



**LITHIA MOTORS, INC.**

## **CODE OF BUSINESS CONDUCT AND ETHICS**

The Board of Directors believes that the long term financial success of Lithia Motors, Inc. and its subsidiaries (collectively, the “Company”) is dependent on the fundamental principles of integrity, honesty, loyalty and fairness. This Code of Business Conduct and Ethics (the “Code”) outlines the broad principles of legal and ethical business conduct embraced by the Company and is intended to:

- promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;
- promote full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the “SEC”) and in other public communications made by the Company;
- promote compliance with applicable governmental laws, rules and regulations;
- promote the protection of Company assets, including corporate opportunities and confidential information;
- promote fair dealing practices;
- deter wrongdoing; and
- ensure accountability for adherence to the Code.

No written code can possibly anticipate and address all potential situations you may face in the course of business. This Code therefore should be used as a guideline rather than as a checklist when performing your job or acting on behalf of the Company. When the law or this Code is not specific on a particular issue, the Company expects each employee to use common sense and good judgment in effecting the spirit of the law and this Code.

### **Who is covered by this Code**

All directors, officers and employees of the Company are covered by this Code.

### **Compliance with Laws, Rules and Regulations**

Obeying the law, in letter and in spirit, is the underpinning of the Company’s ethical standards. You are expected to respect and obey all federal, state, and local laws, rules, and regulations to which you and the business operations of the Company are subject, including, but not limited to, all rules and regulations promulgated by federal, state, and local governmental and regulatory agencies and all self-regulatory organizations to which

the Company is subject. You are not expected to know every detail of these laws, rules and regulations; however, you should be familiar enough with those laws, rules and regulations relating to your responsibilities and job performance to determine when to seek advice or counsel from the appropriate Company personnel. The Company encourages you to consult with your supervisors and management before taking any action which you feel may be inconsistent with this Code.

### **Conflicts of Interest**

You are expected to make and participate in business decisions and actions in the ordinary course of your service with the Company based on the best interests of the Company and not on personal interests or relationships. You are expected to apply sound judgment to avoid conflicts of interest or apparent conflicts of interest.

A conflict of interest occurs when an individual's private interest (or the interest of a member of his or her family) interferes, or even appears to interfere, with the interests of the Company as a whole. A conflict of interest can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her work for the Company objectively and effectively. Conflicts of interest also arise when an employee, officer or director (or a member of his or her family) receives improper personal benefits (e.g., bribes or other inducements) as a result of his or her position in the Company. These could include direct payments or gifts, payments or other compensation for favorable purchasing, employment or other decisions, outside employment or interests in a competitor, vendor or customer or the like.

Conflicts of interest are prohibited as matter of Company policy, except under specific circumstances approved by the Board of Directors or a designated board committee in advance. You are expected to disclose to the Company situations that may involve actual or apparent conflicts of interest; and you should recuse yourself from participation in any decision in which you may have a conflict of interest. Waivers of a conflict of interest may only be made in accordance with this Code. Waivers are described in further detail below.

Because a conflict of interest may not be clear, you are encouraged to seek advice and counsel from senior management or the Company's In-House Counsel if you suspect you may have a conflict of interest.

### **Conflicts of Interest Exceptions**

Exceptions to this prohibition are (1) occasional meals, event tickets, and non-cash gifts with a value of \$500 or less; and (2) approved incentive awards, trips, and event admissions tickets from automotive manufacturers, or other approved meals, events tickets, or other non-cash gifts from vendors or customers with a value of over \$500, provided that none are intended to reward recipients for actions not in the best interest of the Company.

Approval of exceptions:

- Regional Vice Presidents, Senior Vice Presidents, or higher may approve any Manufacturer incentive awards and/or any Vendor or customer meal non-cash gift to any employee, up to and including the General Manager;
- Senior Vice President or higher may approve any Manufacturer incentive awards to any non-dealership employee, including all Support Services employees;
- Notwithstanding the foregoing, only the CEO or CFO may approve exceptions for Senior Vice Presidents or higher, and only the CFO may approve exceptions for the CEO up to \$10,000, and only the Board of Directors may approve amounts higher than \$10,000 for the CEO.

### **Conflicts of Interest and Related Party Transactions**

Conflicts of interest may also occur if you are in a position to approve a transaction or any payment or benefit between the Company and your immediate family or any entity in which you or your family may have a material interest as officer, director, owner, or beneficiary (collectively, a “related party”). A conflict of interest also may arise when a related party receives an improper personal benefit from a third party as a result of his or her position in the Company (e.g., payments, gifts, or bribes to the person or the related party).

Transactions between the Company and a related party, however, do not automatically create a conflict of interest. Indeed, the Company encourages its employees and their friends and family to purchase vehicles from and have their vehicles serviced and repaired at the Company’s dealerships, and to use other services offered by the Company. Except for specific “employee” pricing, the terms of such transactions are to be no better than those made available to other customers. Negotiated prices on vehicles without a fixed price require the approval of the store’s general manager (or a more senior executive in the Company).

Other non-vehicle transactions between a related party and the Company must be at a price or on terms no more favorable than those given to or available from unaffiliated third parties and require the approval from the store’s general manager (or a more senior executive in the Company).

For any significant related party transaction involving a senior executive officer or board member or related party of either (e.g., the child, parent, spouse or sibling), such transaction requires the specific approval of the Company’s Audit Committee or another appropriate independent committee of the Board; provided that any such transaction that results in annual payments in excess of \$1 million must be approved by the Audit Committee. If members of the Audit Committee are involved in a related party transaction such that a quorum of disinterested members does not exist to review and approve the transaction, the Board will appoint a special committee comprised of independent, disinterested directors to review and determine whether to approve the transaction. In addition, any lifetime contract compensation contract with a Named Executive Officer, as defined in Securities and Exchange Commission Rules, must be submitted to shareholders for approval.

## **Misappropriation of Corporate Opportunities**

You owe a duty to the Company to advance the interests of the Company when the opportunities arise. You are prohibited from taking for yourself personally (or for the benefit of friends or family members) opportunities that are discovered through the use of Company assets, property, information or position. You may not use Company assets, property, information or position for personal gain (including gain of friends or family members). In addition, you may not compete with the Company.

## **Protection and Use of Company Assets**

You should endeavor to protect the assets of the Company and ensure their efficient use. You are personally responsible and accountable for the proper use of Company property and funds over which you have control. You are also personally responsible and accountable for the proper use of Company-provided services, including any Company-provided communication devices and/or related services. Further, you are personally responsible and accountable for the proper use of property and funds of others (including customer property and funds) that have been entrusted to your custody or care. All Company assets, including proprietary information, should be used only for legitimate Company business purposes and not for personal use or gain, although incidental personal use of certain assets may be permitted.

Theft, misuse, carelessness and waste of Company assets directly impact the Company's profitability. Any suspected incident of fraudulent use or theft of Company assets should be reported immediately, as described below.

## **Insider Trading**

You may not purchase or sell any Company securities while in possession of material non-public information regarding the Company, nor may you purchase or sell another company's securities while in possession of material non-public information regarding that company. It is against Company policies and illegal for you to use material non-public information regarding the Company or any other company to:

- obtain profit for yourself; or
- directly or indirectly "tip" others who might make an investment decision on the basis of that information.

Your responsibilities, including restrictions on trading in the Company's securities, are described in more detail in the Company's Corporate Policy Regarding Confidential Information and Insider Trading.

## **Competition and Fair Dealing**

The Company believes in promoting competitive advantage through superior performance and service, rather than through unethical or illegal business practices. You are expected to endeavor to respect the rights of and deal fairly with the

Company's customers, suppliers, competitors and employees. No person representing the Company should take unfair advantage of another through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practices.

### **Confidentiality**

You are charged with the duty to maintain in confidence all confidential information entrusted to you by the Company, its vendors and customers, except when such disclosure is expressly authorized or required by law or regulation, or approved by the appropriate Company personnel. Confidential Information includes all non-public information (regardless of its source) that may be useful to competitors, or damaging to the Company, its vendors and customers if disclosed. The duty to maintain such information in confidence continues after employment with the Company ends.

### **Record Retention**

Each Company department or division and its respective employees is responsible for the maintenance of such department or division's records in accordance with record retention policies of the Company. A record is any information, regardless of the physical or electronic format, that has been created or obtained in the transacting the Company's business. The alteration, destruction or falsification of Company documents with the intent to obstruct a pending or anticipated regulatory or governmental proceeding or investigation or a discovery request in connection with any private litigation, is strictly prohibited and may constitute a crime punishable by fine and/or imprisonment. Additionally, document falsification or destruction in other contexts can result in a violation of the securities laws or the obstruction of justice. Each person is expected to be familiar with the applicable policy and procedures and to follow and abide by the terms of this policy and its related procedures.

### **Disclosure Controls and Policies**

The public's perception of the Company is dependent upon accurate, full and complete disclosure of important Company information used in the financial marketplace. Company financial and non-financial disclosures and filings required by securities regulations must be transparent, accurate and timely. Providing timely, reliable, truthful and accurate information is a complex process that requires the commitment and cooperation of numerous departments, disciplines and related Company personnel.

The Company's disclosure process is intended to record, process, summarize and report material information in a timely manner. The Company books, records, accounts and financial statements must be maintained in reasonable detail to appropriately reflect the Company's transactions and operations and must conform to all applicable legal requirements and the Company's system of internal controls.

The Company's periodic reports and other documents filed with the SEC, including all financial statements and other financial information, must comply with applicable federal securities laws and SEC rules.

If you contribute in any way to the preparation or verification of the Company's financial statements and other financial information, you must ensure that the Company's books, records and accounts are accurately maintained. You must cooperate fully with the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Director of Internal Audit, as well as the Company's independent public accountants and counsel.

If you are involved in the Company's disclosure process, you must:

- be familiar with and comply with the Company's disclosure controls and procedures and its internal control over financial reporting; and
- take all necessary steps to ensure that all filings with the SEC and all other public communications about the financial and business condition of the Company provide full, fair, accurate, timely and understandable disclosure.

### **Investor Relations, Media and Public Inquiries**

Dissemination of accurate and consistent information about the Company is important to the overall commitment of the Company to be forthright and honest in its disclosures to the public. The Company has designated specific Company personnel to address public inquiries received from the media, investors, analysts and the general public. The Investor Relations Department is responsible for public communications with stockholders, analysts, potential investors and other interested members of the financial community. All such inquiries should be directed to the attention of the Investor Relations Department. Unless your job duties expressly include responding to outside inquiries, all other inquiries should be referred to the designated Company spokesperson.

### **Participation in the Political Process**

The Company encourages its employees to actively participate in the political process. However, you may not engage in any political activities during Company time or use Company resources in furtherance of any such activity, without the approval of senior management. When expressing an individual political viewpoint or making a political contribution, you must make it very clear that you do not represent the Company and you are not acting on behalf of the Company, unless expressly directed and authorized by senior management to do so.

### **Prohibited Substances**

The Company has adopted an employment policy intended to provide a "drug free" work environment. You are expected to understand and comply with the Company's prohibited substances policy.

## **Employee Relations**

A key element of the success of the Company is the collaborative effort of its directors, officers and employees and their ability to recognize and embrace the diversity of the Company workforce. In order for the Company to gain the full benefits from a diverse workforce, you must respect the rights and dignity of your co-workers and you must be trustworthy and dedicated to high standards of job performance. The same respect of co-workers should be granted toward the employees of the Company's customers, vendors and competitors. Moreover, the Company has adopted a Harassment and Discrimination Policy which prohibits unlawful practices and acts. You are required to read and acknowledge in writing your understanding of the Harassment and Discrimination Policy. The Company is committed to maintain a work environment free from discrimination.

## **Financial and Accounting Officers and Managers**

The Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and other financial and accounting managers under their supervision have a special responsibility for promoting integrity throughout the Company, particularly involving the financial reporting process. These persons are vested with the responsibility and authority to protect, balance and preserve the interests of all stakeholders of the Company and to promote a culture throughout the Company that ensures fair, accurate and timely disclosure of the Company's financial results and condition. To fulfill these heightened responsibilities, in addition to complying with the general provisions of this Code, each of the foregoing persons is expected to:

- Provide accurate, complete, objective, relevant information to ensure full, fair, accurate, timely and understandable disclosure of all material information disclosed to the public or regulatory agencies;
- Act in good faith, responsibly and with due care, competence and diligence, without misrepresenting material facts or subordinating one's independent judgment;
- Encourage professional integrity throughout the finance organization of the Company by promoting responsible behavior and providing mechanisms for employees of the finance organization to openly consult with, confide in and inform senior management within the finance organization, deviations in practice from policies and procedures that dictate honest and ethical behavior; and
- Establish and promote a Company financial policy that ensures business transactions are properly authorized and accurately recorded in the Company's books and records in accordance with generally accepted accounting principles.

## **Reporting and Enforcement**

You are expected to be aware of situations that could result in actions that may

violate federal, state or local law or the standards of conduct addressed in this Code. If you believe that your conduct or the conduct of a co-worker has or may violate the law or this Code, you have an obligation to report the matter to the Company.

### **Questions**

When in doubt about the best course of action in a particular situation or if you have questions about this Code, you are encouraged to consult with your supervisor. If your supervisor is unable to help you or you are uncomfortable discussing your concern with him, you may contact the Chief Financial Officer or In-House Counsel or use the other reporting options described below

### **Reporting**

Actions prohibited by this Code involving directors or executive officers should be reported to the Nominating and Governance Committee. Actions prohibited by this Code involving any other person should be reported to the reporting person's supervisor, Chief Financial Officer or In-House Counsel. Additionally, the Company has established a procedure by which concerns about this Code may be raised anonymously. Concerns submitted through this confidential process will be presented to the Audit Committee of the Company's Board of Directors on a periodic basis. Employees who wish to make a confidential, anonymous report about this Code can do so at:

[www.lithiaemployeefeedback.com](http://www.lithiaemployeefeedback.com) or by calling (800) 224-8168

**You will not face reprisals for “whistle blowing” or reporting in good faith any actions that you feel may violate the law or the Code. It is the Company’s policy not to allow retaliation for reports of misconduct by others made in good faith. Individuals who file reports or provide evidence that they know to be false or without reasonable belief in the truth and accuracy of such information may be subject to disciplinary action, including termination of their employment. You are expected to cooperate in internal investigations of misconduct.**

Another option is to contact a member of the Audit Committee directly or by mail to:

Audit Committee  
c/o Lithia Motors, Inc.  
150 N. Bartlett Street  
Medford, Oregon 97501

### **Enforcement**

The Company must ensure prompt and consistent action against violations of this Code. If, after investigating a report of an alleged prohibited action by a director or executive officer, the Nominating and Governance Committee determines that a violation of this Code has occurred, the Nominating and Governance Committee will



report such determination to the Board of Directors. If, after investigating a report of an alleged prohibited action by any other person, the relevant supervisor or Chief Financial Officer determines that a violation of this Code has occurred, the relevant supervisor or Chief Financial Officer will report such determination to the In-House Counsel.

Upon receipt of a determination that there has been a violation of this Code, the Board of Directors or the In-House Counsel will take such preventative or disciplinary action as it deems appropriate, including, but not limited to, reassignment, demotion, dismissal and, in the event of criminal conduct or other serious violations of the law, notification of appropriate governmental authorities.

### ***Waivers***

The Board of Directors (in the case of a violation by a director or executive officer) or the Chief Financial Officer (in the case of a violation by any other person) may, in its discretion, waive any violation of this Code.

Any waiver for a director or an executive officer must be disclosed as required by SEC and NYSE rules.

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April 27, 2017