer, $559,581 for Christopher S. Holzshu, $572,590 for Scott A. Hillier, $157,741 for George C. Liang and $50,862 for John F. North III.

Our Non-Qualified Deferred Compensation and Long-Term Incentive Plan permits us to contribute awards for participants that will have a deferred payout. Under this plan, senior executives may defer receipt of portions of their compensation (up to 50% of base salary, and 100% of variable compensation) in any given year, with all amounts deferred earning interest at an annual rate set by the Compensation Committee. (See *"Compensation Discussion and Analysis - 2016 Executive Compensation by Element - Retirement Plan"*).

Potential Payments Upon Termination or Change in Control

Potential Payments Upon Termination of Employment. In certain circumstances, such as in connection with succession planning or the death or disability of our senior executive officers, it is appropriate to provide severance payments, accelerated vesting of RSUs and certain other limited payments to those executives.

Benefits payable to NEOs upon death, disability or retirement. For all RSUs granted to NEOs in 2013, 2014, 2015 and 2016 (other than the long-term performance RSUs), if the NEO becomes disabled while employed by us, the RSUs continue to vest as scheduled for so long as the NEO remains disabled. If the NEO dies (or, with respect to the RSUs granted to NEOs in 2015 or 2016, if the NEO dies on or after January 1, 2016 or January 1, 2017, respectively), or if the NEO retires after age 65 and having been employed by the Company for at least four years, a pro rata portion of the RSUs (other than any unearned long-term performance RSUs) becomes vested. The prorated portion of the RSUs that becomes vested on death or retirement is the total number of RSUs earned by the NEO based on the performance measures but not yet vested under the service requirement multiplied by a fraction, the numerator of which is the number of full months elapsed from the date of grant through the date of the NEO recipient's death or retirement, and the denominator of which is 48. Under our Non-Qualified Deferred Compensation and Long-Term Incentive Plan, discretionary benefits contributed by us to a participant's account fully vest upon the participant's death or disability.

The following table sets forth the estimated benefits that would have been payable to our NEOs under the RSUs and Non-Qualified Deferred Compensation and Long-Term Incentive Plan if each NEOs employment had been terminated on December 31, 2016 because of death or disability:

Name	**Value of Long-Term Incentive Benefits That Would Vest**	**Value of Stock Awards That Would Vest**	**Total**
Bryan B. DeBoer	$1,026,128	$1,621,515	$2,647,643
Christopher S. Holzshu	415,035	665,609	1,080,644
Scott A. Hillier	419,983	402,619	822,602
George C. Liang	137,132	66,619	203,751
John F. North III	151,349	268,897	420,246

Potential Payments Upon Change in Control. If we are facing a potential change in control transaction and the proposed transaction would likely negatively affect one or more of our senior executives, we believe it is risky to assume that those senior executives will work against their financial interest, even if the proposed transaction would be in the best interest of our shareholders. We believe that, in such case, our executives should not be motivated by financial self-interest but rather should be appropriately compensated if the completion of the transaction results in a loss of their job. Accordingly, we believe that providing "double-trigger" severance payments, accelerating the vesting of RSUs and certain other limited payments are an appropriate means of achieving alignment between the interests of our senior executives and our shareholders in the context of a potential transaction that would result in a change in control.

Change in Control Agreements. We are party to double-trigger Change in Control Agreements with Bryan B. DeBoer, Christopher S. Holzshu, Scott A. Hillier, George C. Liang and John F. North III. Under those agreements, if, after a change in control, the executive is terminated without cause or resigns for good reason, each as defined below, we will pay the executive:

- **Accelerated Change in Control Benefits.**

(1) The portion of any outstanding equity award of the executive (excluding any portion of the equity award forfeited previously in accordance with its terms) that is not vested as of the date the executive's employment with the Company terminates (separation date), which, for awards subject to performance criteria and for which the relevant performance period has not ended as of the separation date, will be (a) for awards based on performance over a single one-year period, the average percentage of similar awards earned (based on performance) in the three immediately preceding annual performance periods and (b) for all other awards, at the "target level," if specified in the award, or at the highest possible award level if no target level is specified, and

(2) The portion of all discretionary contributions made by the Company for the executive's account under any retirement plan, including the Retirement Plan, that is not vested as of the separation date.

- **Cash Change in Control Benefits.**

(1) 24 months of base salary, based on the executive's base salary immediately before the change in control; and

(2) The executive's estimated annual cash bonus amount multiplied by two, which estimated annual cash bonus amount is calculated in part according to the executive's attainment of performance bonus compensation objectives in the executive's prior two year performance periods under the Company's Performance Bonus Plan.

- **Continuing Change in Control Benefits.**

(1) Continuing long-term care insurance premiums for 24 months after the separation date; and

(2) Continuing health insurance benefits until the earlier of (a) 24 months after the separation date, (b) the full COBRA period required by law or (c) when the executive becomes eligible for employer-sponsored health insurance from a subsequent employer.

The Change in Control Agreements also contain non-solicitation, non-competition and non-disparagement provisions, but (i) those provisions are dependent on the executive electing to receive the change in control benefits identified above and (ii) the Company's remedy if the executive violates the non-competition provisions is limited to causing the executive to forfeit profit sharing or other bonus compensation that has not yet been paid to the executive, excluding any equity awards awarded before January 1, 2016. If applicable, the non-solicitation and non-competition provisions are effective for two years following the date of the executive's separation from service with us. If applicable, the non-disparagement provision is effective for three years from that date. The Change in Control Agreements also contain provisions regarding non-disclosure (for three years from the date of the executive's separation from service) and assignment of interest in all creative works that are not dependent on the executive receiving any change in control benefits under the agreement.

Under the Change in Control Agreements:

- A "Change in Control" occurs if: (A) the Company merges or consolidates with another entity and, as a result, less than 50% of the combined voting power of the resulting entity immediately after the merger or consolidation is held by persons who were the holders of the Company's voting securities immediately before the merger or consolidation; (B) any person, entity, or group of persons or entities, other than through merger or consolidation, acquires 50% or more of the total fair market value or total voting power of the Company's outstanding stock (excluding such a change through the transfer of the Company's outstanding stock or interests in Lithia Holding to the Sidney B. DeBoer Trust or the election of Bryan DeBoer or the Sidney B. DeBoer Family Trust as the manager of Lithia Holding) or acquires substantially all of the Company's assets; (C) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 50% or more of the total voting power of the stock of the Company (excluding such a change through the transfer of the Company's outstanding stock or interests in Lithia Holding to the Sidney B. DeBoer Trust or the election of the Sidney B. DeBoer Family Trust as the manager of Lithia Holding); or (D) a majority of the members of the Company's Board of Directors are removed from office by a vote of the Company's shareholders over the recommendation of our Board or replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board of Directors before the date of the appointment or election;

- "Cause" for termination of employment means any one or more of the following: (A) willful misfeasance, gross negligence or conduct involving dishonesty in the performance of the executive's duties, as determined by our Board of Directors; (B) conviction of a crime in connection with the executive's duties or any felony; (C) conduct significantly harmful to the Company, as reasonably determined by our Board of Directors, including but not limited to intentional violation of law or of any significant policy or procedure of the Company; (D) refusal or failure to act in accordance with a stipulation, requirement or directive of our Board of Directors (provided such directive is lawful); or (E) failure to faithfully or diligently perform any of the duties of the executive's employment which are specified in the Change in Control Agreement, articulated by our Board of Directors, or are usual and customary duties of the executive's employment if the executive has not corrected the problem or formulated a plan for its correction with our Board (if such failure is not susceptible to immediate correction) within 30 days after notice to the executive; and

- "Good Reason" for an executive's resignation means (A) any one or more of the following occurs without the executive's consent: (1) a material diminution of the executive's base compensation (unless consistent with an across-the-board pay reduction for all senior management and not in excess of 20%); (2) a material change in the geographic location at which the executive must perform services for the Company; (3) a material diminution in the executive's authority, duties or responsibilities, or (4) any action or inaction by the Company that constitutes a material breach of the Change in Control Agreement; (B) the executive provides notice to the Company of the existence of the condition within 90 days of the initial existence of the condition; (C) the Company has 30 days following receipt of such notice to remedy the condition and fails to do so; and (D) the executive resigns within twelve months of such event occurring. For purposes of clause (A)(3) of the previous sentence, whether a material diminution in the executive's authority has occurred shall be determined in part by comparing the authority and positions of the persons to whom the executive directly reports immediately prior to the Change in Control or the announcement of the Change in Control with the authority and positions of the persons to whom the executive directly reports immediately after the claimed diminution in the executive's authority. For example, if the executive was the CEO of the Company before the Company was acquired by a competing business, a material diminution in the CEO's authority would include, but not be limited to, the CEO not serving as the CEO of the consolidated competing business after its acquisition of the Company.

Notwithstanding the provision for change in control benefits in the Change in Control Agreements, each Change in Control Agreement contains a provision stating that if any benefit payable by us to the executive, including, without limitation, the change in control benefits specified in the agreement, would constitute an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code, those benefits shall be reduced to the largest amount that will result in no portion of the benefits being subject to the excise tax imposed by Section 4999 of the Internal Revenue Code. While the executive may select which particular benefits will be reduced to comply with this provision, the determination of the amount of reduction in the benefits required is made by mutual agreement of us and the executive and, if no agreement is possible, by our independent registered public accountants.

Non-Qualified Deferred Compensation and Long-Term Incentive Plan. Under our Non-Qualified Deferred Compensation and Long-Term Incentive Plan, discretionary benefits contributed to a participant's account by us fully vest upon a change in control, as defined under Code Section 409A or Treasury Regulations issued thereunder, even if the NEO's employment is not terminated. Vested discretionary benefits are paid to a participant in an annual installment method over ten years.

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Quantitative Disclosure of Payments Upon Termination or Change in Control. The following table provides quantitative disclosure of estimated payouts to NEOs assuming a change in control and associated triggering events occurred under the Change in Control Agreements and provisions that existed on December 31, 2016, and the price per share of our common stock is the closing market price on that date. The amounts listed in the table below are in addition to benefits generally available to our employees upon termination of employment, such as distributions from the 401(k) plan and accrued vacation.

Name	**Severance Payments(1)**	**Severance Related Benefits(2)**	**Value of Stock Awards That Would Vest(3)**	**Value of Nonqualified Deferred Compensation That Would Vest(4)**	**Additional Payment under Cash Incentive Plan for 2016(5)**	**Total**
Bryan B. DeBoer	$1,900,000	$ 19,531	$5,843,691	$ 1,026,128	$114,000	$8,903,350
Christopher S. Holzshu	970,200	21,463	2,390,345	415,035	38,808	3,835,851
Scott A. Hillier	926,100	14,844	1,445,091	419,983	43,990	2,850,008
George C. Liang	756,000	33,775	474,661	137,132	30,240	1,431,808
John F. North III	605,000	13,778	1,002,287	151,349	18,150	1,790,564

(1) Payable in 24 monthly installments.

(2) Based on current cost of providing 18 months (the full COBRA period) of COBRA benefits for our NEOs.

(3) Payable by delivery of shares of Lithia stock immediately following a change in control.

(4) Payable in equal annual installments over 10 years. The value of the long-term incentive is based on the unvested value of those benefits, calculated as of December 31, 2016 and would be payable even if the NEO's employment was not terminated.

(5) Payable in a lump sum immediately following a change in control. Amounts are in addition to amounts reported in the Summary Compensation Table under "Non-equity Incentive Plan."

2017 Compensation

For 2017, we have altered our compensation practices as follows:

- **Performance Bonus**. We have based performance bonuses for senior personnel solely on adjusted earnings per share targets and have established annual, rather than 6-month, goals because the new vehicle sales market has become less volatile. In addition, we have altered the way we present bonus information to our employees and have set target and maximum levels to make our practices more effective and also more comparable to those of our peer groups. The potential bonus for divisional operations leaders will be based 85% on pre-tax gross profit (aligned to estimate the divisional contribution to adjusted earnings per share target levels) and 15% based on manufacturer approvability. To preserve flexibility in setting bonus compensation, we have requested that shareholders approve an amendment to our Performance Bonus Plan to alter the maximum amount that may be awarded to an individual to $5,000,000. Previously, the maximum amount was 150% of base salary, up to a maximum of $1,500,000. Any portion of the performance bonus authorized to be paid to our Chief Executive Officer above 150% of his base salary is conditioned on shareholder approval. See "*Proposal No. 2, Performance Bonus Plan*."

- **Equity Compensation**. We have awarded performance and time-vesting RSUs based on annual adjusted earnings per share attainment, and those will vest ratably over the three years following attainment. We did not make, as we have in prior years, RSU awards that vest upon achieving adjusted earnings per share milestones within an extended period of time to simplify our awards and align our mid-term and long-term goals.

COMPENSATION COMMITTEE REPORT

The Committee has reviewed and discussed the Compensation Discussion and Analysis, included elsewhere in this proxy statement, with management, and, based on such review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in Lithia's Annual Report on Form 10-K.

Submitted by the Compensation Committee of the Board of Directors:

David J. Robino (Chair)

Thomas R. Becker

Susan O. Cain