

**LITHIA MOTORS, INC.**  
**AUDIT COMMITTEE CHARTER**

**Purpose**

The Audit Committee is organized for the primary purpose of assisting the Board in fulfilling its oversight responsibilities relating to (a) the integrity of the Company financial statements; (b) the systems of internal controls established by the Company; (c) the independent auditor's qualifications and independence; (d) the performance of the Company's internal audit functions and independent auditors; (e) the compliance with certain legal and regulatory requirements; and (f) financial risk management.

The Audit Committee serves as a conduit to promote open communication between the independent auditors, the accounting department and internal auditors, management and the Board of Directors 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 be (a) "independent" as that term is defined by the applicable securities regulations and listing standards; and (b) 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 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 Corporate Governance Committee. The Board will designate one of the Committee members to serve as the Chair of the Committee. Members of the Committee shall 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,
- to consider and discuss the release of periodic financial results of the Company, and
- as often as it deems necessary to effectively perform its duties and responsibilities.

Minutes of each Committee meeting shall be prepared and a copy provided to all members of the Committee, the Board of Directors 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:

- Authority to select, hire and fire the independent auditor, 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 shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) and the independent auditor shall report directly to the Committee.
- Annually review and evaluate the qualifications and performance of the independent auditors, which shall 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 auditor to the Board.
- Annually review and assure the regular rotation of the audit partner as may be required by the securities regulations or listing standards.
- Establish hiring policies for employees and former employees of independent 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 auditor, 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 auditor.
  - (b) Any difficulties encountered in the course of performing the audit, including any restrictions on the scope of the independent auditor's 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 auditor in the course of performing the audit.

(d) Other material written communication between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

- 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.
- 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 approve the appointment of the Company independent internal auditor and fees, if an outside firm is engaged for this purpose.
- Meet separately with the independent auditors and independent internal auditor, without management present, at such times as the Committee Chair deems necessary.
- 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 to be 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 with management and the independent auditors any changes in accounting principles and other significant financial reporting issues, including the use of "pro forma" or "adjusted" non-GAAP information.
- 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 auditor 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.
- 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.
- Ensure the Company has in place processes sufficient to facilitate the independent auditors review of related party transactions under PCAOB standards.
- 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.
- Review and reassess the adequacy of its charter at least annually, and recommend to the Board any proposed changes to this Charter.
- 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 shall consist of at least two members of the Committee.
- Review and discuss with management and the independent auditor 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.
- Review and discuss with management and the independent auditor 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 auditor 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 auditor.

- Review and discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
- Obtain and review a report from the independent auditor at least annually regarding (a) the auditor's 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 auditor's independence, (d) all relationships between the independent auditor and the Company.
- Review communications between the independent auditor team and the audit team's national office respecting issues presented by the engagement.
- 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 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 of the internal audit.
- Obtain reports from management, the internal auditor and the independent auditor 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.
- Review reports and disclosures of insider and affiliated party transactions.
- Review quarterly with the Company's legal advisors and others any legal, tax or regulatory matters that may have a material impact on the Company's operations, financial statements or compliance policies, and develop policies or procedures to remedy any such matters that are identified. Review annually with the internal auditor the Corporate Governance Committee's

review of employee compliance with the Code of Business Conduct and Ethics.

### **Other Provisions**

- The Committee shall be responsible for resolving any disagreements between management and the independent auditor regarding financial reporting.
- The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall 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, shall 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 auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall receive appropriate funding from the Company, as determined by the Committee in its capacity as a committee of the Board, for the payment of compensation to its consultants, outside counsel and any other advisors.
- 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, this availability of this Charter will be stated in the Company's proxy statement.

### **Limitations**

While the Audit 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 shall 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, or the performance of the Company's internal audit function. The Chair shall submit or refer to the full Board any matter that the Committee believes warrants the attention of or approval by the full Board of Directors.

February 23, 2017

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