

# LITHIA MOTORS, INC.

## CORPORATE GOVERNANCE GUIDELINES

The Nominating and Governance Committee of the Board of Directors (the “Board”) has developed, and the Board has adopted, the following Corporate Governance Guidelines (the “Guidelines”) to assist the Board in the exercise of its duties and responsibilities to represent the best interests of the Company and its shareholders. These Guidelines are intended to serve as a flexible framework within which the Board may conduct its business, rather than a restrictive set of rules or legally binding obligations. These Guidelines should be interpreted and applied within the context of the Company’s Bylaws, Articles of Incorporation and applicable state and federal laws and regulations relating to corporate governance.

### BOARD COMPOSITION

**Size of the Board.** The Company’s Bylaws provide that the Board will be not less than five nor more than nine directors, as may be deemed appropriate by the Board. The Board, through its Nominating and Governance Committee, will periodically review the membership of the Board to determine its appropriate size and composition and recommend such changes to the Board for consideration.

**Majority of Independent Directors.** A majority of the Board will be comprised of independent directors satisfying the definition of independence set forth in NYSE listing standards and applicable SEC regulations as well as other factors, including business and personal relationships with management that will contribute to effective oversight and independent decision-making by the Board. However, this requirement will not prevent the Board from taking valid action, if, because of a temporary vacancy or vacancies on the Board, there are fewer than the required number of independent directors. The Nominating and Governance Committee will recommend candidate(s) to fill vacancies as quickly as is reasonable possible. The Nominating and Governance Committee will make the initial determination of whether a member is independent and refer that final decision to the full board of directors.

**Director Independence.** In conjunction with its annual review of the composition of the Board, the Nominating and Governance Committee annually reviews the independence of each director or nominee by reviewing all transactions and relationships between each such person, or any member of his or her immediate family, and Lithia, its consolidated subsidiaries and affiliates, and management. These transactions and relationships are reviewed in the context of the specific independence standards enumerated in the NYSE listing standards and SEC regulations, as well as other business and personal relationships that could compromise the independent judgment of each director or nominee. Rather than ascribe to categorical standards for determining independence, the Nominating and Governance Committee will review and evaluate the specific facts and circumstances relating to each transaction and relationship to determine whether it is a material relationship that could compromise

the judgment of a director. The Nominating and Governance Committee reports its determination regarding director independence to the full Board for a final determination. For a director to be deemed "independent" within the meaning of the NYSE rules, the Board must affirmatively determine that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). The Board will disclose its determination that a director is independent in the Company's annual proxy statement.

**Management Directors.** The Company's Chief Executive Officer ("CEO") will be nominated annually to serve on the Board. The Board, at the recommendation of the Nominating and Governance Committee, may also appoint or nominate other members of the Company's management whose experience and role at the Company are expected to help the Board fulfill its responsibilities. No more than three (3) management directors may serve on the Board at the same time.

**Designation of the Chair.** At the annual meeting of the Board of Directors, the Board will elect a Chair. Both independent directors and management directors will be eligible for election as the Chair.

**Designation of the Lead Independent Director.** If the Chairman of the Board is not an independent director, the Board will select an independent director to serve as the Lead Independent Director. If the Chairman of the Board is an independent director, the Board may choose to select a Lead Independent Director from one of the independent directors. If a Lead Independent Director is selected, he or she will be responsible for coordinating the activities of the independent directors, which will include periodically organizing and conducting separate meetings or sessions of the independent directors which may be in conjunction with one or more committee meetings.

**Selection of Board Nominees.** Each year the Nominating and Governance Committee will review the composition of the Board and the qualifications of eligible candidates for election in that year, including all current board members. The Board will consider potential nominees submitted by shareholders in accordance with such policies and procedures approved by the Nominating and Governance Committee. After consultation with the CEO and the Chair, the Nominating and Governance Committee will recommend candidates to the Board for election by the shareholders at the annual shareholders meeting.

**Director Qualifications.** The Company's policy is to encourage the selection of directors who as a group will possess diverse skills and knowledge in such areas as finance, marketing, management and technology, as well as automotive retailing, that will contribute to the Board's overall effectiveness and the Company's overall corporate goals and responsibility to its shareholders. From time to time the Nominating and Governance Committee will review the appropriate skills, talents and other characteristics required of Board members in the context of the current makeup of the Board.

**Term Limits.** Beginning with the annual meeting of shareholder in 2019, a director would no longer be considered independent if s/he served more than 15 years on the Board.

**Retirement.** No person may serve as an independent director after attaining the age of 79.

**Director Resignation Policy.** In accordance with the Company Bylaws, directors shall be elected by a plurality of votes. However, in an uncontested election (an election where the number of board nominees is the same as the number of open board positions), if a director nominee receives more “withheld” votes than votes “for” by shareholders entitled to vote, in person or by proxy, for the election of directors (a broker non-vote shall not be considered a “withheld” vote), such nominee shall tender a written offer to resign to the Chair of the Nominating and Governance Committee within five business days after certification of the election results by the Inspector of Elections.

No later than 90 days after receipt of any such resignation, the Nominating and Governance Committee will consider the resignation offer and make a recommendation to the full board of directors whether to accept or reject the offer to resign. In making its recommendation, the Committee may consider any factors it deems relevant and appropriate, including without limitation (a) the perceived reason shareholders withheld votes in favor of the election of such director; (b) the qualifications and length of service of the director, (c) the director’s contributions to the Board; (d) the effect of the proposed resignation relative to compliance with the listing standards and securities regulations; (e) possible contractual ramifications resulting from accepting the offer to resign; and (f) the best interests of the Company and its shareholders. If the Board accepts the offer to resign, such resignation will become effective immediately upon the Board’s acceptance, as evidenced by written communication to the resigning board nominee. To the extent one or more director’s resignation is accepted by the Board, the Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board.

The Board will file a Form 8-K, disclosing its decision, and if it rejects the offer to resign, shall include an explanation of the reason(s) for rejecting the offer to resign. The Committee shall not nominate to stand for re-election at the next meeting of shareholders in which directors are elected, any director who in the previous election of directors received more “withheld” votes than votes “for” the election of such director.

Any director that tenders an offer to resign shall continue to serve as a director until such resignation is accepted by the Board; however, such director shall not participate in any manner in the deliberations regarding such director’s resignation offer.

The Board believes this Resignation Policy provides enhanced accountability of directors and responsiveness to shareholder votes, while permitting the Board the necessary discretion in considering whether a particular resignation is in the best interest of the Company at that time and permits adequate time to allow the Board to

seek a qualified replacement candidate without compromising the Company's corporate governance process. The resignation process will be summarized in each proxy statement relating to the election of directors in all uncontested elections.

**Directors Who Change Job Responsibility; Retirement.** If a director retires or materially changes his principal occupation or business association, such director will voluntarily offer to resign from the Board which will provide the Nominating and Governance Committee the opportunity to review such director's continued service on the Board under these changed circumstances and the continued appropriateness of membership on the Board and any committees.

**Membership on Other Boards.** If a director is a member of the Company Audit Committee, such director shall not serve on more than two other public company audit committees; and if a director is an active member of the board of directors of more than three other public companies, then the Nominating and Governance Committee, when performing its annual review of the composition of the Board, will take into consideration the competing time requirements of such director in fulfilling such director's duties as a member of the Board.

A director who accepts a position as a director or its equivalent with another for-profit organization should promptly advise the Board of that circumstance. If the Chairman, CEO or a committee Chair is offered such a position, he or she should discuss the offer with the Board and obtain Board approval before accepting the position.

## **BOARD COMMITTEES**

**Committees; Reports.** The Board shall have an Audit Committee, Nominating and Governance Committee and Compensation Committee, each with respective responsibilities as delineated in the committee charters approved by the Board. The Board, in its sole discretion, may establish other committees to aid the Board in its oversight responsibilities. At each regular Board meeting, the committee chair, or a designated member of the committee, shall give a report, either in writing or orally, on all matters acted upon by the committee at any meeting or by consent action taken since the preceding Board meeting.

**Committee Member Selection.** The Nominating and Governance Committee, after consultation with the CEO and Chair of the Board and after considering the desires of individual members, will recommend to the full Board the appointment of certain members to each committee, endeavoring to match the function of the committee and its respective needs for expertise with individual skills and experience of the appointees to such committee. The Nominating and Governance Committee shall recommend one member of each committee to the Board for approval as the chair of such committee. The membership of the Audit, Compensation and Nominating and Governance Committees will be comprised solely of independent directors as required by the securities regulations and NYSE listing standards.

**Audit Committee Financial Expert.** The Nominating and Governance Committee shall identify and recommend to the full board for approval, an Audit Committee member who qualifies as an “audit committee financial expert” as that term is defined by SEC Regulations.

**Retention of Independent Advisors.** The Board and any committee may retain outside consultants, experts and advisors as the Board or committee deem necessary to assist in evaluating any matter before the Board or committee, or such member’s responsibilities.

## **BOARD AND COMMITTEE MEETINGS**

**Scheduling of Meetings.** Board meetings and committee meetings, as required, will be scheduled in advance, with board meetings ordinarily scheduled for every month by teleconference, and with in-person board and committee meetings scheduled for every quarter at the Company’s principal executive office or such other location as the Board may approve. Special meetings may be called only in accordance with the Bylaws. All Board members are expected to attend all quarterly board and committee meetings either in person, but may participate through teleconferencing, and all monthly board meetings by teleconferencing.

**Agenda and Materials.** The Board Chair, in consultation with the Lead Independent Director, will be primarily responsible for preparing the agenda for each Board meeting. Each committee Chair will be primarily responsible for preparing the agenda for each applicable committee meeting. Individual directors and committee members are encouraged to suggest items for inclusion on the agendas. Prior to each meeting, appropriate written informational and background materials will be provided to each Board member. Each member is expected to review the agenda and related materials prior to the meeting. The Board will have the authority to meet in executive sessions to discuss certain matters without distribution of written materials.

**Independent Directors’ Discussions.** The independent members of the Board will meet separately without management directors in regularly scheduled sessions occurring at least quarterly and at other times as determined by the Lead Independent Director or at the request of any two directors, to discuss such matters the independent directors consider appropriate. The Company’s independent auditors, outside counsel, internal auditor, finance staff and other employees may be invited to attend these meetings.

**Board Presentations.** From time to time, management may be requested to make presentations before the Board to provide additional insight into matters being discussed or to provide the Board with reports that will enhance the flow of meaningful financial and business information to the Board. Any reports or presentations that do not contain sensitive information will be provided in written form to the Board members prior to the scheduled meeting.

**Executive Officer Attendance.** Except as otherwise may be determined by the

Chair, the Board or the CEO, the Company welcomes the attendance of executive officers at all Board meetings.

**Access to Officers And Employees.** Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO, the CFO, or any executive officer. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company.

**Attendance at the Annual Shareholders' Meeting.** All members of the Board of Directors are expected to be in attendance at each annual meeting of the shareholders.

## **OTHER BOARD MATTERS**

**Board Compensation.** The Board, through the Compensation Committee, will review, or request management or outside consultants to review, appropriate compensation policies for the directors serving on the Board, its committees and as chair, consistent with rules promulgated by the NYSE. This review may consider board compensation practices of other publicly-held automotive retailers and similarly sized public companies. Executive officers of the Company serving on the Board will not receive any additional compensation for serving as a director.

**Stock Ownership.** Each non-employee director is encouraged to own a meaningful number of shares of common stock. To help align interests with shareholders, a significant portion of their compensation will be paid in common stock which will be restricted for resale.

**Conflicts of Interest.** If an actual or potential conflict of interest develops, the director will immediately report the matter to the Chair of the Audit Committee for evaluation of such interest. If the matter is significant and cannot be resolved, the director shall resign. If a director has a personal interest in a matter before the Board, such director shall advise the Board of such interest, and excuse himself/herself from the discussion and vote on such matter.

**Director Orientation and Continuing Education.** Upon election or appointment as a new director, each director is provided a packet comprised of the Company's organizational documents, including its Bylaws, and all corporate governance documents, include these guidelines, committee charters, Code of Business Conduct and Ethics and our insider trading policy and other compliance programs. Each director is responsible for reviewing and understanding the content of these documents and becoming familiar with the Company's business and industries. In this regard, the Company, through its senior management team, provides each new director with information regarding the Company's strategic plan, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Conduct and Ethics, management structure, and its internal and independent auditors.

The Company recognizes that it is essential for the effective operation of the

Board of Directors that Board members be informed and have continuing access to information concerning the Company and its markets and the other business, economic, technical, accounting, legal and other relevant developments that affect the Company or the environment in which it operates. To that end, the Company may periodically make available to its directors continuing educational opportunities designed to assist them in performing their Board and committee functions. This continuing education may be provided by Company personnel or advisors, or may at times involve participation in external classes or seminars. The Company will reimburse directors for the cost of attending approved educational activities.

## **ADMINISTRATIVE RESPONSIBILITY**

**Management Succession and Development Planning.** The Board is responsible for the succession plan for the position of Chief Executive Officer. The CEO will be responsible for the succession planning of senior management, subject to review and approval by the Board, and will discuss this plan annually with the Board. To assist the Board, the report will include an assessment of the senior managers and the potential for such person(s) to succeed the CEO or other senior management. Additionally, the Board, in consultation with the CEO, will establish on a continuing basis a short-term succession plan which temporarily delegates authority of certain officers in the event all or a portion of the senior management are unable to perform their respective duties. This short-term succession plan will provide the Board time to consider the situation and take appropriate action.

**Review of Board and Committee Performance.** In conjunction with its annual review of the composition of the Board and the qualifications of its members, the Nominating and Governance Committee will review the overall effectiveness and performance of the Board as a whole, discuss such review with the Board and recommend for Board approval appropriate changes the Nominating and Governance Committee believes will improve the effectiveness of the Board. Each committee will annually evaluate its performance and report the result of its self-evaluation to the full Board.

**Selection and Evaluation of the CEO.** The Board, with input from the Compensation Committee, will be responsible for selecting the CEO. Using evaluation criteria established in consultation with the CEO, the Compensation Committee will meet at least annually to evaluate the performance of the CEO and will discuss its findings and recommendations with the Board. The chair of the Compensation Committee will share and discuss the annual evaluation with the CEO.

**Financial Reporting, Legal Compliance and Ethical Conduct.** The governance and oversight functions of the Board do not relieve executive management of its the primary responsibility for preparing financial statements which accurately and fairly present the financial results and condition of the Company. Executive management shall maintain systems, procedures and a corporate culture that promote compliance with legal and regulatory requirements and the ethical

conduct of the Company's business.

**Corporate Communications.** Executive management has the primary responsibility to communicate with investors, shareholders, the press, employees and other constituencies that are involved with the Company. The Board, in consultation with the Nominating and Governance Committee, will establish policies for shareholder communications with the Company and the current policy will be posted on the Company investor relations' website.

**Code of Business Conduct and Ethics.** The Board, in consultation with executive management, will be responsible for establishing a written Code of Business Conduct and Ethics. The Nominating and Governance Committee will be responsible for policing and enforcing the adopted Code of Business Conduct and Ethics and will report all known violations or waivers of such Code to the Board. The Code of Business Conduct and Ethics will be accessible on the Company investor relations' website.

**Internal Controls over Financial Reporting.** The CEO, CFO and Chief Accounting Officer will be responsible for the design, maintenance and evaluation of internal controls and procedures intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

**Disclosure Controls and Procedures.** The CEO and CFO will also be responsible for the design, maintenance and evaluation of controls and procedures to ensure that management and the Board receive material information regarding the Company in a timely manner and that such information is complete and accurate. To satisfy this responsibility, the CEO and CFO shall organize a Disclosure Committee that may be comprised of Company personnel, officers, board members or non-employee consultants. The Disclosure Committee will operate under the supervision and direction of, and report directly to, the CFO.

## **DIRECTOR RESPONSIBILITIES**

**General Responsibilities.** The Board's mission is to maximize long-term shareholder value. The business and affairs of the Company are managed under the direction of the Board, which is the ultimate decision-making body of the Company, except with respect to those matters reserved to the Company's shareholders. The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders. As members of the Board, directors are responsible for overseeing the purposes, objectives, policies and plans of the Company that are formulated and carried out by the officers; for electing the Board's Chairman, the President and other corporate officers and for fixing their responsibilities; for designating the Chief Executive Officer (CEO); for authorizing the CEO and other officers to act for or on behalf of the Company in performing delegated responsibilities; and for oversight of the management and control of the Company's businesses, its finances and its property. Directors are also

responsible for determining whether to approve changes in the Articles of Incorporation and bylaws and submittals to shareholders for their approval or ratification, declare dividends, approve annual capital expenditure budgets, approve business combinations, acquisitions and divestitures that exceed certain size levels, and approve changes in capital structure, including the issuance of stock and incurring long-term debt. In discharging these obligations, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors.

**Director Indemnification.** The directors shall also be entitled to (a) have the Company purchase reasonable directors' and officers' liability insurance on their behalf, (b) the benefits of indemnification to the fullest extent permitted by law and the Company's Articles of Incorporation, bylaws and any indemnification agreements, and (c) exculpation as provided by state law and the Company's Articles of Incorporation.

**Review of Guidelines.** The Nominating and Governance Committee will review these Guidelines at least annually, and will recommend to the Board amendments to these Guidelines as it deems appropriate.

**Availability of Guidelines.** A current version of these Guidelines will be included on the Company's website, and will be made available in print to any Company shareholder who requests it. In addition, availability of these Guidelines will be stated in the Company's annual proxy statements.

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April 27, 2017