LITHIA MOTORS INC
Form DEF 14A
March 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

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

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
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[X] Definitive Proxy Statement
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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 25, 2014

To the Shareholders of Lithia Motors, Inc.:

I am pleased to invite you to our 2014 Annual Meeting of Shareholders of Lithia Motors, Inc., which will be held at 150 N. Bartlett St., Medford, Oregon 97501, on Friday, April 25, 2014, at 8:30 a.m., Pacific Daylight Time for the following purposes:

1. To elect seven directors to serve for the ensuing year;
2. To cast an advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K; and
3. To ratify the selection of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2014.

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

Only holders of record of our common stock at the close of business on February 28, 2014 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 14, 2014, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials (the “Notice”) containing instructions on how to access our proxy statement for our 2014 Annual Meeting of Shareholders and our 2013 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 2013 Annual Report on Form 10-K can be accessed directly at the following Internet address: http://www.proxyvote.com. All you have to do is enter the control number located on your proxy card.

I am excited to continue to lead our organization to new levels of performance and growth. The past few years have taught us to stay nimble, remain humbly confident, think for ourselves, listen and respond to each individual customer’s needs and focus our attention where we can personally make a difference. Our Mission Statement describes who we are as a company:

Driven by our employees and preferred by our customers, Lithia is the leading automotive retailer in each of our markets.

We work to fulfill our mission by:

Serving our Customers – We strive to surpass our customers' expectations by anticipating their preferences, responding to a variety of needs, and performing the basics impeccably and with personalized service.
Growing Our People – We continue to foster a culture that motivates and inspires our employees.
Driving Profitable Growth – We challenge each other through performance expectations focused on customer satisfaction, new and used vehicle market share gain, and service and parts growth.

Thank you for being a shareholder!

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

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

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

Very truly yours,

BRYAN B. DeBOER

President and Chief Executive Officer

March 14, 2014

LITHIA MOTORS, INC.

PROXY STATEMENT

This proxy statement and the accompanying 2013 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 our Board of Directors for use at our 2014 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held at 150 N. Bartlett St., Medford, Oregon 97501, on Friday, April 25, 2014, at 8:30 a.m. Pacific Daylight Time and any adjournment thereof. On or about March 14, 2014, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access this proxy statement and our 2013 Annual Report on Form 10-K. All references in this proxy statement to “Lithia,” “Lithia Motors,” the “Company,” “we,” “us,” or “our” refer to Lithia Motors, Inc. and its subsidiaries, except where 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 seven directors to serve for the ensuing year;
2. To cast an advisory vote on the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K; and
3. To ratify the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2014.

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. Furthermore, if a nominee cannot or will not serve as director, the proxy holders will vote for a substitute nominee selected by the 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, 2014, 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 23,418,191 shares of Class A common stock and 2,562,231shares 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 approximately 3.1% 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 53.7% 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.

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 Chris Holzshu, the Secretary of Lithia Motors, in writing, at 150 N. Bartlett Street, Medford, Oregon 97501; or
completing a written ballot at the Annual Meeting.

What vote is required to approve each proposal?

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

Proposal 1: Shareholders will elect the seven director nominees receiving the greatest number of votes. Directors are elected by a plurality of the votes cast and only votes cast in favor of a nominee will be counted. However, if a director nominee receives more "withheld" votes than votes "for," that may result in the director resigning from 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 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, which is responsible for designing and administering our executive compensation program, and the Board of Directors value your opinion and will consider the outcome of the vote in making decisions regarding executive compensation.

Proposal 3: The votes that shareholders cast "for" must exceed the votes that shareholders cast "against" to approve the ratification of the appointment of KPMG LLP as our Independent Registered Public Accounting Firm for the year ending December 31, 2014.

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, 2014 is considered a routine matter on which a broker or nominee that holds your shares in its name may vote without instruction from you. 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 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 M. L. Dick Heimann and John North as the proxy holders for the Annual Meeting. All properly executed proxies will be voted (except to the extent that authority to vote has been withheld) as specified by the shareholder. Proxies submitted without specification will be voted:

FOR the director nominees listed in this proxy statement;
FOR the approval of our compensation of the named executive officers disclosed in the Compensation Discussion and Analysis section and accompanying compensation tables contained in this proxy statement; and
FOR the ratification of the appointment of KPMG as our independent registered public accounting firm.

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

In accordance with the Securities and Exchange Commission ("SEC") rules, we are furnishing our proxy materials, including this proxy statement and our Annual Report on Form 10-K, to our shareholders primarily via the Internet. On or about March 14, 2014, 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.

Background Information Concerning our Director Nominees and Executive Officers

Our Director Nominees individually and as a group have a wealth of skills and experience.

Sidney B. DeBoer took Lithia Motors public in 1996. Mr. DeBoer served as Chairman, Chief Executive Officer and Secretary from 1968 until May 2012. Since May 2012, Mr. DeBoer has served as Executive Chairman. He is also a member of various automobile industry organizations, including the President's Club of the National Automobile Dealers Association, the Oregon director of the National Auto Dealers Association, and the Chrysler National Dealer Council. Mr. DeBoer has earned several awards including the Time Magazine Quality Dealer Award, the Sports Illustrated All-Star Dealer Award and multiple Medford and Ashland Chamber of Commerce Awards. Mr. DeBoer is active with several community and charitable organizations, including the Southern Oregon University Foundation Board, Oregon Community Foundation and the Oregon Shakespeare Festival. Since we were organized as a corporation in 1968, Mr. DeBoer has provided the leadership for our growth, both privately until 1996 and publicly since that time. Mr. DeBoer attended Stanford University and the University of Oregon. Mr. DeBoer brings to the Board 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 President of North American Senior Living, LLC, a senior housing development, operations, and consulting company. In 2011, Mr. Becker retired as Chief Executive Officer of Pacific Retirement Services, Inc., a company that runs both rental- and continuing-care retirement communities. During his tenure as Chief Executive Officer from 1990 until 2010, Pacific Retirement Services, Inc. was the parent corporation for over 30 retirement, senior housing and healthcare facilities in Washington, Oregon, California, Wisconsin and Texas and provided management, operations and development services to retirement communities. Mr. Becker began his career with Rogue Valley Manor in January 1978. Mr. Becker holds a B.S. degree from the University of Oregon and has previously served on other public company boards. As the former Chief Executive Officer of a large organization, Mr. Becker provides experience dealing with multi-state operations, issues associated with managing a large work force, and capital financing challenges. His experience provides us with helpful and relevant guidance in managing a large organization with significant financing needs.

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

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

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

M.L. Dick Heimann has served as our Vice Chairman since February 2007. From 1970 through our 2008 annual meeting and again from the 2012 annual meeting until the present, he served as a member of the Board of Directors. Mr. Heimann brings a wide array of operational knowledge to the Board. He served as our President of Corporate Affairs from January 2006 to February 2007 and our President and Chief Operating Officer from 1997 to January 2006. Mr. Heimann joined Lithia in 1970 as General Sales Manager, and later was promoted to General Manager and Partner of our first Dodge stores in Medford and Ashland, Oregon. He held various positions with us prior to becoming Vice President of Operations in 1979. Prior to joining us, he served as a service representative and district manager of Chrysler Corporation from 1967 to 1970. He has been a member of various state and national automobile industry organizations and community charities. Mr. Heimann is a graduate of the University of Colorado with a B.A. in Biology and Languages. Mr. Heimann brings industry knowledge to the Board of Directors as well as extensive experience with Lithia.

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

Biographical information about our executive officers who do not serve as directors is below.

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

Brad Gray has served as Executive Vice President involved in acquisitions and dispositions, claims resolutions and human resources since 1996 and was also a Board member from 1997 until May 2005. From 1981 to 1995, he served in various capacities, including as General Manager of our Lithia Dodge (1989-1991) and Grants Pass (1991-1995) stores. Since 1975, Mr. Gray has held various positions in the automobile sales industry, including sales representative, Sales Manager and General Manager.

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

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. The Board of Directors has set the number of directors at seven. 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)
Sidney B. DeBoer	70	1968
Thomas R. Becker	62	1997
Bryan B. DeBoer	47	2008
Susan O. Cain	60	2009
William J. Young	71	2010 / (1997-2008)
M. L. Dick Heimann	70	2012 / (1970-2008)
Kenneth E. Roberts	69	2012

Each of the nominees is presently serving on our Board of Directors. If elected, each nominee will hold office until the next annual meeting or until his or her successor is elected and qualified. We have no reason to believe that any of the nominees will be unable or unwilling to serve if elected. However, if any nominee should become unable or unwilling to serve, proxies may be voted for another person nominated by the Board of Directors, or the Board of Directors may reduce the number of directors. Sidney B. DeBoer is the father of Bryan B. DeBoer, who is a director and our chief executive officer, and Mark DeBoer, who is an executive officer of Lithia. 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. The 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 the 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 may accept or reject the resignation and will 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. 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

The 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. The 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 duty to shareholders. Included in each director nominee's biography above (*see page 3*) is a description of the experience, skills and attributes of each nominee.

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

Director Independence

Under the New York Stock Exchange ("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. 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 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 of each transaction and relationship to determine whether it could compromise the independent judgment of a director.

As a result of this review, the Board of Directors affirmatively determined that each of Ms. Cain and Messrs. Becker, Young and Roberts are "independent." In making these determinations, the Board of Directors reviewed Mr. Becker's previous relationship with our Executive Chairman arising from Mr. Becker serving as one of the board members charged with administering the Sidney and Karen DeBoer Foundation. The Foundation, which is administered by the Oregon Community Foundation, is a benevolent trust created by Mr. Sidney B. DeBoer. Mr. Becker is no longer involved with the Foundation due to the Foundation deciding to shrink its board membership from seven to three in 2013. Because of this, and because he previously he served without compensation, because he did not by himself have 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 prior position with the Foundation does not impair or influence his ability to exercise his independent judgment as a director of Lithia.

The Board of Directors also considered Mr. Roberts' previous relationship with the law firm of Lane Powell PC in Portland, Oregon. Lane Powell has provided, and continues to provide, certain legal services to Lithia. In addition to reviewing the categorical NYSE standards of independence, the board considered amounts Lithia paid to Lane Powell in light of all facts and circumstances involving the relationship, both from our standpoint and from the standpoint of Lane Powell and Mr. Roberts. Mr. Roberts withdrew as a shareholder of Lane Powell on December 31, 2011, and ceased to have an ownership or voting interest in the firm. He was "of counsel" at Lane Powell until he resigned from that position on December 31, 2013. He received less than $10,000 in compensation from Lane Powell in 2012, and received no compensation in 2013. Mr. Roberts is no longer affiliated with Lane Powell. In addition, the Board of Directors considered his previous role as "of counsel" at Lane Powell and the fact that Mr. Roberts has had no ownership or voting interest in Lane Powell since 2011, has not worked on Lithia matters and has ceased actively practicing law. The Board of Directors concluded that Mr. Roberts' prior relationship with Lane Powell does not impair his independence or influence his ability to exercise his independent judgment as a director of Lithia.

Lead Independent Director and Leadership Structure

Lithia's governance documents provide the Board with flexibility to select the leadership structure that is best for the Company. If the Chairman of the Board of Directors is not an independent director, the 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 the Board of Directors is an independent director, the Board of Directors may nonetheless select a Lead Independent Director from one of the other independent directors.

Bryan B. DeBoer is our Chief Executive Officer, and Sidney B. DeBoer is the Chairman of the Board and Executive Chairman. 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, the Board of Directors appointed Thomas Becker as Lead Independent Director, and he has served in that capacity since 2008.

Sidney B. DeBoer, as Manager of Lithia Holding Company, L.L.C., has the authority to vote all of the Class B common stock, which represents approximately 52.2% of the outstanding voting shares. Accordingly, Sidney B. DeBoer controls sufficient votes to elect the entire Board of Directors. To ensure independent oversight of management and the transparency expected from a public company, however, we maintain a board comprised of a majority of independent directors and each of our Audit, Compensation and Corporate Governance Committees are composed solely of independent directors. At least once each quarter, the independent directors meet privately in executive session. Annually, an independent third party conducts a 360 degree review of our Chief Executive Officer with the other board members and the officers reporting directly to the Chief Executive Officer. The results of that review are shared with the independent directors. Each committee chair 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) in its discretion. The Corporate Governance Committee has recommended, and the full board has approved, Corporate Governance Guidelines and a Code of Business Conduct and Ethics, each of which is available on our website at www.lithia.com.

We believe our policies and protocols, selection of a Lead Independent Director, Board members' general knowledge and experience with operations, and the review by independent board members and committees, provide adequate, independent oversight of management and creates a distinct separation between the Board of Directors and 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.

The Board's Risk Oversight Role

The Board of Directors monitors the risks facing our business by evaluating our risk management processes and by evaluating how our executive team manages the various risks that face our business. The Board of Directors has delegated responsibility for certain areas of its risk oversight to board committees.

The Compensation Committee, together with the Board of Directors, reviews and manages our compensation policies and programs to ensure they do not encourage unacceptable 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 during the year. The Audit Committee reviews our material financial risk exposures and the process by which management assesses and manages financial risks. The Audit Committee receives periodic reports from management on risks facing Lithia. The Audit Committee also meets with management to discuss the steps management has taken to assess, monitor and mitigate risks. While the 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 the Board of Directors.

Meetings of the Board of Directors and Committees

The Board of Directors held 16 meetings in 2013. Each director attended at least 90% of all meetings of the board and of the board committees on which he or she served. Throughout 2013, the standing committees of our Board of Directors were the Audit Committee, the Compensation Committee and the Corporate Governance Committee.

There is no requirement that directors attend our annual meeting of shareholders, but directors are encouraged to do so. All of our current directors attended our 2013 Annual Meeting of Shareholders.

Committees of the Board of Directors

Our Board has three standing committees. Each committee member is an independent director under NYSE listing standards, including, with respect to members of our audit committee and compensation committee, under the enhanced standards that apply to members of those committees.

The Compensation Committee consisted of the following directors during 2013:

Mr. Becker (Chairman);
Ms. Cain;
Mr. Roberts; and
Mr. Young.

The Compensation Committee is responsible for our executive compensation philosophy. It annually reviews the performance of, and recommends to the Board the base salary and variable and long-term compensation for, our Chief Executive Officer and Executive Chairman. It also approves the compensation for other executive officers and reviews and recommends the compensation for non-employee board members. The Compensation Committee has delegated authority to our CEO and CFO to specify the recipients of a limited number of restricted stock units within specified parameters including, for example, newly hired employees. The Compensation Committee administers our employee benefits plans, including our Amended and Restated 2013 Stock Incentive Plan, our 2009 Employee Stock Purchase Plan, our Discretionary Support Services Variable Compensation Plan and our Non-Qualified Deferred Compensation and Long-Term Incentive Plan. The Compensation Committee held nine meetings during 2013. 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 consisted of the following directors during 2013:

Ms. Cain (Chairman);
Mr. Becker;
Mr. Roberts; and
Mr. Young.

The Audit Committee is responsible for selecting and hiring our independent registered public accounting firm 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 chair of the Audit Committee. The Audit Committee held four meetings during 2013.

Each of the committee members is financially literate, as required under NYSE listing standards and the Audit Committee Charter, and the Board of Directors 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 such term is defined by the SEC.

The Corporate Governance Committee consisted of the following directors during 2013:

Mr. Roberts (Chairman);
Mr. Becker;
Ms. Cain; and
Mr. Young.

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 NYSE listing standards.

The Corporate Governance Committee held four meetings in 2013.

Each of our board committees has a charter. A written copy of the committee charters, our Corporate Governance Guidelines, our Code of Business Conduct and Ethics, and our 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.

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. The committee selects director nominees with backgrounds and qualifications that complement each other and that collectively allow the Board of Directors to fulfill its responsibilities.

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. The committee also routinely reviews and interviews candidates for the Board of Directors whose background and experience suggest they may be qualified to join the Board and add valuable experience. 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 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, the Board has not used an outside director search firm to identify potential director nominees.

The Corporate Governance Committee evaluates the qualifications of potential director nominee candidates, including candidates proposed by shareholders, based on certain criteria which include the individual's skills, experience and other factors in the context of the current composition of the Board of Directors in order to maintain the Board's overall diversity, including such factors as business experience, other directorships, business and personal relationships with management, expertise in finance, knowledge of financial reporting and the business of the Company. In this context, diversity encompasses differences of viewpoint, personal and professional experience, education, skill, and other individual qualities and backgrounds, such as gender, race and ethnicity differences. At a minimum, qualified director nominees should have the ability to dedicate sufficient time to Board activities and 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 an acknowledgement of their confidentiality obligations and obligations under our insider trading policy and other 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. 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).

Compensation of Directors

Non-Employee Director Compensation. The Directors serve from election at each annual meeting until the following annual meeting (approximately May 1 to April 30 of the following year). The Compensation Committee annually reviews and sets director compensation and any change is effective for the ensuing service year. Accordingly, the actual compensation paid to a director in a calendar year is generally earned under two separate compensation plans.

The Compensation Committee engaged Rodeghero Consulting Group ("RCG") in 2013 as an independent consultant reporting to the Compensation Committee to review the market competitiveness of the compensation paid to the non-employee directors. For this report, RCG updated the peer group of companies to include a broader selection of retail companies based on industry classification code. The industry classification peer group is composed of: Asbury Automotive Group, Inc., American Eagle Outfitters, Ascena Retail Group, Inc., Cabelas Inc., Chico's FAS, Genesco Inc., Group 1 Automotive, Inc., The Pep Boys – Manny, Moe & Jack, RadioShack Corporation, Rent-A-Center, Inc., Sonic Automotive, Inc., Sally Beauty Holdings, Inc., Signet Jewelers, Systemax Inc., Tiffany & Co., Tractor Supply Company, Urban Outfitters, Inc. and Williams-Sonoma. Executive officers of the Company do not (except in their capacity as directors) recommend or determine director compensation.

Director compensation in 2013 did not change from 2012. A significant portion of our director compensation is in the form of equity awards. The Compensation Committee believes that paying a portion of the annual compensation in equity provides each director with a vested interest in our long-term financial success. The compensation structure for our non-employee directors for the 2013-2014 service year is:

- $4,000 monthly retainer;
- A Restricted Stock Unit (RSU) award for a number of shares of Class A common stock with a value of $80,000 based on the average closing share price for the 20 trading days prior to the grant date of the award; and
- Additional RSU awards for the Audit Committee Chair (underlying share value of $6,000), Corporate Governance Committee Chair (underlying share value of $3,000), Compensation Committee Chair (underlying share value of $3,000) and Lead Independent Director (underlying share value of $3,000).

The RSU awards are made after the annual shareholder meeting. Twenty five percent of the RSU awards vest on the first business day of the month after each regularly scheduled quarterly meeting of the Board of Directors if the director continues to serve on that day. All equity grants to directors are subject to our stock ownership policy. See

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

The Board believes the compensation of non-employee directors is equitable, using the RCG report as a guideline. In addition, the Board believes that the award of most of a director's compensation in the form of an equity award subject to our stock ownership policy ties the director's compensation to shareholder interests over the long term.

Director Compensation Table. The following table summarizes compensation paid to non-employee members of our Board of Directors during calendar 2013, which represents the 2013 portion of both the 2012-2013 Board term and the 2013-2014 Board term:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	All Other Compensation ($)(2)	Total ($)
Thomas Becker	$48,000	$91,398	$ 5,947	$145,345
Susan O. Cain	48,000	91,398	3,197	142,595
Kenneth E. Roberts	48,000	88,203	6,453	142,656
William Young	48,000	85,008	-	133,008

(1) The amounts set forth in this column reflect the fair value of all awards granted in 2013, including awards that did not vest in 2013. See Note 10 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 for the valuation techniques and assumptions and other information related to our stock awards.

(2) Amounts paid by us on behalf of the board member for long-term disability insurance.

The fees reflected in the column “Fees Earned or Paid in Cash” in the above table are the actual fees earned in calendar year 2013. The amounts in the “Stock Awards” column reflect the fair value of awards granted during 2013, even though not earned until the completion of the year of service. All stock awards were made pursuant to a previously approved compensation package for board members.

Equity incentive awards outstanding at December 31, 2013 for each non-employee Director were as follows:

Name	Unvested Stock Awards (#)	Option Awards (#)
Thomas Becker	472	-
Susan O. Cain	472	3,833
Kenneth E. Roberts	457	-
William Young	439	2,000

Deferred Compensation Agreement. We offer our non-employee directors the opportunity to defer receipt of their compensation through participation under a Deferred Compensation Agreement entered into in 2009. 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. No director elected to defer cash compensation in 2013. Only Mr. Young elected to defer stock compensation in 2013.

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

Non-employee directors are expected to acquire and hold sufficient shares of our common stock to meaningfully share the risks and rewards of ownership with our shareholders generally. Non-employee directors are required to retain the lesser of 900 shares of common stock for each year of service or 5,000 shares (provided, however, shares may be sold to pay taxes with respect to the receipt of such shares) and may not sell the retained shares until six months after the non-employee director ceases to serve on the Board.

In March 2013, the Corporate Governance Committee adopted changes to our insider trading policy and to our stock ownership policies for executive officers and directors to specify that they may not (1) engage in hedging transactions, including through the use of financial instruments such as prepaid variable forwards, equity swaps, collars and exchange funds, or (2) hold Company securities in a margin account or otherwise pledge Company securities as collateral for a loan. In the case of pledging transactions, our Board of Directors may grant exceptions to this prohibition when a person wishes to pledge Company securities as collateral for a loan (not including margin debt) and demonstrates the financial capacity to repay the loan without resorting to the pledged securities, or in circumstances our Board of Directors determines to be in the best interest of, or not detrimental to, the Company. In addition, securities pledged as of the date we adopted these changes to our policy and guidelines may continue to be pledged under existing or replacement arrangements. Sidney B. DeBoer is a member and the manager of Lithia Holding Company, L.L.C. ("Lithia Holding"), which has the sole voting and investment power with respect to all of the Class B common stock. 2,262,231 of the 2,562,231 shares of Class B common stock are pledged by Lithia Holding to secure a loan to Lithia Holding. In addition, Ken Roberts has a line of credit that is secured by the securities held in one of his brokerage accounts, including 63,775 shares of Class A common stock of Lithia; no amounts were drawn on this line of credit as of February 28, 2014.

PROPOSAL NO. 2

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

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

RESOLVED, that the shareholders hereby approve 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 2014 Annual Meeting of Shareholders.

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 is not on any one specific element of the compensation package or on the compensation received by any one person. We hold our advisory vote annually. The advisory vote is non-binding and does not overrule a decision by the Company, our Board of Directors or our Compensation Committee or create or imply any additional fiduciary duty for the Company, our Board of Directors or our Compensation Committee. However, our Compensation Committee and Board will review and consider the results of the advisory vote when making future decisions about executive compensation.

At our 2013 Annual Meeting of Shareholders, over 99% of the voting shares approved our 2012 executive compensation. Our Compensation Committee considered this shareholder approval when it determined 2013 compensation. Our 2013 compensation philosophy, programs and practices did not materially change from 2012, except that we included a long-term equity performance award for certain of our executives that could be earned over a six-year period. Significant changes in the amount of compensation paid to our executives between 2012 and 2013 reflect our improved financial performance and our succession planning.

We urge shareholders to read the detailed information about our compensation philosophy and objectives included in Compensation Discussion and Analysis (CD&A) beginning on page 14, which provides context for the Summary Compensation Table and related information in Executive Compensation beginning on page 26. 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 2013 was appropriate, particularly considering our financial results in 2013.

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

COMPENSATION DISCUSSION AND ANALYSIS

This section discusses our compensation programs and the compensation paid in 2013 to our Chief Executive Officer, Chief Financial Officer and next three highest-paid executives (named executive officers, or NEOs).

Named Executive Officers.

The following table identifies our NEOs, the positions they hold, and the year in which they became an employee. Our officers are appointed by the Board of Directors. For more complete biographical and background information on our NEOs, see "Background Information Concerning our Director Nominees and Executive Officers."

Name	Age	Current Position(s)	With Company Since
Bryan B. DeBoer	47	President and Chief Executive Officer	1989
Christopher Holzshu	41	Senior Vice President and Chief Financial Officer	2003
Sidney B. DeBoer	70	Executive Chairman and Chairman of the Board	1968
R. Bradford Gray	62	Executive Vice President	1981
Scott A. Hillier	51	Senior Vice President	1986

Compensation Philosophy and Objectives

The Compensation Committee of our Board of Directors (as used in this *Compensation Discussion and Analysis*, the "Committee") sets compensation to attract and retain talented individuals, provide incentives to accomplish our business goals and objectives, and align the interests of our executives with those of our shareholders. We strive to establish a compensation package that is competitive within our industry and in the locations where we operate, and our compensation philosophy emphasizes pay for performance and a strategic balance of short- and long-term incentives. In 2013, the Committee and the Board of Directors modified the process for making performance-based awards and introduced a long-term equity grant for certain officers, including NEOs.

Summary of 2013 Financial Results

During 2013, we continued to focus on the following areas to achieve our mission:

- increasing revenues in all business lines;
- capturing a greater percentage of overall new vehicle sales in our local markets;
- capitalizing on a used vehicle market that is approximately three times larger than the new vehicle market by increasing sales of manufacturer certified pre-owned used vehicles; late model, lower-mileage vehicles; and value autos, which are older, higher mileage vehicles;
- growing our service, body and parts revenues as units in operation increase;
- leveraging our cost structure as revenues increase while maintaining fixed costs;
- diversifying our franchise mix through acquisitions;
- integrating acquired stores to achieve targeted returns;
- increasing our return to investors through dividends and strategic share buy backs;
- utilizing prudent cash management, including investing capital to produce accretive returns; and
- increasing the leveragability of the balance sheet to prepare for future expansion opportunities.

We performed well against these metrics in 2013. Revenue increased 20.8%, same store sales increased 15.4%, and earnings per share increased $0.98 to $4.05, the highest in our history. In addition, we paid approximately $10.1 million to shareholders as cash dividends. We also acquired seven new stores and opened one new store in 2013 with combined estimated annual revenues of $273 million. In 2012, we acquired four new stores and opened two new stores with combined estimated annual revenues of $265 million.

We also measure the leverage of our cost structure by evaluating throughput, which is calculated as the year over year percentage of incremental gross profit dollars we retain after deducting increases in SG&A expense. For the years ended December 31, 2013 and 2012, our incremental throughput was 41.4% and 39.3%, respectively. Adjusting for non-core items, our adjusted throughput in 2013 was 46.2% and in 2012 was 45.3%. Additional information concerning throughput may be found in our Annual Report on Form 10-K for the year ended December 31, 2013. Adjusting for the new locations as well as the non-core adjustments discussed above, our throughput contribution on a same-store basis was 51.4% for the year ended December 31, 2013 compared to 2012. Our throughput contribution on a same store basis for 2012 compared to 2011 was 51.2%. We continue to target a same-store throughput contribution of approximately 50%.

The table below highlights selected financial results that were used to determine performance-based compensation in 2013, and compares those to 2012 results. Certain of these financial measures differ from GAAP measures. We include reconciliations of adjusted pre-tax profit and adjusted earnings per share to the most comparable GAAP measures in the detailed discussion below.

	2013	**2012**
Adjusted pre-tax profit	$170.7 million	$129.8 million
Adjusted earnings per share	$4.13[(1)]	$2.99
New vehicle unit sales	66,857	55,666
Rate for manufacturer sales responsibility attainment	110.5%	110.4%
Used retail vehicle same store unit sales increase	13.7%	19.5%
Service, body and parts same store sales increase	6.8%	6.5%
Sales satisfaction index (SSI)	100.4%	99.6%
Service satisfaction index (CSI)	99.6%	99.1%

(1) Our reported diluted income per share from operations was $4.05; adjusted earnings per share excludes a benefit of $0.06 per share for a gain on a sale of land offset by a non-core charge of $0.14 per share related to certain reserves recorded in 2013; a reconciliation can be found on page 21 below.

Compensation Elements and Emphasis on Performance

Our compensation philosophy emphasizes pay for performance, with a strategic balance of short- and long-term incentives. We implement our philosophy through five primary compensation elements, each of which serves a distinct purpose.

1. Base salary reflects the scope of the executive’s role and baseline performance.

2. Variable cash performance bonuses motivate executives to meet the short-term goals that drive our long-term business strategy. We set performance measures every six months (January and July) to account for market shifts and other factors.
3. Performance equity incentives align executive and shareholder interests and reward long-term success. We award restricted stock units (RSUs) to executives that have both performance and retention components: RSUs are earned when specified annual performance criteria are met; earned RSUs vest in subsequent years based on continued employment. In 2013, for the first time, we also awarded long-term RSUs to certain executives that vest if specified adjusted earnings per share thresholds are met within a six-year period.
4. Retirement benefits promote financial security and assist with our succession planning.
5. Other benefits enhance base pay and promote financial security and health.

Our Compensation Process

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

For each senior executive officer other than our CEO and Executive Chairman, our CEO recommends a compensation package to the Committee. The Committee reviews his recommendations in the context of our compensation goals and objectives, our performance, and each executive’s performance, and the Committee considers input from the Committee’s independent compensation consultant. The Committee then determines whether to approve or modify the proposed compensation package.

The Committee also establishes the annual compensation of our non-employee directors and administers our equity compensation plans, including the 2013 Amended and Restated Stock Incentive Plan (Stock Incentive Plan), the 2009 Employee Stock Purchase Plan, the 2013 Discretionary Support Services Variable Performance Compensation Plan (Cash Performance Bonus Plan), and the Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (Retirement Plan), and the Committee certifies and approves payments based on performance measures.

We also have the following practices that bolster the incentives our compensation programs and annual compensation decisions provide.

- Performance-based compensation is subject to a “clawback” if we must recalculate prior year financial results;
- Executives must hold specified levels of stock based on years of service;
- We prohibit executives from engaging in hedging and pledging transactions with our stock; and
- The Committee has discretion to reduce performance-based pay even if performance levels specified in the award are attained.

2013 Compensation

Our 2013 compensation programs and practices did not change materially from 2012, except that we included a long-term performance award for some of our executives. The graphs below shows the 2013 proportion of fixed and performance-based pay, and the proportion of short- and long-term pay, earned by our chief executive officer and by our other NEOs.

Independent Compensation Consultant. In 2013, the Committee engaged a compensation consultant, Rodeghero Consulting Group (RCG), to prepare a report on the market competitiveness of the compensation paid to our CEO, our other NEOs, and certain other executives. The Committee assesses annually whether its compensation consultants are independent. The Committee has reviewed the independence of RCG and determined that RCG's work has not raised any conflict of interest and that RCG is independent under the Committee's policy.

Comparison to peer groups. In 2013, RCG completed an updated analysis of market compensation (RCG Study) and compared our executives' compensation to the updated and expanded industry classification peer group found on page 11 of this proxy statement. In addition, the RCG Study included data from our prior peer group based on auto retailers with similar operating scope and our prior peer group based on regional companies with similar market capitalizations for comparison. The auto retailer, or Tier 1, peer group consists of: Asbury Automotive Group, Group 1 Automotive, Penske Automotive Group and Sonic Automotive, Inc. The industry, or Tier 2, peer group consists of Advance Auto Parts Inc., Americas Car-Mart, Inc., AutoNation, Inc., AutoZone, Inc., CarMax, Inc., Monro Muffler Brake, Inc., O'Reilly Auto Parts and The Pep Boys – Manny, Moe & Jack.

The Committee considers the compensation and performance of our peer groups when determining appropriate levels of compensation for our NEOs, but does not aim to set compensation within a specified percentile of peer group compensation. The following graph shows our total shareholder return (TSR) compared to the average TSR of our Tier 1 and Tier 2 peer groups over the previous three years. TSR is calculated as the difference between the beginning stock price at January 1 and the ending stock price at December 31 plus dividends paid in the calendar year, divided by the beginning stock price at January 1.

$$TSR = (StockPrice_{end} - StockPrice_{begin} + DividendsPaid) / StockPrice_{begin}$$

2013 Executive Compensation by Element

The elements of our executive compensation include: (1) base salary, (2) variable cash performance bonus, (3) performance equity incentives, (4) retirement benefits, and (5) other limited perquisites and benefits. Variable cash performance bonus, performance equity compensation, and retirement benefits are determined as a percentage of the executive's base compensation. We describe each of these elements below, and explain what we paid in 2013 and why.

Name	Base Salary $		Variable Cash Performance Bonus (Maximum as % of Base Salary)		Performance Stock Grants (Maximum as % of Base Salary)		Long-term Performance Stock Grants (Maximum as % of Base Salary)		Retirement Contribution (as % of Prior Year Base Salary)	
	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013