

## LITHIA MOTORS, INC.

### COMPENSATION COMMITTEE CHARTER

#### **Purpose**

The primary purpose of the Compensation Committee (the “*Committee*”) is to (a) discharge the responsibilities of the Board of Directors (the “*Board*”) of Lithia Motors, Inc. (the “*Company*”) relating to the compensation of the Company’s Chief Executive Officer (the “*CEO*”) and the Company’s other Executive Officers (collectively, including the CEO, the “*Executive Officers*,” as defined below) and (b) make recommendations to the Board with respect to compensation of the non-employee members of the Board. The Committee has overall responsibility for approving and evaluating compensation plans, policies and programs of the Company as they affect the Executive Officers.

#### **Membership**

The Committee will be composed of at least three directors appointed by the Board, all of whom must meet the independence requirements of the New York Stock Exchange (the “*NYSE*”) relating to compensation committee membership and such other requirements under the Securities Exchange Act of 1934 (the “*Exchange Act*”) and rules promulgated thereunder, and the Company’s Corporate Governance Guidelines. At least two members of the Committee, or a subcommittee thereof, must qualify as “non-employee directors” of Rule 16b-3 under the Securities Exchange Act, and as “outside directors” under Section 162(m) of the Internal Revenue Code. 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 as often as it deems necessary to effectively perform its duties and responsibilities. Minutes of the Committee meetings will be prepared, and a copy provided to all members of the Committee, the Board and the Secretary of the Company. Each independent director may attend meetings of the Committee. The CEO may not be present during any voting or deliberations by the Committee on the CEO’s compensation.

#### **Authority and Responsibilities**

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

##### **Executive Compensation Philosophy and Programs**

- Periodically review (with the independent members of the Board, as appropriate) and approve the Company’s overall executive compensation philosophy and the Company’s programs, policies, and practices regarding compensation of the Executive Officers considering the Company’s corporate goals and objectives.

## **CEO Compensation**

- Annually review, with input from the CEO and Board, and approve corporate goals and objectives relevant to the compensation of the CEO, evaluate the CEO's performance in light of those goals and objectives and any other criteria the Committee deems necessary and appropriate, and based on such evaluation and the Board's input and advice, determine and approve the base, incentive and all other compensation of the CEO, including any equity and long-term components of such compensation and incentives. Among other factors, in determining the long-term incentive component of the CEO's compensation, the Committee should consider the Company's performance and relative shareholder return, the value of similar incentive awards to Chief Executive Officers at comparable companies, and the awards given to the CEO in past years.

## **Executive Officer Compensation**

- Annually review, with input from the CEO and the Board, the Company's corporate goals and objectives relevant to non-CEO executive compensation and, with the CEO, the job performance of all non-CEO Executive Officers and proposed compensation level for each, and approve all determinations with respect to the base, incentive and all other compensation of the Company's non-CEO Executive Officers, including performance criteria and targets.
- In determining executive compensation (including the CEO), the Committee will consider short-term and long-term cash, equity and performance-based compensation and incentives of the Executive Officers that align to the Company's corporate goals and objectives and long-term shareholder value. In evaluating and determining Executive Officer compensation, the Committee will consider the results of the most recent stockholder advisory vote on executive compensation ("*Say on Pay Vote*") required by Section 14A of the Exchange Act.

## **Board Compensation**

- Periodically review and recommend to the Board any adjustments to the philosophy, value and design of Board member compensation.

## **General and Equity Compensation Plan Oversight**

- Review and approve and, when appropriate, recommend to the Board for approval, any employment agreements or severance or retirement arrangements or plans, including any benefits to be provided in connection with a change in control, for Executive Officers.
- Review and recommend to the Board for approval, pension, profit sharing, incentive compensation, stock and other equity incentive plans, and other major compensation programs and any changes thereto.
- Serve as the administrator of the Company equity compensation and incentive plans, as directed by the Board and to the extent provided under the plans.

### **Executive Succession and Development**

- Provide input to the Board on CEO succession consistent with the Company's Corporate Governance Guidelines.
- Provide oversight and guidance to the CEO and Board on succession and development of other Executive Officers consistent with the Company's Corporate Governance Guidelines.

### **Proxy Statement / Disclosure**

- Annually meet with management to review and discuss the content of the Compensation Discussion and Analysis (the "CD&A") required to be included in the Company's proxy statement and annual report on Form 10-K and, based on such review and discussion, recommend to the Board that the CD&A be so included.
- Prepare the annual Compensation Committee Report required by Item 407(e)(5) of Regulation S-K for inclusion in the Company's annual proxy statement.
- Periodically review and, if appropriate, recommend to the Board for approval any change to the frequency with which the Company will conduct Say on Pay Votes.

### **Risk and Compliance**

- Review the Company's incentive compensation arrangements for Executive Officers and for all employees to determine whether they encourage unnecessary or unreasonable risks that could threaten the long-term value of the Company or that are reasonably likely to have a material adverse effect on the Company, including a review at least annually of the relationship between risk management policies and practices and compensation, and evaluate compensation policies and practices that could mitigate any such risk.

### **Other Responsibilities**

- At least annually, review the adequacy of this Charter, and recommend to the Board any proposed changes.
- At least annually, review the performance of the Committee, and discuss the results of the performance review with the Board and/or Nominating and Governance Committee.
- Evaluate whether any compensation consultant retained or to be retained by it has any conflict of interest in accordance with Item 407(e)(3)(iv) of Regulation S-K.
- Determine and oversee compliance with the Company's clawback policy.
- Determine and oversee compliance with stock ownership guidelines for non-employee directors and for the CEO and other Executive Officers.

- Undertake other special assignments assigned by the Board.

### **Other Provisions**

- The Committee has the authority, in its sole discretion, to select, retain and obtain the advice and assistance of a compensation consultant and other outside consultants, counsel and other advisors as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee will retain an independent compensation consultant each year to advise it on senior management and board compensation. The Committee will set the compensation of, and oversee, its compensation consultant and other outside consultants, legal counsel and other advisors.
- The Committee will receive appropriate funding from the Company, as determined by the Committee, for the payment of compensation to its compensation consultants and outside consultants, legal counsel and other advisors.
- In retaining or seeking advice from compensation consultants, outside counsel and other advisors (other than the Company's in-house counsel), the Committee must take into consideration the factors specified in Section 303A.05(c) of the NYSE Listed Company Manual. The Committee may retain, or receive advice from, any compensation advisor they prefer, including ones that are not independent, after considering the specified factors.
- A current version of this Charter will be included on the Company's website, and will be 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 annual proxy statement.
- The Committee may delegate, which delegation may include preset and specified parameters: (a) any of its responsibilities to one or more subcommittees, which subcommittees will consist of at least two members of the Committee; and (b) to the extent permitted by applicable law, regulations and listing requirements, as the Committee deems appropriate: (i) to two or more designated members of the Board; and (ii) to one or more designated Company officers the ability to make grants of equity-based compensation to eligible individuals who are not Executive Officers.
- An "Executive Officer," for purposes of this Charter, means the Company's CEO, president, principal financial officer, principal accounting officer, executive vice president, senior vice president, or any vice president in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policymaking function, or any other person who performs similar policy-making functions (as contemplated by the Exchange Act) for the Company. Officers of the Company's subsidiaries are deemed officers of the Company for purposes of this Charter if they perform such policy-making functions for the Company.

## **Reports to the Board of Directors**

The Chair of the Committee will report to the Board a summary of the Committee's activities and will submit or refer to the Board any matter that the Committee believes warrants the attention of the Board or requires its approval.

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July 23, 2020