

LITHIA MOTORS INC
Form DEF 14A
March 14, 2011

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

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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))

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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LITHIA MOTORS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On April 27, 2011

To the Shareholders of Lithia Motors, Inc.:

I am pleased to invite you to the Annual Meeting of Shareholders of Lithia Motors, Inc., which will be held at our Apple Street Conference Room, located at 401 East 4th Street, Medford, Oregon 97501, on Wednesday, April 27, 2011, at 8:30 a.m., Pacific Daylight Time for the following purposes:

1. To elect five (5) directors to serve for the ensuing year;
2. To approve the Discretionary Support Services Variable Performance Compensation Plan;
3. To approve the Performance Vesting Equity Award Program and amendments to two restricted stock unit awards;
4. To consider an advisory vote on the 2010 compensation for our named executive officers;
5. To conduct an advisory vote on the frequency of the shareholder advisory vote on compensation of our named executive officers;
and
6. To ratify the appointment of KPMG LLP as our Independent Registered Public Accountants for the year ending December 31, 2011. We will also consider and act on such other matters as may properly come before the meeting.

The Board of Directors has fixed the close of business on February 28, 2011 as the record date. Only holders of record of our common stock at the close of business on the record date will be 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 18, 2011, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials (Notice) containing instructions on how to access our proxy statement for our 2011 Annual Meeting of Shareholders and our 2010 annual report to shareholders. This Notice provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of proxy materials by mail. This proxy statement and our 2010 annual report 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 greeting you personally at the meeting or receiving your proxy.

Very truly yours,

SIDNEY B. DeBOER
*Chairman of the Board and
Chief Executive Officer*

March 10, 2011

LITHIA MOTORS, INC.

PROXY STATEMENT

General

This proxy statement and the accompanying 2010 Annual Report to Shareholders, the Notice of Annual Meeting and the proxy card are being furnished to the shareholders of Lithia Motors, Inc. (Lithia), an Oregon corporation, in connection with the solicitation of proxies by our Board of Directors for use at our 2011 Annual Meeting of Shareholders (the Annual Meeting). The Annual Meeting will be held at our Apple Street Conference Room, located at 401 East 4th Street, Medford, Oregon 97501, on Wednesday, April 27, 2011, at 8:30 a.m. Pacific Daylight Time and any adjournment thereof. On or about March 18, 2011, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement for our 2011 Annual Meeting of Shareholders and 2010 Annual Report to Shareholders.

QUESTIONS AND ANSWERS ABOUT OUR ANNUAL MEETING

What is the purpose of our 2011 Annual Meeting?

Our 2011 Annual Meeting will be held for the following purposes:

1. To elect five (5) directors to serve for the ensuing year;
2. To approve the Discretionary Support Services Variable Performance Compensation Plan;
3. To approve the Performance Vesting Equity Award Program and amendments to two restricted stock unit awards;
4. To consider an advisory vote on the 2010 compensation for our named executive officers;
5. To conduct an advisory vote on the frequency of the shareholder advisory vote on compensation of our named executive officers;
and
6. To ratify the appointment of KPMG LLP as our Independent Registered Public Accountants for the year ending December 31, 2011.

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 will use their discretion to vote on these matters as they may arise. Furthermore, if a nominee cannot or will not serve as director, then the proxy holders will vote for a person whom they believe will carry out our present policies.

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, 2011 will be entitled to notice of and to vote at the meeting and any adjournment thereof. As of the record date, there were 22,571,272 shares of Class A common stock and 3,762,231 shares of Class B common stock outstanding and entitled to vote. Our executive officers and directors hold a total of approximately 2.4% of the Class A common stock and 100% of the Class B common stock outstanding. All shares will vote together as a single voting group on all matters submitted to a vote of the shareholders. Our executive officers and directors hold shares representing approximately 63.4% of the votes available to be cast at the Annual Meeting.

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.

Can I change my vote?

Yes. You can 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 the Secretary of Lithia, in writing, at the address listed on the front page; 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 five 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, such event will result in eventual removal of such director nominee from the 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 that shareholders cast against to approve the Discretionary Support Services Variable Performance Compensation Plan applicable to our named executive officers.

Proposal 3: The votes that shareholders cast for must exceed the votes that shareholders cast against to approve the Performance-Vesting Equity Award Program and to approve amendments to two outstanding awards to make the awards performance-based.

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Proposal 4: The votes that shareholders cast for must exceed the votes shareholders cast against to approve the compensation of our named executive officers for 2010. 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 executive compensation.

Proposal 5: The frequency of the advisory vote on compensation of our named executive officers receiving the greatest number of votes - every three years, every two years or every one year - 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 approve the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2011.

How is a quorum determined?

At the Annual Meeting, each share of Class A common stock outstanding is entitled to one vote per share and each share of Class B common stock outstanding is entitled to ten votes per share. For a quorum to exist, there must be represented at the meeting in person or by proxy, shares representing a majority of the votes entitled to vote at the meeting. Proxies that expressly indicate an abstention as to 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 named proxy holders will vote your shares as you instruct on your proxy. We will not count abstentions or broker non-votes either for or against a matter submitted to a vote of shareholders. A broker non-vote occurs when a broker or other nominee holder, such as a bank, submits a proxy representing shares that another person actually owns, and that person has not given voting instructions on a non-routine matter to the broker or other nominee. A broker may only vote those shares if the beneficial owner gives the broker voting instructions. We will count broker non-votes as present for establishing a quorum.

How are proxies solicited for the Annual Meeting?

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

How is my proxy voted?

The Board of Directors has designated Sidney B. DeBoer and M. L. Dick Heimann as the proxy holders for the Annual Meeting. All properly executed proxies will be voted (except to the extent that authority to vote has been withheld), and where a choice has been specified by the shareholder as provided in the proxy card, the proxy will be voted as specified by the shareholder. Proxies submitted without specification will be voted:

FOR the director nominees listed in this proxy statement;

FOR the approval of the Variable Performance Compensation Plan applicable to our named executive officers;

FOR the approval of the Performance-Vesting Equity Award Program and the amendments to two previous awards;

FOR the approval of our compensation of the named executive officers for 2010 as disclosed in the Compensation Discussion and Analysis section and accompanying compensation tables contained in this proxy statement;

NOT VOTED for a frequency for future non-binding shareholder advisory votes on compensation of our named executive officers;
and

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

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

In accordance with the rules of Securities and Exchange Commission (SEC), we are furnishing our proxy materials, including this proxy statement and our annual report to our shareholders, primarily via the Internet. On or about March 18, 2011, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the 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. Shareholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail 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.

BUSINESS TO BE CONDUCTED AT THE MEETING**Proposal No. 1****Election of Directors**

Our bylaws provide for not less than two and not more than seven directors. The Board of Directors has the discretion to set the size of the board from time to time and the number of directors is currently set at five. Directors are elected by the shareholders at our Annual Meeting and serve until the next annual meeting or until their successors are elected and qualified. The following are the nominees proposed by our Board of Directors:

Nominee Name	Age	Has Been a Director Since/(During)
Sidney B. DeBoer	67	1968
Thomas Becker	59	1997
Susan O. Cain	56	2009
Bryan B. DeBoer	44	2008
William J. Young	68	2010 (1997-2008)

Each of these nominees is presently serving on our Board of Directors. Sidney B. DeBoer is the father of Bryan B. DeBoer and Mark DeBoer, each of whom serve as officers of the company. There are no other family relationships among our executive officers and directors.

Director Resignation Policy/Election by Majority Vote

Because the Board of Directors is elected by a plurality of votes under Oregon corporate law, it is possible directors can be elected with less than a majority vote in favor of their election. To address this corporate governance concern, the Board of Directors has adopted a Resignation Policy for its members to address the possibility that, in an uncontested election of directors, one or more directors is elected with more withhold votes being cast than votes being cast for such director. However, to ensure continuity on the Board of Directors and compliance with the applicable listing standards, a director receiving more withhold votes than votes for is not removed immediately but, rather, must tender his or her resignation from the Board of Directors within five (5) business days after certification of the election results. Within ninety days after receipt of such resignation, the Corporate Governance Committee may accept or reject the resignation and disclose its decision on a Form 8-K filed with the SEC. If the resignation is rejected, such director may not be nominated for re-election at the next meeting of shareholders to elect directors. The full policy is included in our Corporate Governance Guidelines which can be accessed on our website at www.lithia.com.

Biographical Information on our Nominees

Sidney B. DeBoer has served as our Chairman, Chief Executive Officer and Secretary since 1968. He also is a member of various automobile industry organizations, including the President's Club of the National Automobile Dealers Association, state auto dealers associations and the Chrysler National Dealer Council. Mr. DeBoer has earned several awards including the *Time Magazine Quality Dealer Award* in 1997, the *Sports Illustrated All-Star Dealer Award* in 1990 and Medford Chamber of Commerce Awards in 1986, 1991, 1993, 1998 and 2000. Mr. DeBoer is active with several community and charitable organizations, including Southern Oregon University Foundation Board, Oregon Community Foundation and Oregon Shakespeare Festival. Mr. DeBoer attended Stanford University and the University of Oregon. Mr. DeBoer brings to the Board demonstrated leadership skills and industry experience. His unique familiarity with our business and his participation in various industry associations allows him to provide the Board of Directors with insight into our business and the automotive industry.

Thomas R. Becker has been on the Board of Directors since 1997. Mr. Becker is the recent former Chief Executive Officer of Pacific Retirement Services, Inc. and Rogue Valley Manor, a continuing care retirement community, in Medford, Oregon. During his tenure, Pacific Retirement Services, Inc. was the parent corporation of over 30 retirement, senior housing and healthcare facilities in Washington, Oregon,

California, Wisconsin and Texas and provided management, operations and development services to non-profit retirement committees owned by others. Mr. Becker began his career with Rogue Valley Manor in January 1978. Mr. Becker continues to be associated with the senior living industry, owning and operating retirement facilities. Mr. Becker holds a B.S. degree from the University of Oregon and also serves on the Board of Directors of PremierWest Bancorp, a Nasdaq listed bank holding company located in Medford, Oregon. As former chief executive officer of a large organization, Mr. Becker provides extensive experience dealing with multi-state operations, issues associated with managing a large work force, and capital financing challenges. His experience provides us with helpful and relevant guidance in managing a large organization with significant financing needs.

Susan O. Cain joined the Board of Directors in June 2009. Since 2005, Ms. Cain has served as Senior Instructor in Accounting at Southern Oregon University in Ashland, Oregon. Ms. Cain holds a B.A. degree in General Science from Oregon State University and a Master of Science in Taxation from Washington School of Law, Washington Institute of Graduate Studies. Ms. Cain joined KPMG in 1978, retiring as a partner in the San Francisco office in December 1999. While with KPMG, she specialized in banking institutions and trust tax services. Ms. Cain is involved in numerous non-profit and charitable organizations including St. Mary's School and the Oregon Shakespeare Festival. Ms. Cain maintains her CPA license in California. Ms. Cain brings to the Board of Directors a very high level of accounting expertise having practiced public accounting for over 20 years. She serves as our Audit Committee Chair.

Bryan B. DeBoer has served as our President and Chief Operating Officer since January 2006 and as a director since May 2008. Mr. DeBoer joined us in 1989 working in various capacities including General Manager of certain stores, Finance Manager and General Sales Manager. In 1996, Mr. DeBoer began serving on the acquisition team and was promoted to Vice President, Acquisitions in 1997. In March 2000, Mr. DeBoer was promoted to Senior Vice President, Mergers and Acquisitions/Operations and in August 2003, was promoted to Executive Vice President, Mergers and Acquisitions/Operations. Mr. DeBoer has a B.S. degree from Southern Oregon University. Mr. DeBoer also graduated from the National Auto Dealers Association Dealer Academy in 1990, where he was trained in all operational aspects of auto retailing. Mr. DeBoer's experience and training in the various aspects of the auto retailing business brings to the Board of Directors operational knowledge and a familiarity with our operations.

William J. Young rejoined the Board of Directors in 2010 after serving as a director from 1997 to 2008. Mr. Young, who currently serves on the Board of Directors of Fuel Systems Solutions, Incorporated, was an Executive Director at J.D. Power and Associates, a global marketing information firm specializing in consumer research for the automotive industry from 2003 to 2008. From 1994 through July 2000, Mr. Young was the Chairman of the Board, President and Chief Executive Officer of Advanced Machine Vision Corporation, operating in the machine vision industry. Prior to 1994, Mr. Young served with Volkswagen of America in various capacities for approximately 18 years, most recently as its President and Chief Executive Officer. Mr. Young also has extensive experience as an independent automotive marketing consultant. Mr. Young brings to the Board of Directors the experience of a chief executive officer, continuing knowledge of the automotive industry and a wealth of contacts believed helpful to us.

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

Director Independence

Under the New York Stock Exchange (NYSE) rules, 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 directors and nominees and reports its findings to the full Board of Directors, which makes a determination about the independence of each director. All transactions and relationships between each director or any member of his or her immediate family and Lithia, its consolidated subsidiaries and affiliates, and management are reviewed. These transactions and relationships are reviewed 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 each director. Other than the NYSE listing standards, we do not ascribe to categorical standards for determining independence; rather, we review and evaluate the specific facts and circumstances relating to each transaction and relationship to determine whether it is a material relationship that could compromise the judgment of a director.

As a result of this review, the Board of Directors affirmatively determined that Messrs. Becker and Young and Ms. Cain are each deemed independent. In making this determination, the Board of Directors reviewed Mr. Becker's relationship with our CEO arising from Mr. Becker serving as one of three board members charged with administering the Sid and Karen DeBoer Foundation, a benevolent trust created by Mr. DeBoer, which is administered by the Oregon Community Foundation. Because he serves without compensation, because no one member has the ability to block or approve any action of the Foundation and because neither Mr. Becker nor any affiliate of his are potential beneficiaries of the Foundation, the Board of Directors concluded that Mr. Becker's position with the Foundation does not impair or influence his ability to exercise his independent judgment as a director of Lithia.

Lead Independent Director and Leadership Structure

The positions of Chief Executive Officer and Chairman of the Board are filled by one individual, Sidney B. DeBoer. The combined position ensures clear direction, with a single leader responsible for managing Lithia's operations and the Board of Directors. Lithia is unusual in that voting control resides in Mr. DeBoer as Manager of Lithia Holding Company LLC, which holds all of the Class B common stock and represents approximately 63.4% of the voting shares cast to elect directors. Accordingly, Mr. DeBoer has ultimate control over the Board of Directors. However, 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. The independent directors serve on each committee of the Board of 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 the CEO with the other board members and the officers reporting directly to the CEO, which results are then shared with the independent directors. Each committee chair approves 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 their respective charters to retain outside advisors (including legal counsel) should the committee believe such advice is needed or appropriate. The Corporate Governance Committee has recommended, and the full board has approved, Corporate Governance Guidelines and a Code of Business Conduct and Ethics, both posted on our website at www.lithia.com.

In compliance with the Corporate Governance Guidelines, the Board of Directors annually appoints a Lead Independent Director who presides over all meetings of the independent directors. Thomas Becker was first appointed the Lead Independent Director in 2008, and continues to serve in that role. Interested parties may contact the Lead Independent Director or the independent directors as a group by using the same contact procedures available to shareholders and interested parties for communicating with the Board of Directors (see, *Shareholder and Other Interested Parties Communications with Directors*).

Although the positions of Chairman of the Board and Chief Executive Officer are filled by the same person, we believe our policies and protocols, and the review by independent board members and committees, provide adequate, independent oversight of management in order to create a distinct separation between the Board of Directors and management.

The Board's Risk Oversight Role

The Board of Directors has overall responsibility for risk management. The Board of Directors oversees the management of risk by understanding and monitoring the material risks facing us and how management is managing those risks and by evaluating the appropriate level of risk. The Board of Directors has delegated responsibility for certain areas of its risk oversight to committees. The Compensation Committee, together with the Board of Directors, reviews and manages risks related to our compensation policies and programs. As a NYSE-listed company, the Audit Committee is charged with discussing policies to govern the process by which management assesses and manages exposure to financial risk.

Meetings and Committees of the Board of Directors

The Board of Directors held 4 regular meetings and 6 special meetings during the year ended December 31, 2010 and took action by unanimous written consents on 3 different occasions in lieu of a special meeting. During 2010, no director missed any of the meetings of the Board of Directors or any committees of which the director was a member. Throughout 2010, the standing committees of our Board of Directors were the Audit Committee, the Compensation Committee and the Corporate Governance Committee.

The directors are expected to attend our annual meeting of shareholders, but are not required to do so. All of our current directors attended our 2010 Annual Meeting of Shareholders.

Committees of the Board of Directors

The Compensation Committee consisted of the following directors during 2010:

Mr. Becker (Chairman);

Ms. Cain;

Mr. Glick, through the end of his term on the Board in April 2010; and

Mr. Young, upon his election in April 2010.

All of the committee members are independent as required for compensation committee members under NYSE listing standards. The Compensation Committee is responsible for our executive compensation philosophy. It annually reviews the performance of Sidney B. DeBoer, our Chief Executive Officer, and establishes his base salary and incentive compensation; and it also approves the compensation for the other executive officers and reviews and recommends the compensation for non-employee board members. The Compensation Committee also administers our employee benefits plans, including our 2003 Stock Incentive Plan, our 2009 Employee Stock Purchase Plan and our executive variable compensation plans. The Compensation Committee held seven meetings during 2010. The current Compensation Committee Charter is available on our website at www.lithia.com. See *Compensation Discussion and Analysis* for a discussion of our compensation philosophy and how the Compensation Committee determines the compensation of our executive officers.

The Audit Committee consisted of the following directors during 2010:

Ms. Cain (Chairman);

Mr. Becker;

Mr. Glick, through the end of his term on the Board in April 2010; and

Mr. Young upon his election in April 2010.

The Audit Committee is responsible for selecting and hiring our independent registered public accountants and for overseeing our accounting functions, our system of internal control established by management and the processes to assure compliance with applicable laws, regulations and internal policies. Our Director of Internal Audit also reports directly to the Audit Committee. The Audit Committee held five meetings during 2010.

All of the committee members are independent and financially literate as required for audit committee members under NYSE listing standards and the Audit Committee Charter. The Board of Directors has reviewed the qualifications and experience of the nominees standing for election and has determined that Ms. Susan O. Cain satisfies the requirements of an audit committee financial expert as such term is defined by the SEC. The current Audit Committee Charter is available on our website at www.lithia.com.

The Corporate Governance Committee consisted of the following directors during 2010:

Mr. Glick (Chairman through the end of his term on the Board in April 2010);

Mr. Young (Chairman, upon his election to the Board in April 2010);

Mr. Becker; and

Ms. Cain.

The primary objectives of the Corporate Governance Committee are to assist the Board of Directors in:

identifying qualified individuals to become board members and recommending to the Board of Directors nominees for each annual meeting of the shareholders;

determining the composition of the 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 the Board of Directors, its members and its committees; and

ensuring compliance with the NYSE listing standards.

The Corporate Governance Committee held four meetings during 2010. The current Corporate Governance Committee Charter is available on our website at www.lithia.com.

All of the committee Charters, our Corporate Governance Guidelines, our Code of Business Conduct and Ethics, and our Shareholder Communications Policy may be obtained by interested parties by requesting a written copy of the document from our Investor Relations Department, Lithia Motors, Inc., 360 E. Jackson Street, Medford, Oregon 97501. These documents are also available on our website at www.lithia.com (go to Investor Relations).

Director Qualifications and Nominations

The Corporate Governance Committee is responsible for identifying and evaluating potential director nominees to fill any vacancies on the Board of Directors. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities. As a result, the Corporate Governance Committee annually reviews the composition of the Board and evaluates the qualifications and contributions of the current directors in the context of the desired composition of the Board, our operating requirements and the long-term interests of our shareholders. Consequently, the qualifications required of individuals for consideration as a board nominee will vary according to the particular areas of expertise being sought as a complement to our existing Board composition at the time of any vacancy. Potential candidates are identified from various sources,

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including management, other board members, legal counsel, business leaders and other industry executives and directors. To date, the Board has not used an outside director search firm to identify potential director nominees.

The Corporate Governance Committee evaluates potential nominees based on certain criteria which include the individual's age, skills, experience and other factors the Committee deems appropriate given our needs and the needs of the Board in order to maintain the Board's overall diversity. In this context, diversity encompasses differences of viewpoint, personal and professional experience, education, skill, and other individual qualities and backgrounds, such as gender, race and ethnicity differences. Qualified

director nominees should possess high moral character and personal integrity, high level of leadership or managerial experience, knowledge relative to matters affecting our business, the ability and willingness to contribute to the Board, the ability to exercise sound, independent business judgment, a long-term commitment to the interests of shareholders and our growth, the ability to dedicate sufficient time to Board activities and duties and, for independent directors, the absence of any conflicts of interest or material affiliations with us or our executive officers. The Corporate Governance Committee reviews its effectiveness in balancing these criteria when assessing the composition of the Board.

We require all of our directors to annually sign a confidentiality agreement 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. The Corporate Governance Committee will consider potential nominees recommended by any record or beneficial shareholder. Shareholders may recommend individuals to the Corporate Governance Committee for consideration as potential director nominees by submitting a written recommendation to the Chairman of the Corporate Governance Committee in accordance with our Shareholder Communication Policy. To be considered for nomination to the following year's Board of Directors, the written recommendation must be received at our principal executive office not less than 120 days prior to the first anniversary of the mailing of the preceding year's Notice of Internet Availability. For our 2012 Annual Meeting, the recommendation must be received no later than November 19, 2011.

The written recommendation must include the candidate's name, together with appropriate biographical information, qualifications and background materials, a statement that the person submitting the recommendation is a shareholder entitled to vote in the election of directors and a consent to serve as director signed by the recommended individual. If the necessary information is received in a timely manner, the Corporate Governance Committee will evaluate the shareholder-recommended candidate using substantially the same process, and applying substantially the same criteria, as it uses to evaluate all other candidates. Recommended candidates are submitted to the Board for approval as director nominees. If the Board determines to nominate a shareholder-recommended candidate, the candidate's name will be included in our proxy and submitted to shareholders for election.

Shareholders may nominate director nominees at the meeting, without any action or recommendation on the part of the Corporate Governance Committee or the Board of Directors, by delivering written notice of the proposed nomination to the Secretary of Lithia Motors, Inc. at 360 E. Jackson Street, Medford, Oregon 97501, and the inclusion of a statement that such shareholder intends to attend the meeting to make the nomination. If the shareholder wants the nominee included in our proxy statement, the notice must be delivered or mailed and received at the above address not less than 120 days prior to the first anniversary of the mailing of the preceding year's Notice of Internet Availability and must set forth all information required by Rule 14a-8 of the Securities Exchange Act of 1934, including, without limitation, the name, age, business address and residence address of each person being nominated, the principal occupation, or employment of such person, the class and number of shares of capital stock beneficially owned by the person, and all other information relating to such person that is or would be required to be disclosed in a solicitation of proxies pursuant to the rules and regulations under the Securities Exchange Act of 1934. In addition, certain information must be provided about the shareholder or shareholder group making a nomination. Finally, a shareholder or shareholder group making a nomination must comply with all other applicable requirements of the Exchange Act, including providing a nominee's consent to being named in a proxy statement and to serve as a director if elected.

Proposal No. 2

Approval of the Discretionary Support Services Variable Performance Compensation Plan

The Compensation Committee recommended, and the Board of Directors adopted, a Discretionary Support Services Variable Performance Compensation Plan (the Compensation Plan) on December 16, 2010. Participation by any executive officer in the Compensation Plan is conditional based upon the approval of the plan by the shareholders at the Annual Meeting and, upon approval, will replace the previously-approved 2008 Discretionary Support Services Bonus Plan and the 2008 L2 Performance Objectives and Bonus Plan. Shareholder approval of the Compensation Plan is required for performance-based compensation payments to executive officers to be exempt from the deduction limitations contained in Section 162(m) of the Internal Revenue Code of 1986 and related regulations.

Summary of the Plan

Participants. The following named executive officers are eligible to participate in the Compensation Plan for 2011. Sidney B. DeBoer, Chief Executive Officer; Bryan B. DeBoer, President and Chief Operating Officer; M. L. Dick Heimann, Vice Chairman; R. Bradford Gray, Executive Vice President; and Chris Holzshu, Senior Vice President and Chief Financial Officer. Thirty-five other officers and managers are also currently eligible to participate in the Compensation Plan.

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

Variable Performance Compensation. The Compensation Plan provides for the payment of variable compensation. Under the plan, each participant will have a maximum potential based on a percentage (not to exceed 150%) of that participant's annual salary (not to exceed \$1.0 million). The participant's variable compensation received under the plan will be a percentage of the participant's maximum potential, determined based on the accomplishment of certain shared company or division objectives, measured at the end of each performance period. Currently, the performance period is six months; however, the Compensation Committee could revise the performance period for future plans to a full year. The specific performance targets and the percentage of the potential attributed to each performance objective, if any, may change each period and are determined by the Compensation Committee within the first 45 days of each period.

Performance Objectives. The following are the general performance objectives for the Compensation Plan. The performance goals for future periods can be based on one or more of these objectives:

Company Profit Targets

Used Vehicle Sales (Revenue or Units)

Fixed Department Sales

Manufacturer Sales Satisfaction Scores

Manufacturer Service Satisfaction Scores

Manufacturer Sales Responsibility (New Vehicles) Attainment

For the First Half 2011 Plan, the following table sets forth the maximum percentage of the participant's maximum potential that may be achieved under each such performance objective for the first six months of 2011. For each subsequent period, the Compensation Committee may change (i) which of these performance objectives will be considered; (ii) the specific targets; (iii) the inclusion or exclusion of discontinued operations, non-recurring items or impairment charges; (iv) whether such objectives are thresholds to be achieved, relative changes from previous periods or are compared to a defined or identified peer group; and (v) the applicable percentages for each of the performance objectives.

Objectives for First Half 2011		Maximum Percentage of Maximum Variable Compensation for First Half 2011
<u>Financial Performance:</u>		
1.	Pre-Tax Net Profit Targets (GAAP consolidated pre-tax profit excluding any non-operating transactions or disposal activities)	75%
2.	Used Vehicle Unit Growth Rate (based on same-store unit rate)	5%
3.	Fixed Department Sales Growth Rate (based on same-store revenue growth rate)	5%
<u>Non-Financial Performance:</u>		
4.	Sales Satisfaction Scores (% of same stores equaling or exceeding specified manufacturers criteria)	5%
5.	Service Satisfaction Scores (% of same stores equaling or exceeding specified manufacturers criteria)	5%
6.	New Vehicle MSR Performance (% of same stores at or above market sales rate threshold set by specified manufacturers)	5%

The Board of Directors has determined that any details regarding future performance objectives, other than such information which is disclosed herein, is confidential commercial or business information, the disclosure of which would have a material adverse effect on us. As such, we are not disclosing certain confidential information which may be a material term of the performance objectives. However, our Compensation Discussion and Analysis for each year will identify the targets achieved under the Compensation Plan.

The payment of any variable performance compensation is in the negative discretion of the Board of Directors. Performance achievement of each objective is determined in the sole judgment of the Compensation Committee. In making such judgment, the Compensation Committee disregards the impact (whether positive or negative) resulting from a change in accounting rules but is otherwise based upon U.S. GAAP. Further, with respect to non-executive officer participants, the Compensation Committee may disregard the impacts resulting from material changes from the current core business model, a major acquisition or series of acquisitions, or a disposition of a major portion of our business.

Payments to our named executive officers are also subject to a claw-back in the event a restatement of our financial performance would result in an adjustment in the amounts previously awarded under the Compensation Plan.

The highest maximum potential of any participant under the plan is equal to 150% of base salary. If the highest threshold is attained for all objectives, the maximum amount payable related to performance in 2011 to the CEO and the other four named executive officers would be \$3,072,900 (however, only two of the five named executive officers are eligible for the maximum 150% potential under the First-Half 2011 Plan). The thresholds achieved in 2010, 2009, 2008, 2007 and 2006 under similar plans were 47.5%, 42.0%, 12.0%, 34.0% and 35.0%, respectively, of each participant's maximum potential. However, management and the Compensation Committee, under their negative discretion, elected to pay no bonuses to the named executive officers under the plan for 2007 and 2008 performance.

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 outside 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.

New Plan Benefits

The following table summarizes estimated performance compensation that would be earned under the Compensation Plan in 2011 based on 2011 base salaries but using 2010 operating results and company performance.

Name and Position(s)	Dollar Value⁽¹⁾
Sidney B. DeBoer Chairman, Chief Executive Officer and Secretary	\$ 598,500
Bryan B. DeBoer President and Chief Operating Officer	\$ 444,600
M. L. Dick Heimann Vice Chairman	\$ 75,953
R. Bradford Gray Executive Vice President	\$ 233,700
Chris Holzshu Senior Vice President and Chief Financial Officer	\$ 106,875
All Current Executive Officers as a Group (5 people)	\$ 1,459,628
All Eligible Non-Executive Officer Employees as a Group (approximately 35 people)	\$ 960,998

- (1) Amounts are not indicative of amounts to be earned under the Compensation Plan during 2011 because such amounts were based upon the application of 2011 criteria to 2010 operating results and company performance. Further, because the Compensation Plan's initial performance period for 2011 is six months, the amounts in the table reflect twice the amount calculated under the six-month plan. The listed executives have a maximum potential of 150% of base salary with the exception of M. L. Dick Heimann, Bradford Gray and Chris Holzshu whose maximum potentials are 50%, 100% and 75% of base salary, respectively.

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 Discretionary Support Service Variable Performance Compensation Plan.

The Board of Directors has approved the adoption of the Discretionary Support Services Variable

Performance Plan and unanimously recommends a vote FOR this proposal.

Proposal No. 3

Approval of the Performance Vesting Equity Award Program

Until recently, most equity awards made to employees under our 2003 Stock Incentive Plan (the Plan) were stock options. With the significant reduction in vehicle sales starting with the nation's financial crisis in 2008, our operating results and stock price dropped precipitously, leaving virtually all our outstanding stock options either valueless or with little value. As a consequence, the awards served no meaningful incentive to the holders and provided little or no continuing retention benefits. Despite these limitations, we are still incurring significant compensation expense as outstanding options continue to vest. Further, the combination of low interest rates and the high volatility in our stock price contributed to a higher valuation/cost to stock option grants relative to the market value of the underlying shares. As a result, management and the Compensation Committee have shifted from their prior practice of granting predominately stock options to awarding a lower number of time-vested restricted stock units (RSUs). The RSUs are expected to provide the incentives and retention benefits expected of equity grants, even if economic and market conditions result in lower stock prices in the future. Further, based upon our equity grant practices, shifting to RSU awards has reduced the compensation expense of this program.

It is our policy that all compensation be compliant with Section 162(m) of the Internal Revenue Code of 1986 (the Code), ensuring such expenses are deductible for federal tax purposes. Stock options, by their nature, are performance-based under the Code so long as they are issued at or above the market value of the underlying shares. RSUs are not, unless vesting is conditioned upon a shareholder-approved performance-based standard. The 2003 Stock Incentive Plan permits us to tie vesting to, among other things, company performance but does not identify any specific performance criteria. Proposal No. 3 is to approve a performance-based standard requiring the achievement of a designated level of income, which, at a minimum, must be positive. Previously, we issued RSUs to our employees, which are not earned (vested) in full unless the employee continues to remain an employee for four years. For 2011, we added a performance-based requirement to some of the awards to satisfy the Section 162(m) requirements. It is the Compensation Committee's intent to include a performance requirement in future awards to all named executive officers, but may include the requirement in other grants as well.

Summary of the Plan

Participants. The following named executive officers received RSU time and performance-based awards in 2011: Bryan B. DeBoer, President and Chief Operating Officer; R. Bradford Gray, Executive Vi