



LITHIA MOTORS, INC.

AUDIT COMMITTEE CHARTER

Purpose

The primary purpose of the Audit Committee is to assist or fulfill the responsibilities of the Board of Directors (the “**Board**”) of Lithia Motors, Inc. (the “**Company**”) in its oversight of (a) the integrity of the Company’s financial statements; (b) the Company’s compliance with legal and regulatory requirements; (c) the independent auditors’ qualifications and independence; (d) the performance of the Company’s internal audit functions and independent auditors; (e) the systems of internal controls established by the Company; and (f) financial risk management.

The Audit Committee (the “**Committee**”) serves as a conduit to promote open communication between the independent auditors, the accounting department and internal auditors, management and the Board in furtherance of the Company’s commitment to accurate financial reporting, sound financial risk practices, and ethical behavior.

Membership

The Committee will be composed of at least three directors, all of whom must (a) meet the independence requirements of the New York Stock Exchange relating to audit committee membership and such other requirements as shall be provided in the Securities Exchange Act of 1934 (the “**Exchange Act**”) and rules promulgated thereunder, and the Company’s Corporate Governance Guidelines; and (b) be financially literate and have the ability to read and understand the Company’s financial statements. At least one member will have adequate accounting or related financial expertise and sophistication to satisfy the criteria for being considered an “audit committee financial expert” as such term is defined by the rules and regulations of the Securities and Exchange Commission. No member may serve on more than two other public company audit committees. The Board will designate the membership of the Committee after considering the recommendation of the Nominating and Governance Committee. The Board will designate one of the Committee members to serve as the Chair of the Committee. Members of the Committee will be appointed for one-year terms and may be removed by the Board at any time.

Meetings

The Committee will meet:

- in conjunction with each regular quarterly board meeting,
- prior to the release of periodic financial results of the Company, and
- as often as it deems necessary to effectively perform its duties and responsibilities.

Each independent director may attend meetings of the Committee. Minutes of each Committee meeting will be prepared, and a copy provided to all members of the Committee, the Board and to the Secretary of the Company.

Authority and Responsibilities

In carrying out its duties and responsibilities, the Committee will have the following authority and responsibilities:

Engagement, Evaluation and Oversight of Independent Auditors

- Annually review and evaluate the qualifications and performance of the independent auditors, which will include evaluation of the lead audit partner and, if deemed advisable by the Committee, the other senior personnel, and their independence from management and the Company, taking into account the opinions of management and the Company's Director of Internal Audit (or other personnel responsible for the internal audit function); and present its conclusions with respect to the independent auditors to the Board.
- Authority to select, hire and fire the independent auditors, to approve all fees and other terms of the audit engagement and to pre-approve all audit, non-audit and tax services that may be provided by the independent auditors. The Committee will be directly responsible for the compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) and the independent auditors will report directly to the Committee. The Chair of the Committee may provide pre-approval of all fees in between regular meetings, to be ratified at the next Committee meeting.
- Annually review and assure the regular rotation of the audit partner as may be required by the securities regulations or listing standards.
- Obtain and review a report from the independent auditors at least annually regarding (a) the auditors' internal quality-control procedures, (b) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years with respect to one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and, in order to assess the auditors' independence, and (d) all relationships between the independent auditors and the Company.
- Actively engage in a dialogue with the auditors with respect to that firm's independence and any disclosed relationships or services that may impact the objectivity and independence of the auditors and take appropriate action to oversee the independence of the outside auditors.
- Discuss with the independent auditors the overall scope and plans for audits, including the adequacy of staffing and compensation; the results of their audit, including material

issues regarding accounting and auditing principles and practices; any significant audit problems or disagreements with management regarding proposed accounting adjustments or financial reporting recommendations, and any other matters required to be discussed by Public Company Accounting Oversight Board (“*PCAOB*”) standards governing communications with audit committees, including:

- (a) The adoption of any significant changes to the Company’s auditing and accounting principles and practices as suggested by the independent auditors, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors.
 - (b) Any difficulties encountered in the course of performing the audit, including any restrictions on the scope of the independent auditors’ activities or on access to requested information, and any significant disagreements with management.
 - (c) The response of management to any problems or difficulties encountered by the independent auditors in the course of performing the audit.
 - (d) Other material written communication between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
- Review available communications between the independent auditor team and the audit team’s national office respecting issues presented by the engagement.

Review Financial Statements and Financial Disclosure

- Meet with management and the independent auditors to review and discuss the annual and quarterly financial statements, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, and any other Exchange Act filings the Committee and internal auditors deem necessary and recommend to the Board whether the audited financial statements should be included in the Company’s Annual Report on Form 10-K.
- Discuss the types of information disclosed and the presentation of such information with regard to earnings, press releases, financial information and earnings guidance given to analysts and rating agencies (including the use of “pro forma” or “adjusted” non-GAAP information).
- Review and discuss with management and the independent auditors the Company’s internal controls report before the filing of the Company’s Annual Report on Form 10-K.

- Review any disclosures made to the Committee by the Company's chief executive officer or chief financial officer during their certification process for the Company's Annual Report on Form 10-K or Quarterly Reports on Form 10-Q about significant deficiencies or material weaknesses in the design or operation of internal controls and any fraud involving management or other employees who have a significant role in the Company's internal controls.

Periodic Assessment of Accounting Practices and Policies and Risk and Risk Management

- Meet periodically with management to discuss the Company's material financial risk exposures and the actions management has taken to assess, monitor and control such exposures.
- Review and discuss with management and the independent auditors the adequacy and effectiveness of the internal accounting and financial controls, including the Company's system to monitor and manage business risk, any significant deficiencies or material weaknesses in the design or operation of such internal controls, and any special audit steps adopted in light of any material control deficiencies.
- Ensure that the Company has an internal audit function and internal controls and procedures, which must at least consist of an appropriate control process for reviewing and approving the Company's internal transactions and accounting.
- Review and discuss with management and the independent auditors major issues regarding the Company's accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
- Review analyses prepared by management or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the financial statements, and discuss such analyses with management and the independent auditors.
- Review and discuss with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
- Review annually with the internal auditors the Nominating and Governance Committee's review of employee compliance with the Code of Business Conduct and Ethics.
- Meet separately with the independent auditors and internal auditors, without management present, at such times as the Chair deems appropriate, including to ensure

that the auditors may speak frankly to the Committee outside the presence of management.

Internal Audit Review

- Review with management and the internal auditors:
 - (a) Significant findings as they occur during the year, management's responses thereto, the internal auditors' recommendations to address any weaknesses identified in the Company's internal controls, and the timetable for implementation of the internal auditors' recommendations to address any such weaknesses.
 - (b) Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
 - (c) Any changes requested by the Committee in the planned scope, budget and staffing with respect to the internal audit.
- Review and approve the appointment of the Company independent internal auditors and fees, if an outside firm is engaged for this purpose.
- Discuss with the independent auditors their judgment about the competence, performance and cooperation of the internal auditor(s) and management.

Complaint Procedure and Ethics and Legal Compliance

- Establish and maintain procedures for (a) receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters, (b) the confidential, anonymous complaints or allegations by employees of concerns regarding questionable accounting, internal controls or auditing matters, and (c) the communication of complaints and concerns to the Committee Chair.
- Receive from and discuss with management and the independent auditors any communication from regulators, governmental agencies or others and any employee complaints or published reports that raise material issues regarding the Company's financial statements and accounting policies, or compliance with other rules, regulations or laws.
- Serve as the Qualified Legal Compliance Committee to receive, evaluate and appropriately address all reports of potential wrongdoing received pursuant to the Sarbanes-Oxley Act of 2002 and Part 205 of the Rules and Regulations of the Securities and Exchange Commission.
- Obtain reports from management, the internal auditors and the independent auditors that the Company is in conformity with applicable legal requirements and advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations.

Hiring Policies

- Establish hiring policies for employees and former employees of independent auditors.

Related Party Transactions

- Ensure the Company has in place processes sufficient to facilitate the independent auditors' review of related party transactions under PCAOB standards.
- Review reports and disclosures of insider and affiliated party transactions.
- Review, or ensure another Committee of the Board comprised of independent directors' reviews, all transactions with related persons, or in which a related person has a direct or indirect interest, that are required to be disclosed under Item 404 of Regulation S-K, and, after reviewing the related person's interest in the transaction and the material facts, determine whether to ratify or approve the transaction.

Committee Management and Reports

- Review and reassess the adequacy of its charter at least annually and recommend to the Board any proposed changes to this Charter.
- Prepare the Audit Committee Report required by Item 407(d)(3)(i) of Regulation S-K for inclusion in the Company's annual proxy statement.
- At least annually, review and reassess the performance of this Committee, and discuss the results of the performance review with the Board.
- Delegate any of its responsibilities to a subcommittee, which subcommittee will consist of at least two members of the Committee.

Other Provisions

- The Committee will be responsible for resolving any disagreements between management and the independent auditors regarding financial reporting.
- The Committee will have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee will have access to members of management and all information relevant to its responsibilities.
- The Committee, to the extent it deems necessary or appropriate and without seeking Board approval, will have the authority to retain outside legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee will receive appropriate funding from the Company, as determined by the Committee, for the payment of compensation to its

consultants, outside counsel and any other advisors and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

- A current version of this Charter will be included on the Company's website and made available in print to any Company shareholder who requests it. In addition, the availability of this Charter will be stated in the Company's proxy statement.

Limitations

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing those financial statements.

Reports to the Full Board

The Chair will make regular reports to the Board, which should include without limitation any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, and the performance of the Company's internal audit function. The Chair will submit or refer to the Board any matter that the Committee believes warrants the attention of or approval by the Board.

April 23, 2020